NEW ISSUES – BOOK-ENTRY ONLY **Ratings: See "RATINGS" herein.**

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 2013 Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2013 Senior Bond for any period during which such Series 2013 Senior Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2013 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 (a) interest on the Series 2013 Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2013 Subordinate 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 2013 Bonds is exempt from State of California personal income taxes. See "TAX MATTERS" herein.

$241,860,000
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT

$170,685,000	$71,175,000
Senior Revenue Bonds	**Subordinate Revenue Bonds**
2013 Series A	**2013 Series B**
(AMT)	**(Non-AMT)**

Dated: Date of Delivery **Due: May 15, as shown on the inside cover**

The Los Angeles International Airport, Senior Revenue Bonds, 2013 Series A (the "Series 2013 Senior Bonds") and the Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the "Series 2013 Subordinate Bonds" and collectively with the Series 2013 Senior Bonds, the "Series 2013 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 2013 Senior Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at Los Angeles International Airport ("LAX"), (ii) make a deposit to the Senior Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2013 Senior Bonds, and (iv) pay costs of issuance of the Series 2013 Senior Bonds. The Series 2013 Subordinate Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at LAX, (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2013 Subordinate Bonds, and (iv) pay costs of issuance of the Series 2013 Subordinate Bonds. See "PLAN OF FINANCE."

The Series 2013 Senior Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Net Pledged Revenues and (ii) certain funds and accounts held by the Senior Trustee. The Series 2013 Senior Bonds are being issued on parity with the Existing Senior Bonds. The Series 2013 Subordinate Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues and (ii) certain funds and accounts held by the Subordinate Trustee. The Series 2013 Subordinate Bonds are being issued on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS."

The Series 2013 Bonds do not constitute or evidence an indebtedness of the City of Los Angeles (the "City") or a lien or charge on any property or the general revenues of the City. Neither the faith and the credit nor the taxing power of the City, the State of California or any public agency, other than the Department, to the extent described herein, is pledged to the payment of the principal of or interest on the Series 2013 Bonds. The Department has no power of taxation. The Series 2013 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 2013 Bonds. The Department is under no obligation to pay the Series 2013 Bonds, except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Senior Indenture or the Subordinate Indenture, as applicable.

Interest on the Series 2013 Bonds will be payable on each May 15 and November 15, commencing May 15, 2014. The Series 2013 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 2013 Bonds initially are being issued and delivered in book-entry form only.

The Series 2013 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2013 Bonds – Redemption Provisions."

The Series 2013 Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Kutak Rock LLP, Bond Counsel to the Department and certain other conditions. Certain legal matters will be passed upon for the Department by Michael N. Feuer, City Attorney of the City. Polsinelli LLP serves as Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. Public Resources Advisory Group and Public Financial Management, Inc. serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2013 Bonds will be made through DTC on or about November 19, 2013.

De La Rosa & Co.

J.P. Morgan **Loop Capital Markets** **Ramirez & Co., Inc.**

Date of Official Statement: November 5, 2013.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

$170,685,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Senior Revenue Bonds
2013 Series A
(AMT)

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No.† (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No.† (544435)
2024	$ 6,620,000	5.000%	3.490%[C]	2D1	2029	$ 8,450,000	5.000%	4.340%[C]	2J8
2025	6,955,000	5.000	3.660[C]	2E9	2030	8,870,000	5.000	4.460[C]	2K5
2026	7,300,000	5.000	3.870[C]	2F6	2031	9,315,000	5.000	4.560[C]	2L3
2027	7,665,000	5.000	4.060[C]	2G4	2032	9,785,000	5.000	4.650[C]	2M1
2028	8,050,000	5.000	4.210[C]	2H2	2033	10,270,000	5.000	4.710[C]	2N9

$59,585,000 – 5.000% Series 2013 Senior Term Bonds due May 15, 2038 – Yield 4.880%[C], CUSIP No. 5444352P4

$27,820,000 –5.000% Series 2013 Senior Term Bonds due May 15, 2043 – Yield 4.980%[C], CUSIP No. 5444352Q2

$71,175,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
2013 Series B
(Non-AMT)

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No.† (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No.† (544435)
2016	$ 1,720,000	5.000%	0.480%	2R0	2026	$ 2,800,000	5.000%	3.570%[C]	3B4
2017	1,805,000	5.000	0.780	2S8	2027	2,940,000	5.000	3.750[C]	3C2
2018	1,895,000	5.000	1.100	2T6	2028	3,085,000	5.000	3.920[C]	3D0
2019	1,990,000	5.000	1.560	2U3	2029	3,240,000	5.000	4.050[C]	3E8
2020	2,090,000	5.000	2.020	2V1	2030	3,400,000	5.000	4.170[C]	3F5
2021	2,195,000	5.000	2.380	2W9	2031	3,570,000	5.000	4.260[C]	3G3
2022	2,300,000	5.000	2.690	2X7	2032	3,750,000	5.000	4.350[C]	3H1
2023	2,415,000	5.000	2.930	2Y5	2033	3,940,000	5.000	4.420[C]	3J7
2024	2,540,000	5.000	3.160[C]	2Z2	2034	4,135,000	5.000	4.490[C]	3K4
2025	2,665,000	5.000	3.380[C]	3A6					

$1,015,000 – 4.625% Series 2013 Subordinate Term Bonds due May 15, 2038 – Yield 4.670%, CUSIP No. 5444353L2

$17,685,000 – 5.000% Series 2013 Subordinate Term Bonds due May 15, 2038 – Yield 4.650%[C], CUSIP No. 5444353M0

C Priced to par call date of May 15, 2023.

† 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 2013 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2013 Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Senior Indenture and the Subordinate Indenture are 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 2013 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 2013 Bonds, the Underwriters may over-allot or effect transactions that may stabilize or maintain the market price of such Series 2013 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

CITY OF LOS ANGELES OFFICIALS

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

CITY COUNCIL

Gilbert Cedillo (District 1)
Paul Krekorian (District 2)
Bob Blumenfield (District 3)
Tom LaBonge (District 4)
Paul Koretz (District 5)
Nury Martinez (District 6)
Felipe Fuentes (District 7)
Bernard C. Parks (District 8)
Curran D. Price, Jr. (District 9)
Herb J. Wesson, Jr. (District 10)
Mike Bonin (District 11)
Mitchell Englander (District 12)
Mitch O'Farrell (District 13)
José Huizar (District 14)
Joe Buscaino (District 15)

BOARD OF AIRPORT COMMISSIONERS

Sean O. Burton, President
Valeria C. Velasco, Vice President
Gabriel L. Eshaghian, Commissioner
Jackie Goldberg, Commissioner
Beatrice C. Hsu, Commissioner
Matthew M. Johnson, Commissioner
Cynthia A. Telles, Commissioner

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, Facilities Management
Roger Johnson, Deputy Executive Director, Airports Development
Samson Mengistu, Deputy Executive Director, Administration
Arif Alikhan, Deputy Executive Director, Law Enforcement and Homeland Security
Edward F. Maslin, Deputy Executive Director, Real Estate Services
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, Interim Chief Financial Officer
Raymond Ilgunas, General Counsel

SENIOR TRUSTEE

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

SUBORDINATE TRUSTEE

U. S. Bank National Association

BOND COUNSEL

Kutak Rock LLP

DISCLOSURE COUNSEL

Polsinelli LLP

CO-FINANCIAL ADVISORS

Public Resources Advisory Group and Public Financial Management, Inc.

AIRPORT CONSULTANT

Ricondo & Associates, Inc.

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OFFICIAL STATEMENT

$241,860,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT

$170,685,000 **Senior Revenue Bonds** **2013 Series A** **(AMT)**	**$71,175,000** **Subordinate Revenue Bonds** **2013 Series B** **(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 $170,685,000 Los Angeles International Airport, Senior Revenue Bonds, 2013 Series A (the "Series 2013 Senior Bonds"), and $71,175,000 Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the "Series 2013 Subordinate Bonds" and together with the Series 2013 Senior Bonds, the "Series 2013 Bonds"). Generally, Part I of this Official Statement contains an introduction to the offering of and certain terms and conditions relating to the Series 2013 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 Department is designated a proprietary department of the City. The City is a municipal corporation and chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the "State") and the Charter of the City of Los Angeles. The City, acting through the Department, operates and maintains 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"). 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 2011 (the most recently available ACI global statistics), ACI statistics ranked LAX as the 6th busiest airport in the world in terms of total number of enplaned passengers and 13th busiest airport in the world in terms of total cargo. For calendar year 2012 (the most recently available ACI North American statistics), ACI statistics ranked LAX as the 3rd busiest airport in North America in terms of total number of enplaned passengers and 5th busiest airport in North America in terms of total 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 2013 Senior Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Series 2013 Senior Bonds Projects (as defined below), (ii) make a deposit to the Senior Reserve Fund,

(iii) fund a portion of the interest accruing on the Series 2013 Senior Bonds, and (iv) pay costs of issuance of the Series 2013 Senior Bonds.

The Series 2013 Subordinate Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Series 2013 Subordinate Bonds Projects (as defined below), (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2013 Subordinate Bonds, and (iv) pay costs of issuance of the Series 2013 Subordinate Bonds.

See "PLAN OF FINANCE," "DESCRIPTION OF THE SERIES 2013 BONDS" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Series 2013 Senior Bonds

The Series 2013 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 Fourteenth Supplemental Trust Indenture, to be dated as of November 1, 2013 (the "Fourteenth 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. 24919 adopted by the Board on September 24, 2012 and approved by the City Council of the City (the "City Council") and the Mayor of the City on October 30, 2012 and December 6, 2012, respectively, and Resolution No. 25255 adopted by the Board on October 15, 2013 (collectively, the "Resolutions"), authorizing the issuance of the Series 2013 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 2013 Senior Bonds are secured by a pledge of and first lien on Net Pledged Revenues. "Net Pledged Revenues" means, for any given period, Pledged Revenues for such period, less, for such period, LAX Maintenance and Operations Expenses. Pledged Revenues generally includes certain income and revenue received by the Department from LAX but excludes any income and revenue from the Department's other airports. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS." The Series 2013 Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues on a parity with the Existing Senior Bonds (as defined under "—Existing Senior Bonds"), and any additional bonds or other obligations issued on parity with respect to Net Pledged Revenues with the Series 2013 Senior Bonds and the Existing Senior Bonds under the terms and provisions of the Senior Indenture (the "Additional Senior Bonds").

For purposes of this Official Statement, "Senior Bonds" means the Series 2013 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 Senior Indenture are the Existing Senior Bonds. Net Pledged Revenues are available for the equal and proportionate benefit of all Senior Bonds and any other obligations issued on parity with respect to Net Pledged Revenues pursuant to the Senior Indenture. The Series 2013 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 2013 BONDS – Senior Bonds – Net Pledged Revenues."

THE SERIES 2013 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 NET PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2013 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 2013 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2013 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 2013 BONDS."

Existing Senior Bonds

Pursuant to the Senior Indenture and the Charter, the Department, acting through the Board, has previously issued and, as of October 1, 2013, there were outstanding $2,916,690,000 aggregate principal amount of its:

- Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the "Series 2008A Senior Bonds");
- Los Angeles International Airport Senior Refunding Revenue Bonds, 2008 Series B (the "Series 2008B Senior Bonds" and together with the Series 2008A Senior Bonds, the "Series 2008 Senior Bonds");
- Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the "Series 2009A Senior Bonds");
- Los Angeles International Airport Senior Revenue Bonds, 2010 Series A (the "Series 2010A Senior Bonds");
- Los Angeles International Airport Senior Revenue Bonds, 2010 Series D (the "Series 2010D Senior Bonds" and together with the Series 2010A Senior Bonds, the "Series 2010 Senior Bonds");
- Los Angeles International Airport Senior Revenue Bonds 2012 Series A (the "Series 2012A Senior Bonds");
- Los Angeles International Airport Senior Revenue Bonds 2012 Series B (the "Series 2012B Senior Bonds");
- Los Angeles International Airport Senior Revenue Bonds 2012 Series C (the "Series 2012C Senior Bonds" and, together with the Series 2012A Senior Bonds and the Series 2012B Senior Bonds, the "Series 2012 Senior Bonds" and collectively with the Series 2008 Senior Bonds, the Series 2009A Senior Bonds and the Series 2010 Senior Bonds, the "Existing Senior Bonds").

The Existing Senior Bonds are secured by a pledge of and first lien on the Net Pledged Revenues on parity with the Series 2013 Senior Bonds. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds."

Series 2013 Subordinate Bonds

The Series 2013 Subordinate Bonds are being issued pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association, as trustee (the "Subordinate Trustee"), and an Eighth Supplemental Subordinate Trust Indenture, to be dated as of November 1, 2013 (the "Eighth Supplemental Subordinate Indenture," and together with the Master Subordinate Indenture and all supplements thereto, the "Subordinate Indenture"), by and between the Department and the Subordinate Trustee; the Resolutions; and the Charter.

The Series 2013 Subordinate Bonds are secured by a pledge of and first lien on Subordinate Pledged Revenues. "Subordinate Pledged Revenues" means for a given period, the Pledged Revenues for such period, less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to the Senior Indenture. The Series 2013 Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Commercial Paper Notes (as defined below), the payment obligations of the Department under the CP Reimbursement Agreements (as defined below), the Existing Subordinate Bonds (as defined below), any additional bonds issued on parity with the Series 2013 Subordinate Bonds under the terms and provisions of the Master Subordinate Indenture ("Additional Subordinate Bonds") and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture ("Additional Subordinate Obligations"). The Series 2013 Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS – Subordinate Obligations – Subordinate Pledged Revenues."

For purposes of this Official Statement, "Subordinate Bonds" means the Series 2013 Subordinate Bonds, the Existing Subordinate Bonds and any Additional Subordinate Bonds. For purposes of this Official Statement, "Subordinate Obligations" means the Subordinate Bonds, the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreements and any Additional Subordinate Obligations.

THE SERIES 2013 SUBORDINATE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013 SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2013 SUBORDINATE 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 2013 SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2013 SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS."

Existing Subordinate Obligations

Existing Subordinate Bonds

Pursuant to the Subordinate Indenture and the Charter, the Department has previously issued and, as of October 1, 2013, there were outstanding $767,320,000 aggregate principal amount of its:

- Los Angeles International Airport, Subordinate Revenue Bonds, 2008 Series C (the "Series 2008C Subordinate Bonds");
- Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series C (the "Series 2009C Subordinate Bonds");
- Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series D (the "Series 2009D Subordinate Bonds");
- Los Angeles International Airport, Subordinate Refunding Revenue Bonds, 2009 Series E (the "Series 2009E Subordinate Bonds" and collectively with the Series 2009C Subordinate Bonds and the 2009D Subordinate Bonds, the "Series 2009 Subordinate Bonds");
- Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series B (the "Series 2010B Subordinate Bonds"); and
- 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 2008C Subordinate Bonds and the Series 2009 Subordinate Bonds, the "Existing Subordinate Bonds"). See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes."

Subordinate Commercial Paper Notes

Pursuant to the Subordinate Indenture, the Department is authorized to issue and have outstanding, at any one time, its Los Angeles International Airport, Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity – AMT), Series C (Federally Taxable) and Series D (Private Activity – Non-AMT) (collectively, the "Subordinate Commercial Paper Notes") in a maximum aggregate principal amount not exceeding $500,000,000 (subject to certain conditions). However, as of the date of this Official Statement, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support that is provided by the CP Banks (as defined herein) through their related CP Letters of Credit (as defined herein) which is currently $350,000,000 aggregate principal amount outstanding at any one time. As of

October 1, 2013, Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately $67.7 million.

Investment Considerations

The purchase and ownership of the Series 2013 Bonds involve investment risks. Prospective purchasers of the Series 2013 Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2013 Bonds, see "CERTAIN INVESTMENT CONSIDERATIONS."

Continuing Disclosure

In connection with the issuance of the Series 2013 Bonds, the Department will covenant for the benefit of the owners of the Series 2013 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"). Within the past five years, the Department has not failed to comply, in all material respects, with any continuing disclosure undertaking to provide annual financial and operating information or notices of certain enumerated events.

See "CONTINUING DISCLOSURE" and APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Report of the Airport Consultant

Included as APPENDIX A to this Official Statement is a Report of the Airport Consultant dated November 28, 2012 prepared by Ricondo & Associates, Inc. (the "Airport Consultant") and its sub-consultant Partners for Economic Solutions, in connection with the issuance of the Series 2012 Bonds (the "2012 Report of the Airport Consultant"), as supplemented by the Letter Report of the Airport Consultant dated October 30, 2013 prepared by the Airport Consultant and its sub-consultants PH2 Consulting, Inc. and Partners for Economic Solutions, in connection with the issuance of the Series 2013 Bonds (the "Airport Consultant Letter" and together with the 2012 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 2012 Report of the Airport Consultant, and certain assumptions incorporated in the financial projections have been refined based on updated information and data regarding, among other things, ongoing and future LAX capital projects, actual debt service on bonds issued since the 2012 Report of the Airport Consultant and LAX financial operations. The Airport Consultant Letter states that based on the Airport Consultant's review and actual Fiscal Year 2013 results, nothing has come to the attention of the Airport Consultant since the date of the 2012 Report of the Airport Consultant that would significantly affect the assumptions, projections, or conclusions set forth in the 2012 Report of the Airport Consultant or call into question the reasonableness of such assumptions, projections, or conclusions. Revisions to the financial projections since the 2012 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, descriptions of: the underlying economic and demographic base of LAX's Air Trade Area (as defined herein); the economic outlook; airlines and air traffic activity at LAX; factors affecting aviation demand and the airline industry; the Airport Consultant's projections for air traffic activity at LAX through Fiscal Year 2019 and the assumptions upon which such projections are based; existing LAX facilities; the Department's capital plan; the Series 2013 Senior Bonds Projects; the Series 2013 Subordinate Bonds Projects; the Other Incorporated Projects; the Ongoing Projects; the Department's financing plan, including assumptions and analysis regarding the Department's expected use of PFC revenues; LAX Maintenance and Operation Expenses; LAX Revenues; the Airport Consultant's projections of debt service, expenses and revenues through Fiscal Year 2019; a description of the assumptions upon which such projections were based; and updates to the 2012 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 2013 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.

Additional Information

Brief descriptions of the Series 2013 Bonds, the Senior Indenture, the 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 2013 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 2013 Bonds.

PLAN OF FINANCE

The Series 2013 Senior Bonds Projects

The "Series 2013 Senior Bonds Projects" consist of the following (and are described in more detail in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT"):

The Bradley West Interior Enhancements Project

The Bradley West interior enhancements project, which includes enlargement and reconfiguration of the main terminal (core) space in the Tom Bradley International Terminal ("TBIT") that will connect to the Terminal 4/TBIT Connector Building including enlargement of existing Federal inspection services areas, passenger processing space and sterile corridors between TBIT and Terminal 4; and re-configuration of the security screening checkpoint in TBIT.

Terminal 4/TBIT Connector Building

The Terminal 4/TBIT Connector Building project, which consists of the design and construction of a California Green Building Standards Code-certified, multi-use, multi-level facility connecting Terminal 4 and TBIT, which includes facilities for baggage inspection and transfer, passenger security and connection and a public plaza.

The Series 2013 Subordinate Bonds Projects

The "Series 2013 Subordinate Bonds Projects" consist of rehabilitation and reconstruction of Runway 7L-25R and Taxiway B (and are described in more detail in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT").

The Series 2013 Senior Bonds Projects and the Series 2013 Subordinate Bonds Projects are referred to herein as the "Series 2013 Bonds Projects."

General

The Series 2013 Senior Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the 2013 Senior Bonds Projects, (ii) make a deposit to the Senior Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2013 Senior Bonds, and (iv) pay costs of issuance of the Series 2013 Senior Bonds.

The Series 2013 Subordinate Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Series 2013 Subordinate Bonds Projects, (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2013 Subordinate Bonds, and (iv) pay costs of issuance of the Series 2013 Subordinate Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2013 Bonds described in the table below:

SOURCES:	Series 2013 Senior Bonds	Series 2013 Subordinate Bonds	Total
Principal Amount	$ 170,685,000.00	$ 71,175,000.00	$ 241,860,000.00
Net Original Issue Premium/Discount	5,423,340.00	5,970,976.00	11,394,316.00
TOTAL:	$ 176,108,340.00	$ 77,145,976.00	$ 253,254,316.00
USES:			
Deposit to Senior Construction Fund[1]	$140,378,000.00	$ --	$140,378,000.00
Deposit to Subordinate Construction Fund[2]	--	$ 65,885,000.00	65,885,000.00
Deposit to Senior Reserve Fund	15,077,461.68	--	15,077,461.68
Deposit to Subordinate Reserve Fund	--	5,016,572.07	5,016,572.07
Deposit to Senior Interest Account[3]	19,439,125.00	--	19,439,125.00
Deposit to Subordinate Interest Account[4]	--	5,737,284.23	5,737,284.23
Costs of Issuance[5]	1,213,753.32	507,119.70	1,720,873.02
TOTAL:	$ 176,108,340.00	$ 77,145,976.00	$ 253,254,316.00

(1) To be used to pay a portion of the costs of the Series 2013 Senior Bonds Projects.
(2) To be used to pay a portion of the costs of the Series 2013 Subordinate Bonds Projects.
(3) Represents a portion of the interest accruing on the Series 2013 Senior Bonds.
(4) Represents a portion of the interest accruing on the Series 2013 Subordinate Bonds.
(5) 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 2013 BONDS

General

The Series 2013 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 2013 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, 2014 (each an "Interest Payment Date"). Interest due and payable on the Series 2013 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 2013 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 2013 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 2013 Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before May 1, 2014, in which event such Series 2013 Bond will bear interest from its date of delivery. If interest on the Series 2013 Bonds is in default, Series 2013 Bonds issued in exchange for Series 2013 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 2013 Bonds surrendered.

The Series 2013 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 2013 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2013 Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2013 Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2013 Bonds.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, the principal and redemption price of and interest on the Series 2013 Bonds are payable by wire transfer by the Senior Trustee or the Subordinate Trustee, as applicable, 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 E – "BOOK ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption

The Series 2013 Senior Bonds are redeemable at the option of the Department on or after May 15, 2023, 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 2013 Senior Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

The Series 2013 Subordinate Bonds maturing on or before May 15, 2023 are not subject to optional redemption prior to maturity. The Series 2013 Subordinate Bonds maturing on or after May 15, 2024 are redeemable at the option of the Department on or after May 15, 2023, 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 2013 Subordinate Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption

The Series 2013 Senior Bonds maturing on May 15, 2038 (the "Series 2013 Senior Term Bonds (2038)") 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 2013 Senior Term Bonds (2038)

Redemption Date (May 15)	Principal Amount
2034	$ 10,785,000
2035	11,325,000
2036	11,890,000
2037	12,480,000
2038†	13,105,000

† Final Maturity

The Series 2013 Senior Bonds maturing on May 15, 2043 (the "Series 2013 Senior Term Bonds (2043)" and together with the Series 2013 Senior Term Bonds (2038), the "Series 2013 Senior Term Bonds") are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Series 2013 Senior Term Bonds (2043)

Redemption Date (May 15)	Principal Amount
2039	$ 5,035,000
2040	5,285,000
2041	5,550,000
2042	5,830,000
2043†	6,120,000

† 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 2013 Senior Term Bonds, it may (a) deliver to the Senior Trustee for cancellation Series 2013 Senior 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 Series 2013 Senior 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 Series 2013 Senior 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 the Series 2013 Senior Term Bonds, on such mandatory sinking fund redemption date.

The Series 2013 Subordinate Bonds maturing on May 15, 2038 bearing interest at 5.000% (the "Series 2013 Subordinate Term Bonds (2038-5.000%)") 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 2013 Subordinate Term Bonds (2038-5.000%)

Redemption Date (May 15)	Principal Amount
2035	$ 4,140,000
2036	4,315,000
2037	4,510,000
2038†	4,720,000

† Final Maturity

The Series 2013 Subordinate Bonds maturing on May 15, 2038 bearing interest at 4.625% (the "Series 2013 Subordinate Term Bonds (2038-4.625%)" and together with the Series 2013 Subordinate Term Bonds (2038-5.000%), the "Series 2013 Subordinate Term Bonds" and collectively with the Series 2013 Senior Term Bonds, the "Series 2013 Term Bonds") are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Series 2013 Subordinate Term Bonds (2038-4.625%)

Redemption Date (May 15)	Principal Amount
2035	$ 200,000
2036	240,000
2037	275,000
2038†	300,000

† Final Maturity

At the option of the Department, to be exercised by delivery of a written certificate to the Subordinate Trustee, on or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2013 Subordinate Term Bonds, it may (a) deliver to the Subordinate Trustee for cancellation the Series 2013 Subordinate Term Bonds or portions thereof (in Authorized Denominations) purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of Series 2013 Subordinate Term Bonds or portions thereof (in

Authorized Denominations) which prior to said date have been optionally redeemed and previously cancelled by the Subordinate Trustee, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Series 2013 Subordinate Term Bond or portion thereof so purchased, acquired or optionally redeemed and delivered to the Subordinate Trustee, for cancellation will be credited by the Subordinate Trustee, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of the Series 2013 Subordinate Term Bonds, on such mandatory sinking fund redemption date.

Notices of Redemption

The Senior Trustee or the Subordinate Trustee, as applicable, 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 the Series 2013 Bonds, held by DTC by an express delivery service for delivery on the next following Business Day) to each Holder of the applicable Series 2013 Senior Bond or Series 2013 Subordinate Bond, to be redeemed; each such notice will be sent to the Holder's registered address.

Each notice of redemption will specify the date of issue, the applicable Series, the maturity date, the interest rate and the CUSIP number of the applicable Series 2013 Bonds to be redeemed, if less than all of the Series 2013 Bonds, of a Series, maturity date and interest rate are called for redemption, the numbers assigned to such Series 2013 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 applicable Series 2013 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 2013 Bond, will not affect the validity of the call for redemption of such Series 2013 Bond, in respect of which no failure occurs. Any notice sent as provided in the Fourteenth Supplemental Senior Indenture or the Eighth Supplemental Subordinate Indenture, as applicable, will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, Series 2013 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 or the Subordinate Indenture, as applicable. In the event that funds are deposited with the Senior Trustee or the Subordinate Trustee, as applicable, sufficient for redemption, interest on the Series 2013 Bonds to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2013 Bond, to be redeemed in part only, the Senior Trustee or the Subordinate Trustee, as applicable, will authenticate for the holder a new Series 2013 Bond, of the same Series, maturity date and interest rate equal in principal amount to the unredeemed portion of the Series 2013 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 or the Subordinate Trustee, as applicable, moneys sufficient to redeem all the Series 2013 Senior Bonds or the Series 2013 Subordinate Bonds, as applicable, called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Senior Trustee or the Subordinate Trustee, as applicable, 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 2013 Senior Bonds or Series 2013 Subordinate Bonds, as applicable.

Effect of Redemption

On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Fourteenth Supplemental Senior Indenture or the Eighth Supplemental Subordinate Indenture, as applicable, and sufficient moneys for payment of the redemption price being held in trust by the Senior Trustee or the Subordinate Trustee, as applicable, to pay the redemption price, interest on such Series 2013 Senior Bonds or Series 2013 Subordinate Bonds, as applicable, will cease to accrue from and after such redemption date, such Series 2013 Senior Bonds or Series 2013 Subordinate Bonds, as applicable, will cease to be entitled to any lien, benefit or security under the Senior Indenture or the Subordinate Indenture, as applicable, and the owners of such Series 2013 Senior Bonds or Series 2013 Subordinate Bonds, as applicable, will have no rights in respect thereof except to receive payment of the redemption price. Series 2013 Senior Bonds or Series 2013 Subordinate Bonds, as applicable, 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 2013 Senior Bonds or Series 2013 Subordinate Bonds, as applicable, to be redeemed, all as provided in the Fourteenth Supplemental Senior Indenture or the Eighth Supplemental Subordinate Indenture, as applicable, will not be deemed to be Outstanding under the provisions of the Senior Indenture or the Subordinate Indenture, as applicable.

Selection of the Series 2013 Bonds for Redemption; Series 2013 Bonds Redeemed in Part

Redemption of the Series 2013 Bonds, will only be in Authorized Denominations. The Series 2013 Bonds are subject to redemption in such order of maturity and interest rate within a Series (except mandatory sinking fund payments on the Series 2013 Term Bonds) as the Department may direct and by lot, within such Series, maturity and interest rate selected in such manner as the Senior Trustee or the Subordinate Trustee, as applicable, (or DTC, as long as DTC is the securities depository for the Series 2013 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 or the Subordinate Trustee, as applicable, will proceed to select for redemption (by lot in such manner as the Senior Trustee or the Subordinate Trustee, as applicable, may determine), from the Series 2013 Senior Term Bonds or the Series 2013 Subordinate Term Bonds, as applicable, an aggregate principal amount of the Series 2013 Senior Term Bonds or the Series 20123 Subordinate Term Bonds, as applicable, equal to the amount for such year as set forth in the table under "Mandatory Sinking Fund Redemption" above and will call the Series 2013 Senior Term Bonds or the Series 2013 Subordinate Term Bonds, as applicable, or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 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 or Subordinate Construction Fund allowed to be pledged by the terms of a Supplemental Senior Indenture or Supplemental Subordinate Indenture, the Senior Reserve Fund, any other Senior Debt Service Reserve Fund, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund, and allocated earnings on the Maintenance and Operations Reserve Fund.

The Senior Bonds (including the Series 2013 Senior Bonds) are limited obligations of the Department payable solely from and secured solely by (a) a pledge of Net Pledged Revenues, and (b) certain funds and accounts held by the Senior Trustee.

The Master Senior Indenture generally defines "Net Pledged Revenues" to mean, for any given period, Pledged Revenues for such period, less, for such period, LAX Maintenance and Operation Expenses.

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

The Subordinate Obligations (including the Series 2013 Subordinate Bonds) are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues, and (ii) certain funds and accounts held by the Subordinate Trustee.

The Master Subordinate Indenture generally defines "Subordinate Pledged Revenues" to mean, for any given period, the Pledged Revenues for such period, less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to the Senior Indenture.

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

> ***FIRST***, to the payment of LAX Maintenance and Operation Expenses for the Airport System that are payable from LAX Revenues, which include payments to the City for services provided by it to LAX;
>
> ***SECOND***, to the payment of amounts required to be deposited in the Senior Debt Service Funds for the Senior Bonds (including the Series 2013 Senior Bonds) pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;
>
> ***THIRD***, to the payment of amounts required to be deposited in the Senior Reserve Fund and any other Senior Debt Service Reserve Fund pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;
>
> ***FOURTH***, to the payment of amounts required to be deposited to the Subordinate Debt Service Funds, for the Subordinate Obligations (including the Series 2013 Subordinate Bonds), pursuant to the Master Subordinate Indenture and any Supplemental Subordinate Indenture;
>
> ***FIFTH***, to the payment of amounts required to be deposited in the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund pursuant to any Supplemental Subordinate Indenture;
>
> ***SIXTH***, to the payment of Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of such Third Lien Obligations;

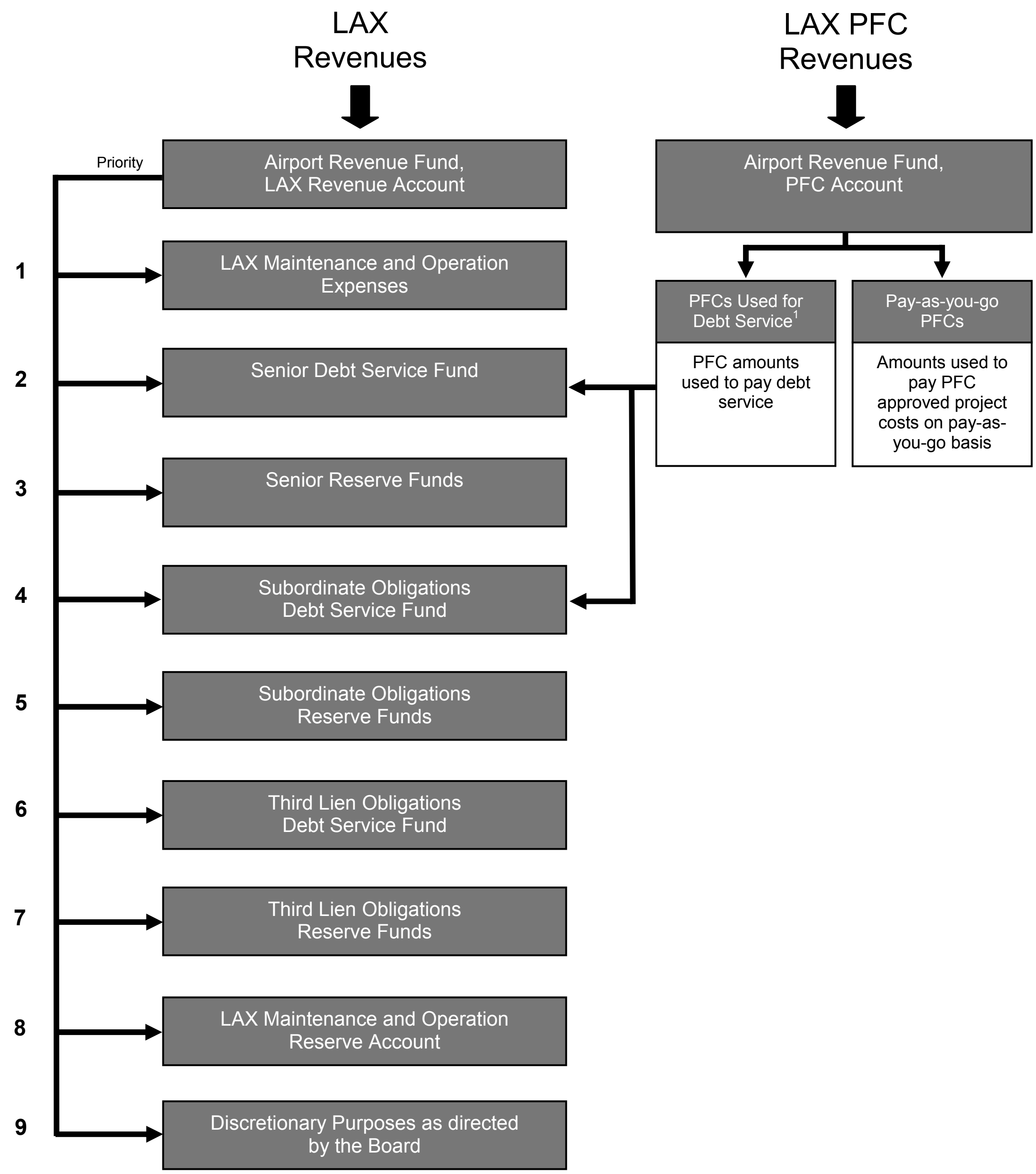
SEVENTH, to the payment of any reserve requirement for the Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such Third Lien Obligations;

EIGHTH, to the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department. The Department has covenanted to fund the Maintenance and Operation Reserve Account each Fiscal Year in an amount which, when added to any moneys in such account, will be equal to not less than 25% nor more than 50% of the budgeted LAX Maintenance and Operation Expenses for the current Fiscal Year; and

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

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

FLOW OF LAX REVENUES AND
LAX PFC REVENUES



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

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

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

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

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 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 and APPENDIX C-3 for a more complete description of these provisions of the Senior Indenture.

Net Pledged Revenues

The Series 2013 Senior Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Net Pledged Revenues. The Series 2013 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.

THE SERIES 2013 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 NET PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2013 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 2013 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2013 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 Net Pledged Revenues prior or superior to that of the Senior Bonds. Net Pledged Revenues are available for the equal and proportionate benefit and security of all Senior Bonds.

The Series 2013 Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues on 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 2013 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 EIGHTH 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 NINTH as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 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 180 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce 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 "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, 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 PLANNING – Capital Financing – 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.

Senior Debt Service Deposits

The Master Senior Indenture provides that the Department will cause the City Treasurer to, not later than five Business Days prior to each Payment Date, 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 the full amount required to pay the principal of and/or interest on Senior Bonds of that Series due on such Payment Date.

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 Fourteenth Supplemental Senior Indenture, the Department intends to elect to have the Series 2013 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 all Senior Bonds participating in the Senior Reserve Fund, (ii) 10% of the principal amount of all Senior Bonds participating in the Senior Reserve Fund, less the amount of original issue discount with respect to the 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 all 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. At the time of issuance of the Series 2013 Senior Bonds, the Senior Reserve Requirement will equal $217,727,912.52 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 Senior Bonds participating in the Senior Reserve Fund (including the Series 2013 Senior Bonds).

Moneys and investments held in the Senior Reserve Fund are not available to pay debt service on the Subordinate Obligations or any Third Lien Obligations. The Senior Reserve Fund may be drawn upon if the amounts in the respective Senior Debt Service Funds for the Series 2013 Senior Bonds and the other 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 2013 Senior Bonds, there are no and there will be 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 Net Pledged Revenues on parity with the Series 2013 Senior Bonds and the Existing Senior Bonds.

Additional Senior Bonds may be issued under the Master Senior Indenture on parity with the Series 2013 Senior Bonds and the Existing Senior Bonds, provided, among other things, there is delivered to the Senior Trustee either:

(a) a certificate, dated as of a date between the date of pricing of the proposed Additional Senior Bonds being issued and the date of delivery of such proposed Additional Senior Bonds (both dates inclusive), prepared by an Authorized 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 Additional 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 with respect to all Outstanding Senior Bonds, Unissued Senior Program Bonds and the proposed Additional Senior Bonds, calculated as if the proposed Additional Senior Bonds and the full Senior 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 proposed Additional Senior Bonds being issued and the date of delivery of such proposed Additional Senior Bonds (both dates inclusive), prepared by a Consultant showing that:

(i) the Net Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Additional Senior Bonds or the establishment of a Senior Program were at least equal to 125% of the sum of the Senior Aggregate Annual Debt Service due and payable with respect to all Outstanding Senior Bonds (not including the proposed Additional Senior Bonds or the proposed Senior Program Bonds) for such Fiscal Year or other applicable period; and

(ii) for the period from and including the first full Fiscal Year following the issuance of such proposed Additional Senior Bonds during which no interest on such Additional Senior 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 Additional Senior Bonds, or (B) the third full Fiscal Year during which no interest on such Additional Senior Bonds is expected to be paid from the proceeds thereof, the estimated Net Pledged Revenues, together with any estimated

Transfer, for each such Fiscal Year, will be at least equal to 125% of the Senior Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Senior Bonds, Unissued Senior Program Bonds and the proposed Additional Senior Bonds (calculated as if the proposed Additional Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (as 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 2013 Senior Bonds.

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of the Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds, Unissued Senior Program Bonds, the proposed Additional Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds, as applicable, for such applicable Fiscal Year or such other applicable period.

For purposes of subsection (b)(ii) 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 may use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the Department, as the Consultant believes to be appropriate. The Consultant may 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 may also set forth the calculations of Senior 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 subparagraphs (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 Aggregate Annual Debt Service for each Fiscal Year after the issuance of the Refunding Senior Bonds will not exceed Senior Aggregate Annual Debt Service for each Fiscal Year prior to the issuance of such Refunding Senior Bonds;

(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 Net Pledged Revenues for any 12 consecutive months out of the most recent 24 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; or

(3) if the Senior Bonds being issued are to pay costs of completing a Specified LAX Project for which Senior Bonds have previously been issued and the principal amount of such Senior Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Senior 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 Representative and there is delivered to the Senior Trustee (i) a Consultant's certificate stating that the nature and purpose of such

Specified LAX Project has not materially changed and (ii) a certificate of an Authorized Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Specified LAX Project) of the original Senior Bonds issued to finance such Specified LAX Project have been or will be used to pay Costs of the Specified LAX Project, (B) the then estimated Costs of the Specified LAX Project exceed the sum of the Costs of the Specified LAX Project already paid plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Senior Bonds previously issued for such purpose), and (C) the proceeds to be received from the issuance of such Senior Bonds plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Senior Bonds previously issued for such purpose) will be sufficient to pay the remaining estimated Costs of the Specified LAX Project.

The Department has covenanted in the Master Senior Indenture that so long as any Senior Bonds are Outstanding, it will not, except as specifically provided in Master Senior 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 Master Senior 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 Senior Bonds (including Additional Senior Bonds) from time to time Outstanding under the Master Senior Indenture. The Department may, as provided in the Master Senior Indenture, grant a lien on or security interest in the Net Pledged Revenues to secure Subordinate Obligations and Third Lien Obligations. 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 "SPECIAL FACILITY FINANCINGS – LAX Special Facility Obligations."

Subordinate Obligations

Following is a summary of certain provisions of the Subordinate Indenture, including, but not limited to, sections of the Subordinate Indenture detailing the pledge of Subordinate Pledged Revenues, the rate covenant for the Subordinate Obligations, debt service deposits for the Subordinate Obligations, the funding and utilization of the Subordinate Reserve Fund and the issuance of Additional Subordinate Obligations. These summaries do not purport to be comprehensive or definitive. See APPENDIX C-4 and APPENDIX C-5 for a more complete description of these provisions of the Subordinate Indenture.

Subordinate Pledged Revenues

The Series 2013 Subordinate Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Subordinate Pledged Revenues. The Series 2013 Subordinate Bonds are also secured by a pledge of and first lien on amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

THE SERIES 2013 SUBORDINATE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013 SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2013 SUBORDINATE 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 2013 SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2013 SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE.

The Series 2013 Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreements, the existing Subordinate Bonds, any Additional Subordinate Bonds and any Additional

Subordinate Obligations. See "—Subordinate Obligations" and "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes." The Series 2013 Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture.

Subordinate Rate Covenant

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

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

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

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

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

(iv) the interest on and principal of any indebtedness required to be funded during such Fiscal Year, other than Special Facility Obligations, Senior Bonds and Outstanding Subordinate Obligations, but including obligations issued with a lien on Subordinate Pledged Revenues, ranking junior and subordinate to the lien of the Subordinate Obligations; and

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

(b) The Department has further agreed that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations. For purposes of this paragraph (b), the amount of any Transfer taken into account may not exceed 15% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations in such Fiscal Year.

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

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

Pursuant to the Master Subordinate Indenture, the Department may exclude from its calculation of Subordinate Aggregate Annual Debt Service, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Subordinate Obligations whose debt service is payable from amounts not included in Subordinate Pledged Revenues (including, but not limited to PFC revenues) which have been irrevocably committed or irrevocably deposited with the Subordinate Trustee for the payment of debt service on such Subordinate Obligations. See "—Passenger Facility Charges," "CAPITAL PLANNING – Capital Financing – Passenger Facility Charges" and "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" for additional information about the Department's expected use of PFC revenues. See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." The Department does not currently expect to use any PFC revenues to pay debt service on the Series 2013 Subordinate Bonds, or the Existing Subordinate Bonds or the Subordinate Commercial Paper Notes.

Subordinate Debt Service Deposits

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

Subordinate Reserve Fund

Pursuant to the Fourth Supplemental Subordinate Indenture, a Subordinate Debt Service Reserve Fund (the "Subordinate Reserve Fund") was established for the Existing Subordinate Bonds and any Additional Subordinate Bonds which the Department elects to have participate in the Subordinate Reserve Fund. Pursuant to the Eighth Supplemental Subordinate Indenture, the Department intends to elect to have the Series 2013 Subordinate Bonds participate in the Subordinate Reserve Fund.

Except as otherwise described below, the Subordinate Reserve Fund is required to be funded at all times in an amount equal to the Subordinate Reserve Requirement. The "Subordinate Reserve Requirement" equals the least of (i) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to all of the Subordinate Obligations participating in the Subordinate Reserve Fund, (ii) 10% of the principal amount of all of the Subordinate Obligations participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to the Subordinate Obligations participating in the Subordinate Reserve Fund if such original issue discount exceeded 2% on such Subordinate Obligations at the time of its original sale, and (iii) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement with respect to all of the Subordinate Obligations participating in the Subordinate Reserve Fund. In the event the Department issues any Additional Subordinate Obligations pursuant to a Supplemental Subordinate Indenture under which the Department elects to have such Additional Subordinate Obligations participate in the Subordinate Reserve Fund, the Department will be required to deposit an amount in the Subordinate Reserve Fund sufficient to cause the amount on deposit in the Subordinate Reserve Fund to equal the Subordinate Reserve Requirement. Such deposit to the Subordinate Reserve Fund can be made at the time of issuance of the Additional Subordinate Obligations participating in the Subordinate Reserve Fund or over 12 months following the date of issuance of the Additional Subordinate Obligations participating in the Subordinate Reserve Fund. At the time of issuance of the Series 2013 Subordinate Obligations, the Subordinate Reserve Requirement will equal $64,735,349.98 and will be fully funded with cash and securities.

Moneys or investments held in the Subordinate Reserve Fund may be used only to pay the principal of and interest on the Subordinate Obligations participating in the Subordinate Reserve Fund (including the Series 2013 Subordinate Bonds). Moneys and investments held in the Subordinate Reserve Fund are not available to pay debt service on the Senior Bonds, the Subordinate Commercial Paper Notes, any Subordinate Obligations for which the Department has decided will not participate in the Subordinate Reserve Fund or any Third Lien Obligations. The Subordinate Reserve Fund may be drawn upon if the amounts in the respective Subordinate Debt Service Funds for the Series 2013 Subordinate Bonds, and the other Subordinate Bonds participating in the Subordinate Reserve Fund are insufficient to pay in full any principal or interest then due on such Subordinate Bonds. In the event any amounts are required to be withdrawn from the Subordinate Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Subordinate Debt Service Funds for the Subordinate Bonds secured by the Subordinate Reserve Fund.

The Department may fund all or a portion of the Subordinate Reserve Requirement with a Subordinate Debt Service Reserve Fund Surety Policy. A Subordinate Debt Service Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Subordinate Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Subordinate Debt Service Reserve Fund Surety Policy must either extend to the final maturity of the Series of Subordinate Obligations for which the Subordinate Debt Service Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Subordinate Indenture, that the Department will replace such Subordinate Debt Service Reserve Fund Surety Policy prior to its expiration with another Subordinate Debt Service Reserve Fund Surety Policy, or with cash, and the face amount of the Subordinate Reserve Fund Surety Policy, together with amounts on deposit in the Subordinate Reserve Fund, including the face amount of any other Subordinate Debt Service Reserve Fund Surety Policy, are at least equal to the Subordinate Reserve Requirement. Any such Subordinate Debt Service Reserve Fund Surety Policy deposited to the Subordinate Reserve Fund must secure all of the Subordinate Obligations participating in the Subordinate Reserve Fund. As of the date of this Official Statement and at the time of the issuance of the Series 2013 Subordinate Bonds, there are no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund and there will be no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund.

Additional Subordinate Obligations

The Master Subordinate Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Subordinate Obligations hereafter issued with a lien and charge on Subordinate Pledged Revenues on parity with the Series 2013 Subordinate Bonds and the other Subordinate Obligations.

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

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

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

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

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

The certificate described in subparagraph (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2013 Subordinate Bonds.

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

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

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

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

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

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

(3) if the Subordinate Obligations being issued are to pay costs of completing a Specified LAX Project for which Subordinate Obligations have previously been issued and the principal amount of such Subordinate Obligations being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Subordinate Obligations originally issued for such Specified LAX Project and reasonably allocable to the Specified LAX Project to be completed as shown in a written certificate of an Authorized Representative and there is delivered to the Subordinate Trustee (i) a Consultant's certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (ii) a certificate of an Authorized Representative to the effect that (A) all of the

proceeds (including investment earnings on amounts in the construction fund allocable to such Specified LAX Project) of the original Subordinate Obligations issued to finance such Specified LAX Project have been or will be used to pay costs of the Specified LAX Project, (B) the then estimated costs of the Specified LAX Project exceed the sum of the costs of the Specified LAX Project already paid plus moneys available in the construction fund established for the Specified LAX Project (including unspent proceeds of the Subordinate Obligations previously issued for such purpose), and (C) the proceeds to be received from the issuance of such Subordinate Obligations plus moneys available in the construction fund established for the Specified LAX Project (including unspent proceeds of the Subordinate Obligations previously issued for such purpose) will be sufficient to pay the remaining estimated costs of the Specified LAX Project.

Passenger Facility Charges

Passenger Facility Charges – Pledged Revenues

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. The Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues. The Department has not pledged PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations, and the Department has no current plans to pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. Although PFC revenues are not included in Pledged Revenues and have not been pledged to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations, the Department expects to (to the extent approved by the FAA) use PFC revenues to pay a portion of the debt service on certain Senior Bonds and/or certain Subordinate Obligations which are 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 certain Subordinate Bonds which are PFC Eligible Bonds. For additional information regarding PFC revenues and the Department's expected use of PFC revenues, see "CAPITAL PLANNING – Capital Financing – 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.

Passenger Facility Charges – Additional Senior Bonds and Additional Subordinate Bonds

Debt service paid with PFC revenues is not included in the calculation of the rate covenants set forth in the Master Senior Indenture or the Master Subordinate Indenture. Debt service on Additional Senior Bonds and Additional Subordinate Obligations expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds tests set forth in the Master Senior Indenture or the Master Subordinate Indenture.

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.

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

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

Events of Default and Remedies; No Acceleration

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 any of the Senior Trustee, the Subordinate Trustee, or the Holders of the Senior Bonds, or the Subordinate Obligations. 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.

Subordinate Events of Default under the Subordinate Indenture and related remedies are described in APPENDIX C-4 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of Default and Remedies." Except as described in the following sentence, the occurrence of a Subordinate Event of Default does not grant any right to accelerate payment of the Subordinate or the Senior Bonds to any of the Subordinate Trustee, the Senior Trustee, or the Holders of the Subordinate Obligations or Senior Bonds. Pursuant to the CP Reimbursement Agreements the Department granted to the CP Banks the right to accelerate any payments due the CP Banks upon an event of default under the CP Reimbursement Agreements. The Subordinate Trustee is authorized to take certain actions upon the occurrence of a Subordinate Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture. See APPENDIX C-4 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of Default and Remedies – Application of Moneys." See also "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes."

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and, as of October 1, 2013 there were outstanding $2,916,690,000 aggregate principal amount of Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS – Flow of Funds." The following table sets forth information about the Existing Senior Bonds that were outstanding as of October 1, 2013.

TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SENIOR BONDS
AS OF OCTOBER 1, 2013

Series	Original Principal Amount	Principal Amount Outstanding	Final Maturity (May 15)
2008A	$ 602,075,000	$ 540,770,000	2038
2008B	7,875,000	2,665,000	2015
2009A	310,410,000	297,520,000	2039
2010A	930,155,000	930,155,000	2040
2010D	875,805,000	867,545,000	2040
2012A	105,610,000	105,610,000	2029
2012B	145,630,000	144,555,000	2037
2012C	27,870,000	27,870,000	2019
Total	$3,005,430,000	$2,916,690,000	

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 October 1, 2013, there were outstanding $767,320,000 aggregate principal amount of its Existing Subordinate Bonds. Additionally, pursuant to the Subordinate Indenture, the Department is authorized to issue and to have outstanding, from time to time, up to $500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. However, as of the date of this Official Statement, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support that is provided by the CP Banks through their related CP Letters of Credit, which is currently $350,000,000 aggregate principal amount outstanding at any one time. As of October 1, 2013, there were Subordinate Commercial Paper Notes outstanding with a maturity value of approximately $67.7 million. The Subordinate Bonds and the Subordinate Commercial Paper Notes are and will be secured by a pledge and lien on Subordinate Pledged Revenues. The following table sets forth the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes that were outstanding as of October 1, 2013.

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 OCTOBER 1, 2013

Subordinate Obligations	Original Principal Amount	Principal Amount Outstanding	Final Maturity Date
Existing Subordinate Bonds			
- Series 2008C	$ 243,350,000	$ 222,440,000	May 15, 2038
- Series 2009C	307,350,000	307,350,000	May 15, 2039
- Series 2009D	31,815,000	15,535,000	May 15, 2015
- Series 2009E	39,750,000	27,955,000	May 15, 2020
- Series 2010B	134,680,000	134,680,000	May 15, 2040
- Series 2010C	59,360,000	59,360,000	May 15, 2040
Total Existing Subordinate Bonds	$ 816,305,000	$ 767,320,000	
Subordinate Commercial Paper Notes			
- Series A[(1)]	--[(5)]	--[(6)]	Various
- Series B[(2)]	--[(5)]	--[(6)]	Various
- Series C[(3)]	--[(5)]	67,717,000[(6)]	Various
- Series D[(4)]	--[(5)]	--[(6)]	Various
Total Subordinate Commercial Paper Notes		$ 67,717,000	
Total outstanding Existing Subordinate Bonds and Subordinate Commercial Paper Notes		$ 835,037,000	

(1) The Subordinate Commercial Paper Notes Series A (Governmental – Non AMT) may be issued in various Subseries designated Subseries A-1 through A-4.
(2) The Subordinate Commercial Paper Notes Series B (Private Activity - AMT) may be issued in various Subseries designated Subseries B-1 through B-4.
(3) The Subordinate Commercial Paper Notes Series C (Federally Taxable) may be issued in various Subseries designated Subseries C-1 through C-4.
(4) The Subordinate Commercial Paper Notes Series D (Private Activity – Non AMT) may be issued in various Subseries designated Subseries D-1 through D-4.
(5) Original Principal Amount of Subordinate Commercial Paper Notes varies.
(6) The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.
Source: Department of Airports of the City of Los Angeles

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

To provide credit support for the Subordinate Commercial Paper Notes, the Department entered into four separate reimbursement agreements dated as of March 1, 2012 (collectively, the "CP Reimbursement Agreements") with Bank of America, N.A., Barclays Bank PLC, Citibank, N.A. and Wells Fargo Bank, National Association, respectively (collectively, the "CP Banks"), pursuant to which the CP Banks each issued a separate irrevocable transferable direct-pay letter of credit (collectively, the "CP Letters of Credit"). Each CP Letter of Credit provides credit support for the timely payment of the principal of and interest on certain specified Subseries of the Subordinate Commercial Paper Notes as described in more detail in the following table.

CP Bank	Subseries of Subordinate Commercial Paper Notes Supported by CP Letter of Credit	Principal Amount of Subordinate Commercial Paper Notes Supported by CP Letter of Credit	Total Stated Amount of CP Letter of Credit[(1)]	CP Letter of Credit Termination Date[(2)]
Bank of America, N.A.	A-1, B-1, C-1 , D-1	$ 50,000,000	$ 54,500,000	March 6, 2015
Barclays Bank PLC	A-2, B-2, C-2, D-2	$ 50,000,000	$ 54,500,000	March 7, 2014
Citibank, N.A.	A-3, B-3, C-3, D-3	$ 100,000,000	$109,000,000	March 6, 2015
Wells Fargo Bank, National Association	A-4, B-4, C-4, D-4	$ 150,000,000	$163,500,000	March 6, 2015

(1) Equal to principal of Subordinate Commercial Paper Notes supported by CP Letter of Credit plus interest on such Subordinate Commercial Paper Notes accruing at a rate of 12% for 270 days based on 360-day year.
(2) Unless extended or terminated sooner in accordance with the respective terms of the CP Letter of Credit.

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

In the event the Department does not immediately reimburse a CP Bank for a drawing under the applicable CP Letter of Credit, the Department is required pursuant to the applicable CP Reimbursement Agreement to pay all principal of and interest due to the applicable CP Bank as a result of such drawing (1) with respect to the Bank of America, N.A. CP Letter of Credit and the Wells Fargo Bank, National Association CP Letter of Credit, within five years of the applicable date of the original drawing, (ii) with respect to the Barclays Bank PLC CP Letter of Credit, within three years of the date of the original drawing on the Barclays Bank PLC CP Letter of Credit and (iii) with respect to the Citibank, N.A. CP Letter of Credit, within thirteen months following the termination date of the Citibank, N.A. CP Letter of Credit. Upon the happening of an event of default under a CP Reimbursement Agreement the obligations of the Department to the applicable CP Bank may become immediately due and payable. Events of default under the CP Reimbursement Agreements include, but are not limited to (i) failure to pay principal of or interest on any drawing, advance or other obligations under the applicable CP Reimbursement Agreement, (ii) failure to perform the terms of the applicable CP Reimbursement Agreement, (iii) defaults in any payment of any debt secured by a charge, lien or encumbrance on the Net Pledged Revenues or the Subordinate Pledged Revenues and (iv) certain downgrades of the Senior Bonds. Any obligations of the Department incurred pursuant to the CP Reimbursement Agreements are secured by Subordinate Pledged Revenues on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes.

Debt Service Requirements

The following table sets forth debt service requirements on the Existing Senior Bonds, the Series 2013 Senior Bonds, the Existing Subordinate Bonds and the Series 2013 Subordinate Bonds:

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

Fiscal Year	Total Debt Service on Existing Senior Bonds	Principal Requirements on Series 2013 Senior Bonds	Interest Requirements on Series 2013 Senior Bonds	Total Debt Service on Series 2013 Senior Bonds	Total Debt Service on Senior Bonds	Total Debt Service on Existing Subordinate Bonds[2]	Principal Requirements on Series 2013 Subordinate Bonds	Interest Requirements on Series 2013 Subordinate Bonds	Total Debt Service on Series 2013 Subordinate Bonds	Total Debt Service on Subordinate Bonds	Total Debt Service [2]
2014	$ 183,832,775	-	$ 4,172,300	$ 4,172,300	$ 188,005,075	$ 59,654,659	-	$ 1,737,973	$ 1,737,973	$ 61,392,631	$ 249,397,706
2015	200,675,000	-	8,534,250	8,534,250	209,209,250	59,655,459	-	3,554,944	3,554,944	63,210,402	272,419,653
2016	202,559,850	-	8,534,250	8,534,250	211,094,100	59,603,740	$ 1,720,000	3,554,944	5,274,944	64,878,684	275,972,784
2017	202,564,013	-	8,534,250	8,534,250	211,098,263	59,461,406	1,805,000	3,468,944	5,273,944	64,735,350	275,833,613
2018	202,561,438	-	8,534,250	8,534,250	211,095,688	59,308,861	1,895,000	3,378,694	5,273,694	64,582,555	275,678,243
2019	202,563,363	-	8,534,250	8,534,250	211,097,613	59,144,127	1,990,000	3,283,944	5,273,944	64,418,071	275,515,684
2020	202,562,588	-	8,534,250	8,534,250	211,096,838	58,963,202	2,090,000	3,184,444	5,274,444	64,237,646	275,334,484
2021	202,562,913	-	8,534,250	8,534,250	211,097,163	55,666,684	2,195,000	3,079,944	5,274,944	60,941,627	272,038,790
2022	202,564,263	-	8,534,250	8,534,250	211,098,513	55,670,552	2,300,000	2,970,194	5,270,194	60,940,746	272,039,259
2023	202,565,800	-	8,534,250	8,534,250	211,100,050	55,670,697	2,415,000	2,855,194	5,270,194	60,940,891	272,040,941
2024	202,564,950	$ 6,620,000	8,534,250	15,154,250	217,719,200	55,670,473	2,540,000	2,734,444	5,274,444	60,944,917	278,664,117
2025	202,569,663	6,955,000	8,203,250	15,158,250	217,727,913	55,672,330	2,665,000	2,607,444	5,272,444	60,944,774	278,672,687
2026	202,563,844	7,300,000	7,855,500	15,155,500	217,719,344	55,669,465	2,800,000	2,474,194	5,274,194	60,943,658	278,663,002
2027	202,564,713	7,665,000	7,490,500	15,155,500	217,720,213	55,671,989	2,940,000	2,334,194	5,274,194	60,946,183	278,666,395
2028	202,563,938	8,050,000	7,107,250	15,157,250	217,721,188	55,671,787	3,085,000	2,187,194	5,272,194	60,943,981	278,665,168
2029	202,567,644	8,450,000	6,704,750	15,154,750	217,722,394	55,669,713	3,240,000	2,032,944	5,272,944	60,942,657	278,665,050
2030	202,564,013	8,870,000	6,282,250	15,152,250	217,716,263	55,671,292	3,400,000	1,870,944	5,270,944	60,942,236	278,658,499
2031	202,567,494	9,315,000	5,838,750	15,153,750	217,721,244	55,671,985	3,570,000	1,700,944	5,270,944	60,942,929	278,664,173
2032	202,565,588	9,785,000	5,373,000	15,158,000	217,723,588	55,672,419	3,750,000	1,522,444	5,272,444	60,944,863	278,668,451
2033	202,563,231	10,270,000	4,883,750	15,153,750	217,716,981	55,672,417	3,940,000	1,334,944	5,274,944	60,947,361	278,664,342
2034	202,564,263	10,785,000	4,370,250	15,155,250	217,719,513	55,671,625	4,135,000	1,137,944	5,272,944	60,944,569	278,664,082
2035	202,565,788	11,325,000	3,831,000	15,156,000	217,721,788	55,673,892	4,340,000	931,194	5,271,194	60,945,086	278,666,873
2036	202,563,444	11,890,000	3,264,750	15,154,750	217,718,194	55,671,684	4,555,000	714,944	5,269,944	60,941,628	278,659,821
2037	202,563,469	12,480,000	2,670,250	15,150,250	217,713,719	55,406,599	4,785,000	488,094	5,273,094	60,679,693	278,393,412
2038	187,446,600	13,105,000	2,046,250	15,151,250	202,597,850	55,125,810	5,020,000	249,875	5,269,875	60,395,685	262,993,535
2039	187,741,663	5,035,000	1,391,000	6,426,000	194,167,663	54,832,000	-	-	-	54,832,000	248,999,662
2040	193,352,250	5,285,000	1,139,250	6,424,250	199,776,500	49,222,319	-	-	-	49,222,319	248,998,819
2041	-	5,550,000	875,000	6,425,000	6,425,000	-	-	-	-	-	6,425,000
2042	-	5,830,000	597,500	6,427,500	6,427,500	-	-	-	-	-	6,427,500
2043	-	6,120,000	306,000	6,426,000	6,426,000	-	-	-	-	-	6,426,000
Total	$5,409,464,550	$ 170,685,000	$ 169,745,050	$ 340,430,050	$5,749,894,600	$1,521,117,188	$ 71,175,000	$ 55,390,954	$ 126,565,954	$1,647,683,141	$7,397,577,742

(1) Totals may not add due to individual rounding. Debt service on the Subordinate Commercial Paper Notes (which may be outstanding from time to time up to $500 million aggregate principal amount) and payment obligations under the CP Reimbursement Agreements are not reflected in this table. As of the date of this Official Statement, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support that is be being provided by the CP Banks through their related CP Letters of Credit which is currently equal to $350,000,000 aggregate principal amount outstanding at any one time. Approximately $67.7 million of Subordinate Commercial Paper Notes will be outstanding following the issuance of the Series 2013 Bonds. For additional information on these obligations, see "—Subordinate Bonds and Subordinate Commercial Paper Notes" above and "—Other Obligations – Repayment Obligations."

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

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

Future Financings

The Department is currently reviewing plans to issue approximately $1.7 billion of Additional Senior Bonds (exclusive of the Series 2013 Senior Bonds) and/or approximately $478 million of Additional Subordinate Obligations (exclusive of the Series 2013 Subordinate Bonds) through Fiscal Year 2019 to, among other things, complete the Series 2013 Senior Bonds Projects, the Series 2013 Subordinate Bonds Projects and Other Incorporated Projects, as described in the Report of the Airport Consultant. The Report of the Airport Consultant assumes the issuance of the above-referenced amount of Additional Senior Bonds and Additional Subordinate Obligations.

During the Airport Consultant's projection period (through Fiscal Year 2019), the Department may pursue additional capital projects and acquisitions beyond those described in the preceding paragraph and Additional Senior Bonds and/or Additional Subordinate Obligations may be issued to fund such additional projects or acquisitions. Any such 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," "CAPITAL PLANNING" and APPENDIX A – "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 (i) adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) issue any additional bonds or other obligations with a lien on or security interest granted in Pledged Revenues which is senior to the Senior Bonds. Notwithstanding the previous sentence, nothing in the Master Senior Indenture prohibits the Department from entering into agreements that provide for the granting of Facilities Construction Credits by the Department. There are currently no outstanding general obligation bonds of the City for Department purposes issued or authorized but unissued.

Other Repayment Obligations

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

If a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Senior Bonds, all or a portion of the Department's 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.

Additionally, if a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase any Subordinate Obligations, all or a portion of the Department's Subordinate Repayment Obligation may be afforded the status of a Subordinate Obligation under the Subordinate Indenture. The Department currently does not have any Subordinate Repayment Obligations outstanding. See APPENDIX C-2 – "SUMMARY OF THE MASTER SENIOR INDENTURE – Senior Repayment Obligations Afforded Status of Senior Bonds" and APPENDIX C-3 – "SUMMARY OF THE FOURTEENTH SUPPLEMENTAL SENIOR INDENTURE."

Credits

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

Department receives less money from these Aeronautical Users than such Aeronautical User would otherwise provide absent the credit. Thus, although the credits are not secured by any pledge of or lien on the Department's revenues, the effect of using such credits is the creation of a higher payment priority for such credits than for the Senior Bonds and Subordinate Obligations, including the Series 2013 Bonds. Credits are discussed in greater detail under "USE OF AIRPORT FACILITIES – Credits." See also "SPECIAL FACILITY FINANCINGS – Conduit Financings."

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2013 Bonds involve investment risk and may not be suitable for all investors. 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 2013 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 2013 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 Senior Bonds are payable solely from Net Pledged Revenues and other available funds. The Subordinate Obligations are payable solely from Subordinate Pledged Revenues and other available funds. Net Pledged Revenues, Subordinate Pledged Revenues and PFC revenues depend primarily on the level of aviation activity and enplaned passenger traffic at LAX.

Air travel demand has historically correlated to the national economy, generally, and consumer income and business profits in particular. The long term implications of recent economic and political conditions are unclear, however, a continued lack of sustainable economic growth could negatively affect, among other things, financial markets, commercial activity and consumer spending. There can be no assurance that such conditions will not adversely affect demand for travel. For a discussion of the effect of the national and international 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 those discussed above and other 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.

In addition to revenues from airlines, the Department derives a substantial portion of its revenues from concessionaires including parking operations, terminal commercial manager concessions, duty free concessions, food and beverage concessions, retail concessions and rental cars. See "USE OF AIRPORT FACILITIES – Concession and Parking Agreements." Declines in passenger traffic may adversely affect the commercial operation of concessionaries. While the Department's agreements with concessionaires require the concessionaires to pay a minimum annual guarantee, severe financial difficulties could lead to a failure by a concessionaire to make the required payments and cessation of such concessionaires operations. See also "—Effect of Concessionaire Bankruptcies."

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 Net Pledged Revenues, Subordinate 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 Net Pledged Revenues and Subordinate 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 the cost and availability of labor, fuel, aircraft, supplies and insurance; general economic conditions; international trade; currency values; competitive considerations, including the effects of airline ticket pricing; traffic and airport capacity constraints; governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements; passenger demand for air travel; strikes and other union activities; availability of financing; and disruptions caused by airline accidents, criminal incidents and acts of war or terrorism.

Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the national economy (see the factors discussed in "—Demand for Air Travel" above), other regional and world economies, business 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. See "—Effect of Airline Bankruptcies."

Faced with the proliferation of competition and with evolving business technology, legacy airlines (such as United Airlines, Delta Air Lines, American Airlines 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, deferring aircraft deliveries, streamlining operations, merging with other airlines 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 and significantly affects airline earnings. Fuel prices are particularly sensitive to worldwide political instability, economic uncertainties and increased demand from developing economies, production disruption and regulations. Fuel prices reached record highs in 2008, and, according to Airlines for America (formerly known as the Air Transport Association of America), 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 sought to hedged fuel prices through the purchase of oil futures contracts, increases in fuel prices have had a significant impact on airline industry profitability, and future fuel price increases or sustained higher prices could continue to adversely affect the financial condition of airlines and the level of service they provide. Airlines have also used increased fuel prices as a justification for increases in airfare, checked baggage fees 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 have added routes and service at LAX. Traffic volumes are responsive to a number of factors described above under "—Demand for Air Travel." Airline debt levels fluctuate. The airlines are vulnerable to fuel price spikes, labor activity, recession and external shocks (such as terrorism, pandemics, military conflicts and natural disasters). As a result, airline 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 Net Pledged Revenues, Subordinate Pledged Revenues and passenger facility charge collections.

See also "AIRLINE INDUSTRY INFORMATION."

Effect of Airline Bankruptcies

A number of airlines that served or are currently serving LAX have filed for bankruptcy in the past and may do so in the future. American Airlines, which accounted for approximately 15.5% of enplaned passengers at LAX and approximately 13.0% of revenue landed weight at LAX in Fiscal Year 2012, filed for bankruptcy protection in 2011. See "AIRLINE INDUSTRY INFORMATION – American Airlines Bankruptcy." Bankruptcies of airlines operating at LAX 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 of 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 PLANNING – Capital Financing – 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 PLANNING – Capital Financing – 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. See also "AIRLINE INDUSTRY INFORMATION – American Airlines Bankruptcy."

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 2013 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 2013 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 have filed for bankruptcy protection 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 2013 Bonds.

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 Airlines and Continental Airlines approved a merger of the two airlines, with operation under the United Airlines name. On November 30, 2011, the merger was completed and Continental no longer operates as a separate airline. The combination of United Airlines/Continental Airlines represented a market share of approximately 16.5% of enplanements at LAX in Fiscal Year 2013. In addition, in 2010, the respective Boards of Directors of Southwest Airlines and AirTran approved Southwest's acquisition of AirTran, which was completed in 2011. Southwest and AirTran received a single operating certificate from the FAA in 2012, however Southwest and AirTran continue to operate as separate airlines while integrating. Combined, Southwest and AirTran represented a market share of approximately 11.4% of enplanements at LAX in Fiscal Year 2013. On February 13, 2013, AMR Corporation, US Airways Group, Inc., a Delaware corporation ("US Airways Group"), and AMR Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of AMR Corporation ("AMR Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), providing for a business combination of AMR Corporation and US Airways Group. American Airlines represented a market share of approximately 15.5% of enplanements at LAX in Fiscal Year 2013 and US Airways represented a market share of approximately 3.0% of enplanements at LAX in Fiscal Year 2013. On August 13, 2013, the U.S. Department of Justice and certain states filed a civil action in the U.S. District Court for the District of Columbia under federal antitrust law to enjoin the planned merger (the "American Airlines DOJ Lawsuit"). No assurances can be given as to whether or not the planned merger will be consummated. See "AIRLINE INDUSTRY INFORMATION – American Airlines Bankruptcy" and 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 Net Pledged Revenues and Subordinate 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 Net Pledged Revenues, Subordinate 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. As a result of terrorist activities and certain international hostilities, the Department has implemented enhanced security measures mandated by the FAA, the TSA, the Department of Homeland Security and Airport management. 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 or other violent acts 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 Airport Terminal Tariff, terminal leases, the Rate Agreement (as defined herein), various grant assurances, the federal acts authorizing the imposition, collection and use of PFC revenues and extensive federal legislation and regulations applicable to all airports in the United States.

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 "CAPITAL PLANNING – Capital Financing – Grants." Further, no assurance can be given that additional challenges relating to the reasonableness of fees charged at LAX or the use of airport generated revenues will not be filed in the future. An adverse determination in a challenge or audit could limit the ability of the Department to charge airlines and other Aeronautical Users rates sufficient to meet the covenants in the Senior Indenture and the Subordinate Indenture which would require the Department to increase rates and fees charged to non-Aeronautical Users, could result in the loss of certain federal funding and could have a material adverse impact on the Net Pledged Revenues 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 the Series 2013 Bonds was undertaken, it would not adversely affect the market value of the Series 2013 Bonds.

In addition, as is described in greater detail under "AIRPORT PLANNING" and in the Report of the Airport Consultant, which is included in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT," the Department is a party to the Stipulated Settlement (as defined below) that requires, in certain limited circumstances, gate reductions at LAX.

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

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed Assembly Bill 32, the California Global Warming Solutions Act of 2006 ("AB 32"), which requires the statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of AB 32: the California cap-and-trade program (the "California Cap-and-Trade Program") which was implemented in January 2012. The California Cap-and-Trade Program covers regulated entities emitting 25,000 metric tons of carbon dioxide equivalent ("MtCO2e") per year or more and entities in certain listed industries, including major industrial sources, electricity generating facilities, and fuel suppliers. Non-covered entities are encouraged to opt-in and voluntarily participate in the California Cap-and-

Trade Program. It is expected that the California Cap-and-Trade Program will result in rising electricity and fuel costs, which may adversely affect the airlines serving LAX and the Department's operations.

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

See "AIRPORT SYSTEM ENVIRONMENTAL MATTERS."

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

Federal Funding; Impact of Federal Sequestration

On February 6, 2012, Congress passed a four-year reauthorization bill for the FAA, the FAA Modernization and Reform Act of 2012, which was signed into law on February 14, 2012 by the President. This was the first long-term FAA authorization since the last such authorization expired in 2007. Between 2007 and the 2012 reauthorization, there were 23 short-term extensions of the FAA's authority and a two-week partial shutdown of the FAA in the summer of 2011. The final FAA reauthorization retains the federal cap on passenger facility charges at $4.50 and authorizes $3.35 billion per year for the Airport Improvement Program ("AIP") through Fiscal Year 2015. The AIP provides federal capital grants to support airport infrastructure, including entitlement grants (determined by formulas based on passenger, cargo, and general aviation activity levels) and discretionary grants (allocated on the basis of specific set-asides and the national priority ranking system). There can be no assurance that the FAA will receive spending authority. In addition, the AIP could be affected by the automatic across-the-board spending cuts, known as sequestration, described in more detail below. The Department is unable to predict the level of available AIP funding it may receive. If there is a reduction in the amount of AIP grants awarded to the Department for LAX, such reduction could (i) increase by a corresponding amount the capital expenditures that the Department would need to fund from other sources (including operating revenues, Additional Senior Bonds or Additional Subordinate Obligations), (ii) result in decreases to the Department's Capital Improvement Plan or (iii) extend the timing for completion of certain projects. See "CAPITAL PLANNING – Capital Financing – Grants."

Federal funding received by the Department and aviation operations could be adversely affected by the implementation of the Budget Control Act of 2011 (the "Budget Control Act"). As a result of the failure of the Joint Select Committee on Deficit Reduction to reach an agreement on the deficit reduction actions as required by the Budget Control Act, sequestration – a unique budgetary feature of the Budget Control Act – has been triggered. On January 2, 2013, President Obama signed into law H.R. 8, the American Taxpayer Relief Act of 2012, which delayed the initiation of the sequestration process from January 2, 2013 to March 1, 2013. On March 26, 2013, President Obama signed the Consolidated and Further Continuing Appropriations Act of 2013, providing funds for operation of the federal government through September 30, 2013, and off-setting some of the sequestration-mandated reductions for fiscal year 2013. The spending reductions for fiscal year 2013 were approximately $85.4 billion, with similar cuts for fiscal years 2014 through 2021.

One of the sequestration-mandated reductions are subsidy payments to be made to issuers of "direct-pay" bonds, such as Build America Bonds. The Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds were issued as "direct-pay" Build America Bonds and the subsidy payments in connection therewith have been subject to sequestration reduction as described above. The subsidy payments in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds are approximately $8.3 million in the aggregate annually during the projection period (through Fiscal Year 2019). The Department's May 15, 2013 subsidy payment in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds was reduced in the aggregate amount of approximately $361,000. The Department is unable to predict by what percentage, if any, reductions would be made to Build America Bonds subsidy payments in the future.

Sequestration could adversely affect FAA and Transportation Security Administration ("TSA") budgets, operations and the availability of certain federal grant funds typically received annually by the Department. OMB estimated that FAA and TSA's budgets would each be reduced by approximately 8.2 percent in 2013. On April 22, 2013, FAA implemented furloughs of its employees, including air traffic controllers, which resulted in reports of flight delays and flight cancellations nationwide. Additionally, DHS has eliminated overtime for its Customs and Border Patrol Agency ("CBP") and implemented a hiring freeze for the Transportation Security Administration.

However, on May 1, 2013, the Reducing Flight Delays Act of 2013 was enacted, which is designed to end the air traffic control furloughs by allowing the FAA to transfer funds into its operating budget. The Reducing Flight Delays Act of 2013 does not, however, end the sequestration cuts. The full impact of sequestration on the aviation industry and the Department, generally, resulting from potential layoffs or further furloughs of federal employees responsible for federal airport security screening, air traffic control and CBP, is unknown at this time.

Considerations Regarding Passenger Facility Charges

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

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 2013 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.

See "CAPITAL PLANNING – Capital Financing – Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for additional information about the Department's expected use of PFC revenues.

Delays and Cost Increases; Future Capital Projects; Additional Indebtedness

The estimated costs of and the projected schedule for the capital projects are described under "CAPITAL PLANNING – Capital Financing" 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 variations, (ii) design and engineering variations, (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 and/or Additional Subordinate Obligations and may result in increased costs to the airlines operating at the Airport.

In addition, certain funding sources are assumed to be available for 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 PLANNING – Capital Financing – Grants" and described in greater detail in the Report of the Airport Consultant. See also "—Considerations Regarding Passenger Facility Charges" above. No assurances can be given that such funding will, in fact, be available. If such funding sources or other funding sources incorporated in the Report of the Airport Consultant are not available, the Department will have to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds and/or Additional Subordinate Obligations, to finance such projects. Such changes could result in actual results differing materially from the 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 and other financing sources are not available, the Department likely would have to issue Additional Senior Bonds and/or Additional Subordinate Obligations 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.

See also "LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT" regarding recently constructed portions of Runway 25L, the centerline taxiway and other southside airfield improvements.

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.

Enforceability of Remedies; Limitation on Remedies

As discussed above under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 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 2013 BONDS," the CP Reimbursement Agreements permit the CP Banks to accelerate the payments due the CP Banks in certain circumstances.

The rights and remedies available to the owners of the Series 2013 Bonds, and the obligations incurred by the Department, may become subject to, among other things, the federal bankruptcy code; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally, now or hereinafter in effect; equity principles; limitations on the specific enforcement of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain circumstances, of the police powers inherent in the sovereignty of the State and its governmental bodies having an interest in serving a significant and legitimate public purpose; and regulatory and judicial actions that are subject to discretion and delay. The foregoing could subject the owners of the Series 2013 Bonds to, among other things, judicial discretion and interpretation of rights; the automatic stay provisions of the federal bankruptcy code; rejection of significant agreements; avoidance of certain payments to the owners of the Series 2013 Bonds as preferential payments; assignments of certain obligations, including those in favor of the owners of the Series 2013 Bonds; significant delays, reductions in payments and other losses to the owners of the Series 2013 Bonds; an adverse effect on the liquidity and values of the Series 2013 Bonds; additional borrowing, which borrowing may have priority over the lien of the Master Senior Indenture or the Master Subordinate Indenture; alterations to the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants) and other terms or provisions of the Master Senior Indenture, the Master Subordinate Indenture or the Series 2013 Bonds, and other obligations.

Legal opinions to be delivered concurrently with the delivery of the Series 2013 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2013 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 2013 BONDS – Senior Bonds – Senior Rate Covenant" and "—Subordinate Obligations – Subordinate Rate Covenant," the Senior Indenture and the Subordinate Indenture includes covenants with respect to the establishment of rates and charges. However, the Senior Indenture and the Subordinate Indenture provides that so long as the Department is taking specified steps to meet the applicable rate covenant, an event of default will not be triggered until the end of the second subsequent Fiscal Year. The ability of the Department to increase rates and charges and to reduce expenses is limited by, among other things, federal law (including the provisions thereof described under "—Regulations and Restrictions Affecting LAX") and certain agreements with airlines and other users of LAX facilities. See "USE OF AIRPORT FACILITIES."

Assumptions in the Report of the Airport Consultant

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 2013 Bonds. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness."

City Financial Information

The City is required by law to maintain a balanced budget; however, in recent years expenditure growth consistently outpaced revenue growth, creating a structural imbalance that was addressed on a year-by year basis through both ongoing and one-time solutions. The City's Fiscal Year 2013-14 adopted budget (the "Adopted 2013-14 Budget"), includes City General Fund and certain special fund revenues (exclusive of amounts attributable to the departments of airports, harbor and water and power) of approximately $7.7 billion. The Adopted Budget for 2013-14 identified a gap of $216 million, balanced through a combination of expenditure cuts and revenue measures. The City's most recent Budget Outlook, which incorporates the Adopted 2013-14 Budget, indicates that the City would face a budget gap of $153 million in Fiscal Year 2014-15 without corrective action.

As part of its adopted budgets and through various interim actions, the City has implemented a number of ongoing and one-time budget solutions, including various transfers from special funds; the elimination of approximately 5,300 positions from the City's peak employee level in 2007-08, through an early retirement program, transfers of City employees to vacant special funded positions, and layoffs; the freezing of hiring for most civilian (non-safety) positions and the slowing of hiring of new police recruits; a modified deployment plan for fire department resources; elimination of several small departments; reduced overtime funding; and mandated unpaid furlough days for City employees. In addition, the City negotiated deferrals of salary increases and increases in employee contributions for health care and retirement, which reduced the level of required City contributions.

The City's staff reductions do not directly apply to Department personnel and other proposed City 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 Series 2013 Bonds.

See the discussion of the City's pension obligations under "THE DEPARTMENT OF AIRPORTS – Retirement Plan."

For additional information regarding City's financial condition, the City budget pressures and responses, and the City's budget outlook, see the information in Appendix G - "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES," which has been reproduced from relevant portions of Appendix A to the Official Statement of the City dated June 26, 2013 in connection with the City's 2013 Tax and Revenue Anticipation Notes, which is available from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. The Department is relying upon, and has not independently confirmed or verified, the accuracy or completeness of Appendix G or other information incorporated by reference therein.

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 based on the "Los Angeles City Employees' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2012 and the LACERS Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2012 ("LACERS Valuation Report" and together with the Los Angeles City Employees' Retirement System, Comprehensive Annual Financial Report, the "LACERS Reports") has reported an unfunded actuarial accrued liability ("UAAL") for retirement benefits of approximately $4.46 billion and approximately $3.70 billion as of June 30, 2012 and June 30, 2011, respectively, and for health subsidy benefits, of approximately $650 million and approximately $422 million as of June 30, 2012 and June 30, 2011, respectively. For Fiscal Year 2014 the Department has budgeted approximately $370.8 million for salaries, benefits and other payroll expenses for the Department's employees at LAX, which amount accounts for approximately 55.8% of budgeted Fiscal Year 2014 LAX Operating Expenses. 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 AIRPORTS – Retirement Plan" and APPENDIX G – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES."

AIRLINE INDUSTRY INFORMATION

General

Many of the major scheduled domestic airlines serving LAX, or their respective parent corporations, and many of the foreign airlines serving LAX with American 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 United States Department of Transportation ("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 2013 Bonds.

American Airlines Bankruptcy

The information under "—American Airlines Bankruptcy" is derived principally from, and is qualified by the information contained in Orders entered by the Bankruptcy Court in the AMR Debtors' bankruptcy cases, pleadings filed on behalf of the AMR Debtors in their bankruptcy cases, and AMR's Form 10-K for the year ended December 31, 2010, Form 10-K for the year ended December 31, 2011, Form 10-K for the year ended December 31, 2012 and Form 10-Q for the quarter ended March 31, 2013 filed with the SEC. More complete information is contained in such filings.

AMR Corporation and various of its direct and indirect domestic subsidiaries (the "AMR Debtors"), including American Airlines and American Eagle Airlines ("American Eagle"), both of whom operate at LAX, filed for Chapter 11 bankruptcy protection on November 29, 2011 in the United States Bankruptcy Court, Southern District of New York (the "Bankruptcy Court").

While in bankruptcy, the AMR Debtors are operating as "debtors in possession" under the jurisdiction of the Bankruptcy Court and the applicable provisions of the Bankruptcy Code. In general, as debtors in possession under the Bankruptcy Code, the AMR Debtors are authorized to continue to operate as ongoing businesses but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. The Bankruptcy Code enables the AMR Debtors to continue to operate their businesses without interruption, and the Bankruptcy Court has granted additional relief covering, among other things, obligations to (i) employees, (ii) taxing authorities, (iii) insurance providers, (iv) independent contractors for improvement projects, (v) foreign vendors, (vi) other airlines pursuant to certain interline agreements, and (vii) certain vendors deemed critical to the AMR Debtors' operations.

On February 13, 2013, US Airways Group and AMR Merger Sub entered into the Merger Agreement, providing for a business combination of AMR Corporation and US Airways Group. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, AMR Merger Sub will merge with and into US Airways Group (the "Merger"), with US Airways Group surviving as a wholly owned subsidiary of AMR Corporation. AMR Corporation and US Airways Group anticipate that immediately following the merger closing, AMR Corporation will change its name to American Airlines Group Inc. ("AAG"). Following the Merger, AAG will own, directly or indirectly, all of the equity interests of American, US Airways Group and their direct and indirect subsidiaries. The Merger Agreement and the transactions contemplated thereby, including the Merger, are subject to the approval of the Bankruptcy Court, and are to be effected pursuant to the AMR Debtors' proposed Plan of Reorganization (as amended, the "Plan"). Consummation of the Merger is subject to customary conditions, including, among others: (i) approval by the stockholders of US Airways Group (which approval has been obtained); (ii) expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the receipt of certain other regulatory approvals; (iii) absence of any order or injunction prohibiting the consummation of the Merger; (iv) Bankruptcy Court confirmation of the Plan, which must contain certain specified provisions defined in the Merger Agreement; (v) subject to certain exceptions, the accuracy of representations and warranties with respect to the business of AMR Corporation or US Airways Group, as applicable; (vi) each of AMR Corporation and US Airways Group having performed their respective obligations pursuant to the Merger Agreement; and (vii) receipt by each of the AMR Corporation and US Airways Group of a customary tax opinion.

On April 15, 2013, the AMR Debtors filed with the Bankruptcy Court the Plan and related Disclosure Statement. The Plan contemplates the Merger. The Plan was accepted by the AMR Debtors' stakeholders and by the requisite majorities of empowered stakeholders under the Bankruptcy Code. The ultimate plan of reorganization could materially change the amounts and classifications in the condensed consolidated financial statements of the AMR Debtors.

On August 13, 2013, the U.S. Department of Justice and certain states filed the American Airlines DOJ Lawsuit in the U.S. District Court for the District of Columbia under federal antitrust law to enjoin the planned Merger. AMR Corporation and US Airways Group have indicated that they intend to defend the proposed Merger. The trial in the American Airlines DOJ Lawsuit is scheduled to commence on November 25, 2013. A hearing to consider confirmation of the Plan was held on August 15, 2013, and the Bankruptcy Court took the matter under advisement due to the American Airlines DOJ Lawsuit. On October 21, 2013 the Bankruptcy Court entered an order confirming the Plan (the "Confirmation Order"). The Plan provides that it will become effective upon the satisfaction or waiver of certain conditions precedent, including, but not limited to, (i) all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions, or documents that are necessary to implement the Plan and are required by law, regulation, or order (including required antitrust clearances) will have been received, (ii) all conditions precedent to consummation of the Merger pursuant to the Merger Agreement will have been satisfied or waived in accordance with the Merger Agreement, and the closing of the Merger will occur contemporaneously with the effective date of the Merger, and (iii) the Confirmation Order will be in full force and effect. A condition precedent to the Plan becoming effective, however, is a satisfactory resolution of the American Airlines DOJ Lawsuit and the consummation of the Merger. The ultimate resolution of the American Airlines DOJ Lawsuit is uncertain and accordingly, whether or not the Merger and the effectiveness of the Plan will occur, cannot be predicted at this time.

See "CERTAIN INVESTMENT CONSIDERATIONS – Effect of Airline Industry Consolidation" and "USE OF AIRPORT FACILITIES – Terminal Leases."

SPECIAL FACILITY FINANCINGS

LAX Special Facility Obligations

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

See APPENDIX C-2 – "SUMMARY OF THE MASTER SENIOR INDENTURE – LAX Special Facilities and LAX Special Facility Obligations" and APPENDIX C-3 – "SUMMARY OF THE FOURTEENTH SUPPLEMENTAL SENIOR INDENTURE." The Department does not currently have any outstanding LAX Special Facility Obligations.

Conduit Financings

In addition to the improvements financed or planned to be financed at LAX through the issuance of revenue bonds, interest income, PFC revenues and grants-in-aid, other improvements at LAX have been financed through the issuance of bonds by the 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 may from time to time identify leases related to improvements which can be terminated on terms favorable to the Department. Financing for any such lease terminations and any restructuring of third-party debt associated with such lease terminations could be provided by the Department through use of moneys in the Airport Revenue Fund or by issuing Additional Senior Bonds, Additional Subordinate Bonds, Subordinate Commercial Paper Notes or other obligations of the Department. See "USE OF AIRPORT FACILITIES – Terminal Leases."

LITIGATION REGARDING THE SERIES 2013 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 2013 Bonds or in any way contests the validity of the Series 2013 Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2013 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2013 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 2013 Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2013 Senior Bond for any period during which such Series 2013 Senior Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2013 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 (a) interest on the Series 2013 Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2013 Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the Department with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2013 Bonds. Failure to comply with such requirements could cause interest on the Series 2013 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2013 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 2013 Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Series 2013 Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Bond Counsel is further of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Series 2013 Bonds is exempt from State of California personal income taxes.

Special Considerations With Respect to the Series 2013 Bonds

The accrual or receipt of interest on the Series 2013 Bonds may otherwise affect the federal income tax liability of the owners of the Series 2013 Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2013 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2013 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 2013 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2013 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 2013 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 2013 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 2013 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2013 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 2013 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2013 Senior Bonds, the Series 2013 Subordinate Senior Bonds maturing on May 15, 2016 through, and including, May 15, 2034, and the Series 2013 Subordinate Senior Bonds maturing on May 15, 2038 and bearing interest at 5.000% (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. Even though 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.

Tax Treatment of Original Issue Discount

The Series 2013 Subordinate Senior Bonds maturing on May 15, 2038 and bearing interest at 4.625% (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.

RATINGS

S&P, Moody's and Fitch, have assigned ratings of "AA," "Aa3" and "AA," respectively, to the Series 2013 Senior Bonds. S&P, Moody's and Fitch, have assigned ratings of "AA-," "A1" and "AA-," respectively, to the Series 2013 Subordinate Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, New York, New York 10041; Moody's, 7 World Trade Center, 250 Greenwich Street, 23rd 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 2013 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 2013 Bonds.

LEGAL MATTERS

The validity of the Series 2013 Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel to the Department. Complete copies of the proposed forms of Bond Counsel's opinions are contained in APPENDIX D hereto. Polsinelli LLP serves as Disclosure Counsel to the Department. Bond Counsel and Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain matters will be passed upon for the Department and the City by Michael N. Feuer, Esq., City Attorney. Certain matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

FINANCIAL ADVISORS

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California, and Public Financial Management, Inc. of San Francisco, California, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2013 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 Report of the Airport Consultant was prepared in conjunction with the issuance of the Series 2013 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 2013 and 2012 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 2013 Bonds, the Department will covenant to provide, or cause to be provided, to the MSRB certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain listed events for purposes of Rule 15c2-12 adopted by the SEC. Within the past five years, the Department has not failed to comply, in all material respects, with any continuing disclosure undertaking to provide annual financial and operating information or notices of certain enumerated events. See APPENDIX F – "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 2013 Bonds are being purchased from the Department by E.J. De La Rosa & Co. Inc. ("De La Rosa"), on its own behalf and on behalf of J.P. Morgan Securities LLC ("JPMS"), Loop Capital Markets LLC ("LCM") and Samuel A. Ramirez & Company, Inc., the underwriters of the Series 2013 Bonds (the "Series 2013 Underwriters"), at a price of $252,338,180.92 (consisting of the aggregate principal amount of $241,860,000.00, plus a net original issue premium of $11,394,316.00 and less an underwriters' discount of $916,135.08) all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2013 Underwriters (the "Series 2013 Purchase Agreement").

The Series 2013 Purchase Agreement provides that the Series 2013 Underwriters shall purchase all of the Series 2013 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Series 2013 Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The Series 2013 Underwriters may change the initial public offering yields set forth on the inside front cover hereof. The Series 2013 Underwriters may offer and sell the Series 2013 Bonds to certain dealers (including dealers depositing the applicable Series 2013 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 two paragraphs have been provided by the Series 2013 Underwriters for inclusion in this Official Statement and the Department does not make any representation as to their accuracy or completeness.

Certain of the Series 2013 Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Series 2013 Underwriters may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Series 2013 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 Series 2013 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 Series 2013 Underwriters and other market participants may impact the value of the Series 2013 Bonds.

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

JPMS, one of the Underwriters of the Series 2013 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of UBS Financial Services Inc. and Charles Schwab & Co., Inc. for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBS Financial Services Inc. and Charles Schwab & Co., Inc. will purchase Series 2013 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2013 Bonds that such firm sells.

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

LCM, one of the Underwriters of the Series 2013 Bonds, has entered into a distribution agreement (the "Distribution Agreement") with Deutsche Bank Securities Inc. for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable to this transaction), DBS will purchase Series 2013 Bonds from LCM at the original issue prices less a negotiated portion of the selling concession applicable to any Series 2013 Bonds that such firm sells.

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

De La Rosa, one of the Underwriters of the Series 2013 Bonds, has entered into separate agreements with Credit Suisse Securities USA LLC and City National Securities, Inc. for retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to said agreements, if applicable to the Series 2013 Bonds, De La Rosa will share a portion of its underwriting compensation with respect to the Series 2013 Bonds with Credit Suisse Securities USA LLC and/or City National Securities, Inc.

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, 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 2013 Bonds.

PART II

THE DEPARTMENT OF AIRPORTS

General Description

The City, acting through the Department, currently operates three airports in LAX's 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 94.0% of the total passenger traffic, approximately 81.0% of the air cargo volume and 89.8% of the air carrier operations for the Airport System for Fiscal Year 2013. LAX served approximately 65.0 million enplaned and deplaned passengers in Fiscal Year 2013, up approximately 3.2% from approximately 62.9 million in Fiscal Year 2012. As of August 1, 2013, LAX was served by 65 scheduled passenger carriers, two unscheduled passenger carriers and 28 air cargo carriers. See "LOS ANGELES INTERNATIONAL AIRPORT – Aviation Activity."

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 4.1 million enplaned and deplaned passengers in Fiscal Year 2013, representing approximately 6.0% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2013. As of August 1, 2013, LA/ONT was served by 10 scheduled passenger carriers and cargo carriers and approximately 11 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 one of the busiest general aviation airports in the United States with over 300,000 operating movements in Fiscal Year 2013 as reported by the FAA. More than 100 businesses are located at the airport, including five fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs.

LA/PMD is located in the Antelope Valley approximately 60 miles north of LAX. Currently, there is no scheduled service at LA/PMD. The LA/PMD passenger terminal is located on United States Air Force Plant 42 ("Plant 42") property. The Department owns approximately 17,500 acres of land south and 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. On March 18, 2013 the Board approved a Lease Assignment from the Department to the City of Palmdale for the area covering the LA/PMD terminal facility and authorized the termination of Joint Use Agreement between the Department and the Air Force. The assignment and termination will facilitate the transfer of operation, management, and control of the LA/PMD terminal facility from the Department to the City of Palmdale. Notwithstanding any such assignment or termination, the Department has retained certain rights for future development of the adjoining 17,500 acres.

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 2013[(1)]

Airport	Net Operating Revenues (000)[(2)]	Enplanements and Deplanements	Aircraft Arrivals and Departures	Total Landed Weight (000 Lbs.)[(3)]	Enplaned/Deplaned Cargo (Tons)
LAX	$ 276,044	64,969,102	570,724	50,228,530	1,944,958
LA/ONT	2,820	4,148,398	64,651	4,901,055	455,085
VNY	3,841	--	48	34,715	--
LA/PMD[(4)]	(947)	--	--	--	--
Total[(5)]	$ 281,759	69,117,500	635,423	55,164,242	2,400,043

(1) Derived from unaudited financial statements. Due to its date of publication, certain information contained in this table is more current than certain information contained in the audited financial statements of the Department for Fiscal Year 2013.
(2) Operating revenues less operating expenses, before depreciation. This definition of Net Operating Revenues varies from the definition of the term "Net Pledged Revenues" as defined in the Senior Indenture.
(3) Reflects landed weight for revenue-generating landings only.
(4) See "—Subsidization of Other Airports" below. Currently there is no scheduled service at LA/PMD. See "—General Description."
(5) Numbers may not add due to rounding.
Source: Department of Airports of the City of Los Angeles.

Subsidization within the Airport System

Previous provisions of the Charter (which have been deleted from the current Charter) required LAX Revenues to be used to make up any deficiencies of any of the other airports in the Airport System, including any operating losses and major catastrophic or other liabilities of such airports. Although the current Charter no longer contains any requirement for subsidization within the Airport System, the Department anticipates that LAX Revenues will continue to be used for subsidizing deficiencies incurred in the Airport System.

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 previous Fiscal years LAX provided a subsidy to VNY. In Fiscal Year 2013, LAX did not provide a subsidy to VNY. Since VNY serves as a reliever airport for LAX, the VNY subsidy, when provided, is recovered by the Department through an increase in landing fees at LAX. Landing fees at LAX are calculated based on LAX's operating costs and amortization of debt as well as certain costs associated with VNY. 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 2013, LAX provided a subsidy of approximately $2.3 million to LA/PMD (derived from unaudited financial statements). The subsidy for LA/PMD is not incorporated in LAX landing fees but rather is paid from discretionary funds and may increase or decrease in the future. See "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Hazardous Substances." 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.

In recent years the City of Ontario, California ("Ontario"), has sought to acquire LA/ONT. In 2011, Ontario submitted a proposal to the Department for the acquisition of LA/ONT, which was declined by the City. In 2012, among other things, the City studied the potential acquisition of LA/ONT by Ontario and/or a joint powers authority and began negotiations with the Department, Ontario, the County of San Bernardino, the Ontario

International Airport Authority, and other primary stakeholders to determine the most effective and appropriate ownership and management alternative, and the assigned value of such alternative, for LA/ONT. In connection with such negotiations, in 2013, the Department proposed to Ontario terms for the sale of LA/ONT. Ontario did not accept the proposed terms and on April 11, 2013, Ontario filed an administrative claim against the City with the Office of the City Clerk, which the City rejected on May 22, 2013. On June 3, 2013, Ontario filed a complaint against the City, the Department and the Board, alleging, among other things, breach of contract, breach of the implied covenant of good faith and fair dealing, and breach of fiduciary duty, in connection with the operation and management of LA/ONT and seeking, among other things, unspecified damages and rescission or reformation of the agreements governing the City's acquisition, operation and management of LA/ONT. The Department cannot predict the outcome of this lawsuit and no assurance can be given that the outcome of this litigation will not have a material adverse effect on the Department's operations or financial condition.

Board of Airport Commissioners

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

Member	Occupation	Date of Appointment	Current Term Expires
Sean O. Burton, President	Real Estate Investor	August 2013	June 30, 2015
Valeria C. Velasco, Vice President	Attorney	September 2005	June 30, 2017
Gabriel L. Eshaghian	Real Estate Investor	August 2013	June 30, 2014
Jackie Goldberg	Former State Assemblywoman	August 2013	June 30, 2015
Beatrice C. Hsu	Business Executive	August 2013	June 30, 2016
Matthew M. Johnson	Attorney	August 2013	June 30, 2014
Cynthia A. Telles	Civic Leader	August 2013	June 30, 2018

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

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 2013 Bonds on September 24, 2012.

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 44 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, 2013 there were 3,644 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 30 years of experience in airports and transportation development and finance. Prior to joining the Department, Mr. Martin served as Executive Vice President and Chief Financial Officer of ACI-North America. 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. 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, Facilities Management. Mr. Feldman was appointed as Deputy Executive Director, Facilities Management in July 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 and guiding investment in new facilities and renewal of existing assets. Mr. Feldman has 33 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 currently serves as the Second Vice Chair on the International Facilities Management Association ("IFMA") Board of Directors and previously served two terms as the President of Airport Facilities Council of IFMA. Mr. Feldman has completed IFMA's Facilities Management Professional credential and is a Certified Member of the American Association of Airport Executives. He holds a Bachelor of Science of degree in Resource Planning and Interpretation from the Humboldt State University and is an Executive MBA candidate at the University of Washington, Foster School of Business.

Roger Johnson, Deputy Executive Director, Airports 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 Program Environmental Impact Study/Environmental Impact Report (the "LAX Master Plan Program 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.

Arif Alikhan, Deputy Executive Director, Law Enforcement and Homeland Security. Mr. Alikhan was appointed as the Deputy Executive Director for Law Enforcement and Homeland Security in November 2011. Prior to joining the Department, Mr. Alikhan was a Distinguished Professor of Homeland Security and Counterterrorism at National Defense University in Washington, D.C., where he taught a variety of courses for senior U.S. and international military officers and national security professionals. He previously served as Assistant Secretary for Policy Development at the U.S. Department of Homeland Security ("DHS") where he led cross-component policy development and represented DHS at National Security Council interagency committees on issues ranging from aviation and cargo security to emergency management and border security. His federal service also included 10 years with the U.S. Department of Justice as a federal prosecutor and senior adviser to two U.S. Attorneys General on cybercrime and intellectual property. Mr. Alikhan served as Deputy Mayor for Homeland Security and Public Safety for the City of Los Angeles from 2006 to 2009. In that position he had policy, budgetary and operational responsibilities for the Los Angeles Police Department, Los Angeles Fire Department, and Los Angeles Emergency Management Department. He holds a Bachelor of Arts degree from the University of California, Irvine and graduated with honors from Loyola Law School, Los Angeles.

Edward F. Maslin, Deputy Executive Director, Real Estate Services. Mr. Maslin was appointed as Deputy Executive Director, Real Estate Services in March 2010. He is responsible for real estate services, including property management, at the Department's three airports and the Palmdale land holdings. Prior to joining the Department, Mr. Maslin served as Director, Real Estate Services for the City of Seattle. Previously, he was a senior manager for a multi-national company where he managed real estate, facilities and design and construction nationwide from its U.S. headquarters in Los Angeles. Mr. Maslin has more than 25 years of experience in private and public sector real estate and facilities management. He is a licensed architect, a Certified Facility Manager and a Certified Member of the American Association of Airport Executives. He is a past President of the Los Angeles Chapter of the International Facility Management Association (IFMA). Mr. Maslin holds a Master of Business Administration degree from the College of William and Mary and a Bachelor of Science degree in Architecture from the University of Virginia. He is currently working on a Master of Public Administration at California State University – Northridge.

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

Ryan Yakubik, Interim Chief Financial Officer. Mr. Yakubik was appointed Interim Chief Financial Officer in 2013. He served as Director of Capital Development and Budget beginning October 2007. He is responsible for overseeing the Department's rates and charges, grants administration, operating budget, capital budget and all debt-related functions at LAX and LA/ONT. 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.

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

Employees and Labor Relations

The Department is a civil service organization, which as of June 30, 2013 had 3,644 authorized positions, of which 3,367 were authorized at LAX, 216 were authorized at LA/ONT and 61 were authorized at VNY and LA/PMD combined. Department employees are employed in more than 284 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 23 separate labor agreements between management and unions ("Memoranda of Understanding"). Most of the Department's employees are covered by the Memoranda of Understanding. The following table lists all Memoranda of Understanding between the Department and labor and management unions as of August 1, 2013.

TABLE 5
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
MEMORANDA OF UNDERSTANDING
BETWEEN THE CITY AND
EMPLOYEE LABOR ORGANIZATIONS REPRESENTING EMPLOYEES OF THE DEPARTMENT

Bargaining Unit	Expires
Service Employees International Union, Local 347	
Equipment Operation and Labor Employees Representation Unit No. 4	June 30, 2014
Professional Engineering and Scientific Unit No. 8	June 30, 2014
Service and Craft Representation Unit No. 14	June 30, 2014
Service Employees Representation Unit No. 15	June 30, 2014
Supervisory Professional Engineering and Scientific Unit No. 17	June 30, 2014
Safety/Security Representation Unit No. 18	June 30, 2014
Municipal Construction Inspectors Association, Inc.	
Inspectors Unit No. 5	June 30, 2014
Los Angeles Professional Managers Association	
Management Employees Unit No. 36	June 30, 2014
American Federation of State, County and Municipal Employees	
Clerical and Support Services Unit No. 3	June 30, 2014
Executive Administrative Assistants Unit No. 37	June 30, 2014
Engineers and Architects Association	
Administrative Unit No. 1	July 1, 2013*
Supervisory Technical Unit No. 19	July 1, 2013*
Supervisory Administrative Unit No. 20	July 1, 2013*
Technical Rank and File Unit No. 21	July 1, 2013*
Local No. 501, International Union of Operating Engineers	
Plant Equipment Operation and Repair Representation Unit No. 9	June 30, 2014
Los Angeles City Supervisors and Superintendents Association, Laborer's International Union of North America, Local 777	
Supervisory Blue Collar Unit No. 12	June 30, 2014
Los Angeles/Orange Counties Building and Construction Trades Council	
Building Trades Rank and File Representation Unit No. 2	June 30, 2014
Supervisory Building Trades and Related Employees Representation Unit No. 13	June 30, 2014
Use of Union Hiring Halls for Temporary Use of Craft Workers No. 35	On-going
All City Employees Association, Local 2006, American Federation of State, county and Municipal Employees Council 36, AFL-CIO	
Professional Medical Services Unit No. 10	June 30, 2014
Los Angeles Airport Peace Officers Association	
Peace Officers Representation Unit No. 30	June 30, 2010*
Airport Supervisory Police Officers' Association of Los Angeles	
Supervisory Peace Officers' Unit No. 39	June 30, 2009*
Airport Police Command Officers Association of Los Angeles	
Management Peace Officers' Unit No. 40	June 30, 2013*

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

The City is currently projecting significant increases to the amount it will contribute to LACERS in Fiscal Years 2014, 2015, 2016 and 2017. See APPENDIX G – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – 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. On October 26, 2012, the City Council adopted an ordinance designed, among other things, to provide a second tier of benefits for employees who become members of LACERS on or after July 1, 2013. The new tier is designed to reduce pension costs to the City by (i) increasing the retirement age from 55 to 65, (ii) lowering the maximum retirement factor from 2.16% to 2.00%, (iii) lowering the final average compensation cap used to calculate benefits from 100% to 75%, (iv) increasing the period used to calculate average final compensation from one year to three years, (v) modifying certain disability benefits, (vi) eliminating certain survivor benefits, (vii) establishing a two percent maximum annual cost of living adjustment and providing employees the opportunity to purchase an additional one percent, and (viii) requiring employees to pay the full costs of purchasing service credit. The City has estimated that the implementation of the new tier will result in a ten-year savings to the City of approximately $152 million.

The Department contributed approximately $59.5 million, $54.7 million, $50.2 million, $49.2 million and $40.9 million to LACERS with respect to LAX in Fiscal Years 2014, 2013, 2012, 2011 and 2010, respectively. For each of these Fiscal Years, the contribution made by the Department equaled 100% of annual required contribution as calculated by LACERS and its actuaries. The Department expects that its contributions to LACERS will continue to increase, in amounts that may be significant. See APPENDIX G – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – FINANCIAL OPERATIONS – Retirement and Pension Systems" regarding the City's projected contributions to LACERS for the next four fiscal years and related assumptions.

The information in this paragraph is derived from the November 21, 2012 LACERS' Valuation Report. LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately $4.46 billion with respect to retirement benefits and approximately $650 million with respect to health subsidy benefits as of June 30, 2012 and an UAAL of approximately $3.70 billion with respect to retirement benefits and approximately $422 million with respect to health subsidy benefits as of June 30, 2011. The actuarial value of LACERS total system assets was approximately $11.62 billion as of June 30, 2012 and approximately $11.28 billion as of June 30, 2011. The market value of LACERS total system assets was approximately $10.60 billion as of June 30, 2012 and approximately $10.69 billion as of June 30, 2011. The valuation value of LACERS retirement system assets was approximately $9.93 billion as of June 30, 2012 and approximately $9.69 billion as of June 30, 2011. The market value of LACERS retirement system assets was approximately $9.06 billion as of June 30, 2012 and approximately $9.19 billion as of June 30, 2011. The valuation value of LACERS retiree health assets was approximately $1.64 billion as of June 30, 2012 and approximately $1.55 billion as of June 30, 2011. The market value of LACERS retiree health assets was approximately $1.50 billion as of June 30, 2012. The market value of LACERS retiree health assets as of June 30, 2011 was not included in the LACERS Valuation Report. Based on the valuation value of LACERS assets, the LACERS total funded ratio was approximately 69.4% (comprised of 69.0% for retirement benefits and 71.6% for health subsidy benefits) as of June 30, 2012 and approximately 73.2% (comprised of 72.4% for retirement benefits and 78.6% for health subsidy benefits) as of June 30, 2011. Based on the market value of LACERS assets, the LACERS total funded ratio was approximately 63.3% (comprised of 62.9% for retirement benefits and 65.3% for health subsidy benefits) as of June 30, 2012 and approximately 69.4% (comprised of 68.6% for retirement benefits and 74.5% for health subsidy benefits) as of June 30, 2011.

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 G – "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 G – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES," which has been reproduced from relevant portions of Appendix A to the Official Statement of the City dated June 28, 2013, in connection with the City's 2013 Tax and Revenue Anticipation Notes, which is 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 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 G or the LACERS Reports, or other information incorporated by reference therein. See "CERTAIN INVESTMENT CONSIDERATIONS – Retirement Plan Funding."

See also, APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012" regarding, among other things, certain unaudited information relating to LACERS Schedules of Funding Progress and Prorated Data for the Department prepared on a non-GAAP, unaudited basis.

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 2013 accounted for approximately 94.0% of the total passenger traffic, approximately 81.0% of the air cargo volume and approximately 91.0% of the air carrier operations for the Airport System for Fiscal Year 2013.

No airline dominates in shares of enplaned passengers or provides formal "hubbing" activity at LAX. Approximately 32% of LAX's domestic passenger traffic (and approximately 24% of LAX's total passenger traffic) is connecting, and no air carrier accounted for more than approximately 23% of LAX's domestic enplanements between Fiscal Year 2009 and Fiscal Year 2013. In calendar year 2012, 76% of passengers at LAX represented originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining approximately 24% 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 4.7 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.

Approximately 19,000 public parking spaces are available at LAX in parking lots owned by the Department, including approximately (i) 8,700 parking spaces in eight parking garages in the Central Terminal Area, (ii) 5,300 public parking spaces in parking Lot C, (iii) 2,700 public parking spaces in the Park One surface parking lot located adjacent to Terminal 1, (iv) 2,300 parking spaces in the surface and structured parking lots located adjacent to an office building that the Department acquired in 2013 which is commonly known as Skyview Center and (v) 77 public parking spaces in a cell phone waiting lot. See "USE OF AIRPORT FACILITIES – Concession and Parking Agreements."

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

The Department maintains facilities occupying approximately 25 acres at LAX, consisting of maintenance yard, warehouse, inspection office, administration offices, police and fire stations, utility services, a telecommunication center and executive offices in the former control tower.

Air Carriers Serving LAX

The following table sets forth the air carriers serving LAX as of August 1, 2013. 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 AUGUST 1, 2013

Scheduled U.S. Carriers (22)

AirTran Airways[1]
Alaska Airlines
Allegiant Air
American Airlines
American Eagle
Delta Air Lines
Florida West
Frontier Airlines
Great Lakes Aviation
Hawaiian Airlines
Horizon Airlines
JetBlue Airways
SkyWest Airlines
Southwest Airlines[1]
Spirit Airlines
Sun Country Airlines
TEM Enterprise (Xtra Airways)
United Airlines[2]
US Airways
USA Jet Airlines
Virgin America
World Airways

Foreign Flag Carriers (43)

Aeroflot
AeroMexico
Air Berlin
Air Canada
Air China
Air France
Air New Zealand
Air Pacific
Air Tahiti Nui
Alitalia
All Nippon
Arkefly (Tui Airlines)
Asiana
British Airways
Cathay Pacific
China
China Eastern
China Southern
Copa
El Al Israel
Emirates
Eva Airways
Iberia
Japan Airlines
KLM Royal Dutch
Korean Air
LACSA
Lan
Lan Peru
Lufthansa German
Malaysia
Philippine Airlines
Qantas
Singapore
SWISS
TACA
Thai Airways
Transaero
Turkish Airlines
Virgin Atlantic Airways
Virgin Australia
Volaris
Westjet

Nonscheduled Carriers (2)

Clay Lacy Aviation
Miami Air

All-Cargo Carriers (28)

ABX Air Inc.
Aerologic GmbH
Aerotransporte De Carga Union
Aerotransportes Mas De Carga
Air Transport International
Ameriflight
Asiana Cargo
Astar
Atlas Air Cargo
Cargolux
Cathay Pacific Cargo
China Cargo
China Southern Cargo
DHL/Airborne
Evergreen International Airlines
FedEx
Florida West
Gulf & Caribbean Cargo
Kalitta Air
Korean Cargo
National Air Cargo Group Inc
Nippon Cargo
Polar Air
Singapore Airlines Cargo
Southern Air Inc
United Parcel Service
World Airways Cargo
Yangtze River Express

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[1] In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran, which was completed in 2011. Southwest and AirTran received a single operating certificate from the FAA in 2012, however Southwest and AirTran continue to operate as separate airlines while integrating.
[2] As a result of a merger, data presented for United Airlines includes data for Continental Airlines.
Source: Department of Airports of the City of Los Angeles.

Aviation Activity

For calendar year 2011 (the most recently available ACI global statistics), ACI statistics ranked LAX as the 6th busiest airport in the world in terms of total number of enplaned passengers and 13th busiest airport in the world in terms of total cargo. For calendar year 2012 (the most recently available ACI North American statistics), ACI statistics ranked LAX as the 3rd busiest airport in North America in terms of total number of enplaned passengers and 5th busiest airport in North America in terms of total cargo. The following table shows the air passenger activity, total movements and cargo volume at LAX relative to the world's busiest airports.

TABLE 7
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP 15 WORLDWIDE RANKINGS – CALENDAR YEAR 2011

Rank	Airport	Total Passengers	Airport	Total Movements	Airport	Total Cargo (metric tons)[1]
1	Atlanta (ATL)	92,389,023	Atlanta (ATL)	923,996	Hong Kong (HKG)	3,976,768
2	Beijing (PEK)	78,675,058	Chicago (ORD)	878,798	Memphis (MEM)	3,916,410
3	London (LHR)	69,433,565	**Los Angeles (LAX)**	**702,895**	Shanghai (PVG)	3,085,268
4	Chicago (ORD)	66,701,241	Dallas (DFW)	646,803	Anchorage (ANC)	2,543,153
5	Tokyo (HND)	62,584,826	Denver (DEN)	628,796	Incheon (ICN)	2,539,221
6	**Los Angeles (LAX)**	**61,862,052**	Charlotte (CLT)	539,842	Paris (CDG)	2,300,063
7	Paris (CDG)	60,970,551	Beijing(PEK)	533,257	Frankfurt (FRA)	2,214,939
8	Dallas (DFW)	57,832,495	Las Vegas (LAS)	531,538	Dubai (DXB)	2,194,264
9	Frankfurt (FRA)	56,436,255	Houston (IAH)	517,262	Louisville (SDF)	2,188,422
10	Hong Kong (HKG)	53,328,613	Paris (CDG)	514,059	Tokyo (NRT)	1,945,351
11	Denver (DEN)	52,849,132	Frankfurt (FRA)	487,162	Singapore (SIN)	1,898,850
12	Jakarta (CGK)	51,533,187	London (LHR)	480,931	Miami (MIA)	1,841,929
13	Dubai (DXB)	50,977,960	Phoenix (PHX)	461,989	**Los Angeles (LAX)**	**1,696,115**
14	Amsterdam (AMS)	49,755,252	Philadelphia (PHL)	448,129	Beijing (PEK)	1,640,247
15	Madrid (MAD)	49,653,055	Detroit (DTW)	443,028	Taipei (TPE)	1,627,463

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

Source: Airports Council International Data Centre, Annual Traffic Data, July 8, 2013.

As seen in Table 8 which follows, from Fiscal Year 2004 through Fiscal Year 2007, total enplaned and deplaned passengers at LAX increased at a compound annual growth rate of approximately 2.0%. Several factors contributed to slow passenger enplanement growth at LAX including decreased demand levels along the West Coast of the United States and systemwide changes in the airlines' routes and structures and seat capacities. Due to the global economic environment and capacity reductions by U.S. and foreign flag carriers, total enplanements and deplanements decreased approximately 9.2% in Fiscal Year 2009 from Fiscal Year 2008. From Fiscal Year 2009 through Fiscal Year 2013, total enplaned and deplaned passengers at LAX increased at a compounded annual growth rate of approximately 3.5%. 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 2004 through 2013.

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

	Revenue Operations		Enplanements and Deplanements			
Fiscal Year[(2)]	Total Operations	Operations Growth	Domestic[(3)]	International[(3)]	Total[(3)]	Passenger Growth
2004	598,223	(2.0)	42,335,711	15,705,459	58,041,170	4.9
2005	619,237	3.5	44,240,522	17,024,908	61,265,430	5.6
2006	610,386	(1.4)	44,058,954	17,376,983	61,435,937	0.3
2007	618,383	1.3	44,721,685	16,856,505	61,578,190	0.2
2008	631,986	2.2	44,834,824	17,427,929	62,262,753	1.1
2009	541,223	(14.4)	41,245,318	15,301,832	56,547,150	(9.2)
2010	540,914	(0.1)	42,145,783	15,752,062	57,897,845	2.4
2011	555,319	2.7	44,352,913	16,253,725	60,606,638	4.8
2012	578,876	4.2	45,957,814	16,967,262	62,925,076	3.8
2013	570,724	(1.4)	47,641,025	17,328,077	64,969,102	3.2

(1) Due to its date of publication, certain information contained in this table is more current than certain information contained in the audited financial statements of the Department for Fiscal Year 2013.
(2) Fiscal Year ended June 30.
(3) Enplaned and deplaned passengers.
Source: Department of Airports of the City of Los Angeles.

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

TABLE 9
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE[1]
(RANKED BY FISCAL YEAR 2013 RESULTS)

		Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012		Fiscal Year 2013	
	Airline	Enplanements	Share[2]	Enplanements	Share[2]	Enplanements	Share[2]	Enplanements	Share[2]	Enplanements	Share[2]
1	United Airlines	4,976,125	17.6%	5,047,872	17.4%	5,076,770	16.8%	5,126,122	16.3%	5,356,879	16.5%
2	American Airlines	4,277,478	15.1	4,257,396	14.7	4,304,325	14.2	4,598,923	14.6	5,058,105	15.5
3	Delta Air Lines	3,237,145	11.4	3,325,636	11.5	3,441,646	11.4	3,231,000	10.3	4,171,972	12.8
4	Southwest Airlines	3,556,203	12.6	3,389,180	11.7	3,512,432	11.6	3,516,770	11.2	3,853,327	12.4
5	Alaska Airlines	1,360,046	4.8	1,300,025	4.5	1,384,992	4.6	1,522,926	4.8	1,623,552	5.0
6	Virgin America	733,879	2.6	893,623	3.1	1,085,506	3.6	1,387,310	4.4	1,569,289	4.8
7	Skywest Airlines	1,289,602	4.6	1,441,834	5.0	1,777,359	5.9	1,887,638	6.0	1,187,347	3.7
8	US Airways	1,060,803	3.7	958,824	3.3	981,885	3.2	964,577	3.1	970,442	3.0
9	Qantas Airways	590,960	2.1	606,970	2.1	571,004	1.9	603,170	2.0	575,310	1.8
10	American Eagle	406,422	1.4	437,705	1.5	536,346	1.8	814,306	2.6	497,104	1.5
11	Air Canada	424,024	1.5	416,345	1.4	438,868	1.5	468,793	1.5	459,937	1.4
12	JetBlue Airways	7,746	0.0	151,538	0.5	264,531	0.9	358,326	1.1	424,534	1.3
13	Air New Zealand	334,028	1.2	339,760	1.2	340,567	1.1	304,228	1.0	324,771	1.0
14	Hawaiian Airlines	195,558	0.7	186,449	0.6	240,006	0.8	235,502	0.8	323,104	1.0
15	Korean Airlines	334,256	1.2	352,470	1.2	332,593	1.1	335,310	1.1	317,141	1.0
16	Aeromexico	208,536	0.7	204,679	0.7	269,479	0.9	282,415	0.9	282,156	0.9
17	British Airways	284,737	1.0	269,204	0.9	274,372	0.9	274,882	0.9	275,095	0.9
18	Air France	281,619	1.0	251,803	0.9	254,579	0.8	255,054	0.8	266,282	0.8
19	Cathay Pacific	244,372	0.9	220,936	0.8	254,191	0.8	262,793	0.8	253,131	0.8
20	Lufthansa German Airlines	242,930	0.9	245,944	0.9	237,723	0.8	240,780	0.8	245,700	0.8
	Other	4,282,550	15.0	4,704,949	16.1	4,701,397	15.4	4,846,092	15.0	4,489,000	13.1
	Airport Total[2]	28,329,019	100.0%	29,003,142	100.0%	30,280,571	100.0%	31,516,917	100.0%	32,524,178	100.0%

[1] For those airlines that were party to a completed merger or acquisition have received 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.
Source: Department of Airports of the City of Los Angeles.

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

TABLE 10
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT[(1)]
(RANKED ON FISCAL YEAR 2013 RESULTS)
(000 LBS.)

		Fiscal Year Ended June 30									
	Airline	2009	Share[(2)]	2010	Share[(2)]	2011	Share[(2)]	2012	Share[(2)]	2013	Share[(2)]
1	American Airlines	5,667,801	12.1%	5,616,948	11.8%	5,589,632	11.5%	5,900,084	11.8%	6,545,490	13.0%
2	United Airlines	7,052,298	15.1	6,907,635	14.6	6,986,999	14.4	6,932,412	13.9	6,488,229	12.9
3	Delta Air Lines	4,007,883	8.6	4,331,409	9.1	4,487,225	9.3	4,641,153	9.3	5,650,964	11.3
4	Southwest Airlines	5,068,050	10.9	4,744,526	10.0	4,737,254	9.8	4,601,662	9.2	4,788,500	9.5
5	Virgin America	923,066	2.0	1,079,918	2.3	1,331,658	2.8	1,637,152	3.3	1,905,138	3.8
6	Federal Express	1,642,089	3.5	1,523,405	3.2	1,605,640	3.3	1,628,897	3.3	1,662,347	3.3
7	Alaska Airlines	1,530,621	3.3	1,365,625	2.9	1,433,511	3.0	1,518,762	3.0	1,611,321	3.2
8	Skywest Airlines	1,634,395	3.5	1,865,047	3.9	2,187,953	4.5	2,295,517	4.6	1,425,626	2.8
9	Qantas Airways	1,434,230	3.1	1,426,256	3.0	1,243,114	2.6	1,331,893	2.7	1,275,920	2.5
10	Korean Air	1,138,866	2.4	1,249,739	2.6	1,219,303	2.5	1,200,835	2.4	1,189,653	2.4
11	US Airways	1,231,410	2.6	987,948	2.1	1,023,668	2.1	1,003,778	2.0	987,982	2.0
12	Cathay Pacific Airways	747,759	1.6	699,675	1.5	764,462	1.6	778,532	1.6	782,914	1.6
13	American Eagle Airlines	544,559	1.2	600,609	1.3	681,853	1.4	1,037,949	2.1	667,590	1.3
14	China Airlines	650,588	1.4	830,542	1.8	769,780	1.6	726,682	1.5	665,450	1.3
15	Air New Zealand	628,380	1.4	650,340	1.4	643,814	1.3	589,878	1.2	613,650	1.2
16	Eva Airways	666,451	1.4	704,432	1.5	643,079	1.3	607,128	1.2	606,522	1.2
17	British Airways	634,410	1.4	612,360	1.3	621,180	1.3	588,948	1.2	576,432	1.2
18	Air Canada	532,474	1.1	520,123	1.1	561,953	1.2	583,479	1.2	559,315	1.1
19	Asiana Airlines	620,966	1.3	649,826	1.4	656,330	1.4	524,490	1.1	554,574	1.1
20	Lufthansa German Airlines	547,259	1.2	548,024	1.2	505,985	1.0	522,132	1.0	514,118	1.0
	Other	9,815,328	20.9	10,562,885	22.0	10,765,012	22.1	11,383,162	22.4	11,156,929	22.3
	Airport Total	46,718,883	100.0%	47,477,272	100.0%	48,459,405	100.0%	50,034,525	100.0%	50,228,664	100.0%

(1) For those airlines that were party to a completed merger or acquisition have received 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.
Source: Department of Airports of the City of Los Angeles.

In Fiscal Year 2013, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 1.94 million tons. The following chart provides information concerning cargo traffic at LAX over the last ten Fiscal Years.

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

Fiscal Year[2]	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
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	1,859,254	15.1
2011	791,414	(0.1)	1,101,270	3.2	1,892,684	1.8
2012	807,532	2.0	1,107,499	0.6	1,915,032	1.2
2013	813,736	0.8	1,131,222	2.1	1,944,958	1.6

(1) Derived from unaudited financial statements. Due to its date of publication, certain information contained in this table is more current than certain information contained in the audited financial statements of the Department for Fiscal Year 2013.
(2) Fiscal Year ended June 30.
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 or remained flat in Fiscal Year 2010, 2011, 2012 and 2013 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, LAX is the primary airport in the LAX Air Trade Area, with approximately 76% of the total enplaned passengers in calendar year 2012. 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 20% of the air service in the LAX Air Trade Area for calendar year 2012. 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 2012. In calendar year 2012, LAX accounted for 99.7% of LAX Air Trade Area's international enplaned passengers.

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

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

CERTAIN FUNDING SOURCES

Passenger Facility Charges

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

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

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

Since 1993, the Department has received approval from the FAA to impose and use $2,538,462,810 of PFC revenues (including investment income). Such PFC revenues are expected to be collected in full by June 1, 2019. No assurance can be given that PFC revenues will actually be received in the amounts or at the times contemplated by the Department. The amount and timing of receipt of actual PFC revenues are expected to vary depending on actual levels of qualified passenger enplanements at LAX. If PFC revenues are not available, the Department may be required to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, Additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. See "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and "—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness." The following table sets forth a summary of the Department's approved passenger facility charge applications relating to LAX.

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

Passenger Facility Charge Application	Initial Approval Date	Initial Approved Amount	Approval Amount as Amended
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
8	2011	34,089,058	34,089,058
Total		$ 1,710,475,026	$ 2,538,462,810
Total collected as of June 30, 2013:		$ 1,851,551,639	

Source: Department of Airports of the City of Los Angeles

The Department expects to submit additional applications to impose and use passenger facility charges for eligible expenditures, including, but not limited to, those expenditures funded with proceeds of the Series 2013 Bonds and other PFC Eligible Bonds (as defined below).

PFC revenues may also be used for the payment of debt service on certain portions of bonds issued to finance all or a portion of Approved PFC Projects ("PFC Eligible Bonds"). 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 to pay a portion of the debt service on the PFC Eligible Bonds with PFC revenues. However, the Department is prohibited from using 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. If the actual cost of Approved PFC Projects is less than the amount approved by the FAA, the Department may be required to submit an amendment to the FAA application to reduce the approved amount for applicable projects. The 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.

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

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. To date, the Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues nor otherwise pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. However, the Department expects to use PFC revenues to pay a portion of the debt service on PFC Eligible Bonds. Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Senior Indenture or the Subordinate Indenture. Debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds test set forth in the Senior Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS – Senior Bonds – Senior Rate Covenant" and "—Passenger Facility Charges."

See "CAPITAL PLANNING" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for additional information about the Department's expected use of PFC revenues.

Grants

Under the AIP the FAA awards grant moneys to airports around the country for capital improvement projects and airport operating costs. AIP grants include entitlement funds, which are apportioned annually based upon the number of enplaned passengers and 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 amount and timing of receipt of actual AIP grant moneys may vary and may not be reimbursed for a significant period of time after the eligible expenditure is made. If AIP grant moneys are not available or timely reimbursed, the Department may be required to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, Additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. See "CERTAIN INVESTMENT CONSIDERATIONS – Federal Funding; Impact of Federal Sequestration" and "—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness."

The following is a table of AIP grants authorized for acceptance by the Board from June 30, 2005 through September 30, 2013:

TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
FEDERAL AIRPORT IMPROVEMENT PROGRAM GRANTS
AUTHORIZED FOR ACCEPTANCE BY THE BOARD
FROM JUNE 30, 2005 THROUGH SEPTEMBER 30, 2013

Date	Grant Amount[1]	Project Funded
August 2005	$ 38.8	Runway 7R/25L project
March 2006	29.5	Runway 7R/25L project
April 2007	29.6	Taxiway improvement projects
June 2008	7.1	Taxiway improvement projects
June 2008	2.0	Taxilane C-10 reconstruction project
February 2009	3.2	Taxiway improvement projects
June 2009	13.5	Crossfield Taxiway improvement project
March 2010	48.5	Taxilane S improvement project
March 2011	17.8	Taxilane T and enabling projects
November 2011	19.9	Taxilane T and enabling projects
September 2013	31.7	Runway 7R/25L Safety Area
Total	$ 241.6	

(1) Dollars in millions.
Source: Department of Airports of the City of Los Angeles

Pursuant to the Aviation and Transportation Security Act, the Department has been awarded approximately $256 million of reimbursements from the Department of Homeland Security for the installation of in-line baggage screening systems at LAX and LA/ONT; as of August 2013, the Department had received approximately $235 million for LAX and approximately $21.4 million for LA/ONT from this in-line baggage screening systems grant. In June 2011, the Board approved the award of approximately $13.4 million from the TSA for the Department's Closed Circuit Television Security System at LAX. During Fiscal Year 2013, the Department received approximately $1.7 million for security-related reimbursements at LAX.

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

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

USE OF AIRPORT FACILITIES

General

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

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

Operating Permits – Landing and Apron Facilities and Landing Fees

The Department has entered into separate operating permits covering the use of landing and apron facilities with air carriers serving LAX. These operating permits grant operating rights to each airline typically for the same ten-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, 2022, with an option to extend each ACOP for another 10-year term, for a total of 20 years. The ACOPs are terminable by either party on 30 days' notice. The ACOPs require each airline to pay a landing and apron fee to the Department for each aircraft that uses the landing and apron facilities at LAX, generally equal to the product of (i) the units of maximum gross landed weight of the aircraft, with each unit being 1,000 pounds, multiplied by (ii) the applicable landing or apron fee rate currently in effect. Air carriers that are not a party to an ACOP must still comply with the Airport Rules and Regulations, which require the uninterrupted payment of landing and apron fees and such landing and apron fees are substantially higher than for air carriers that are party to an ACOP. The landing and apron fee rates to be charged during each Fiscal Year are based upon the Department's then-current budget and are adjusted at the end of each Fiscal Year to reflect the actual expenses incurred. All adjustments for deficiencies are billed when determined and overages are credited to the affected airlines. The Department expects that the ACOPs will be renewed upon their expiration, though no assurances can be given that they will be, or that the terms of the new ACOPs will be the same as the existing terms. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – Airline Revenues – Air Carrier Operating Permit" and "—Airline Landing and Apron Fees."

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 (see "—Terminal Leases"). The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. After consultation with airline representatives regarding the Department's rates and charges, on September 17, 2012, the Board approved certain changes to the Airport Terminal Tariff, as described below, which became effective on January 1, 2013, in all terminals at LAX; provided, however, the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space used by Aeronautical Users. Under the Airport Terminal Tariff, Aeronautical Users are required to pay to the Department:

- Terminal Buildings Charge – A charge based on equalized rate calculated by the Department by dividing the total of all capital and maintenance and operation costs allocated by the Department to the passenger facilities at LAX by the total rentable areas in the Terminals.

- FIS Fee – A fee based on equalized rate calculated by the Department by dividing the total of all capital and maintenance and operation costs allocated by the Department to Federal Inspection Service ("FIS") areas at LAX by the number of international passengers passing through the FIS facilities.

- Common Use Area Fees and Charges – Fees and charges based on rates calculated by the Department based on airlines' use of common areas in the Terminal, such as hold rooms, baggage claim systems and ticket counters.

- Terminal Special Charges – Fees based on rates calculated by the Department for use by the Aeronautical Users of certain equipment and services at LAX that are not otherwise billed to Aeronautical Users through the rates and charges described above, such as, in certain terminals custodial services, outbound baggage system maintenance, terminal airline support systems and loading bridge capital and maintenance.

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

See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – Airline Revenues – LAX Passenger Terminal Tariff."

Rate Agreement

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

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

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

Beginning in calendar year 2014, the Department will provide Signatory Airlines a credit for a portion of the concession revenues generated in the terminals at LAX. This credit results in a reduced Terminal Building Rate (and a corresponding reduction in rates derived from the Terminal Building Rate) and FIS rate paid by the Signatory Airlines.

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

Under the Rate Agreement, beginning in calendar year 2014, 50% of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above are required to be deposited in a Revenue Sharing Fund. The remaining excess funds may be used by the Department for any lawful purpose.

Amounts deposited in the Revenue Sharing Fund are required to be distributed to the Signatory Airlines as a credit against any amount due in the following priority: first, against Terminal rents and second, against landing fees.

See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – Airline Revenues – Proposed Terminal Rate Agreement."

Historical Disputes Regarding Rates and Charges

In connection with the Department's implementation of rates and charges in 2006, the Department was subject to a variety of litigation and U.S. DOT complaints. These complaints challenged such rates and charges as unreasonable and discriminatory based on, among other things, the Department's methodology for rate setting and alleged monopoly powers over provision of airport services. In connection with the Airport Terminal Tariff, airlines that enter into a Rate Agreement acknowledge the mootness of the issues in the complaints, and consent to the dismissal of these actions with prejudice. Additionally, such airlines agree not to contest or challenge the reasonableness or validity of the Airport Terminal Tariff or the Department's rate methodology. On July 3, 2013, in light of the Rate Agreement and other factors, the U.S. DOT dismissed one of the two complaints before it with prejudice and terminated the proceeding relating to the complaint as moot. The remaining complaint before the U.S. DOT had been stayed since 2008, involves similar issues as were dismissed pursuant to the U.S. DOT's action on July 3, 2013, and was brought by airlines that have executed a Rate Agreement. On September 4, 2013, the Department filed a motion to dismiss the remaining complaint. See "CERTAIN INVESTMENT CONSIDERATIONS – Regulations and Restrictions Affecting LAX."

Terminal Leases

Prior to establishing its rate methodology, the Department entered into a number of terminal leases with airlines with varying rent and cost recovery terms, including the tariff terminal leases and non-tariff terminal leases described below.

Tariff Terminal Leases

A number of airlines, including Air Canada, Alaska Airlines, Delta Air Lines, Hawaiian Airlines, Southwest and United Airlines have entered into terminal leases for the use of terminal space at LAX with cost recovery terms substantially similar to the Airport Terminal Tariff.

Non-Tariff Terminal Leases

The Department has entered into a lease for the use of terminal space at LAX with Delta Air Lines with cost recovery of operation and maintenance charges similar to the rates and charges under the Airport Terminal Tariff but with other cost recovery terms on a base rate with negotiated increases. This lease expires in December 2017. The Department has approved amendments to this lease which, among other things, amend the cost recovery provision to provisions substantially similar to the Airport Terminal Tariff. This amendment is subject to City Council approval.

The Department has entered into a lease for the use of terminal space in Terminal 4 with American Airlines that expires in December 2024. Under this lease, rental rates are not charged pursuant to the Airport Terminal Tariff, rather rental rates on terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. American Airlines is required to pay operation and maintenance charges. In December 2006, the Department approved increased operation and maintenance charges that included all direct and indirect terminal maintenance and operations costs retroactive to January 1, 2006. American Airlines has disputed the right of the Department to make these changes and is currently in bankruptcy. This lease was entered into in connection with the issuance of certain conduit financings by the RAIC and provides the Department with the right under certain circumstances to defease the third-party debt that financed terminal improvements. Any early termination of this lease may require payment or provision for payment by the Department of some or all of the related conduit financings. In connection with American Airlines bankruptcy, American Airlines has assumed this lease. The determination of the amount to be paid by American Airlines to cure prior lease defaults is still pending. See "CERTAIN INVESTMENT CONSIDERATIONS – Effect of Airline Bankruptcies," "AIRLINE INDUSTRY INFORMATION – American Airlines Bankruptcy" and "SPECIAL FACILITY FINANCINGS – Conduit Financings."

See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – Airline Revenues – Existing Terminal Leases," "—Assumptions for Projection of Airline Terminal Rentals" and "—Projected Airline Terminal Rentals."

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.

Department Acquisition of Certain Terminal Improvements; Credits

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

Generally, under such Terminal leases, subject to certain conditions, the Department has agreed to purchase from the Aeronautical User the Aeronautical User Improvements and the Department has the option to purchase from the Aeronautical User the Terminal Improvements. If the Department does not exercise the option to purchase the Terminal Improvements, the Department is required to issue to the Aeronautical User a credit in the amount of the cost of the Terminal Improvements. Such credits are issued over the period from the date on which the Department could exercise the option to purchase the Terminal Improvements through the end of the Terminal lease. The Department retains the option to purchase the Terminal Improvements at any time during the term of the Terminal lease.

The Department also may issue credits to the Aeronautical User responsible for the cost of relocating other Terminal users to facilitate the Terminal renovations, for the cost of such relocations. The amounts of these credits vary depending on the scope of the required relocations and have ranged from no credits being issued where no relocations were required to approximately $11 million.

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

The acquisition of Aeronautical User Improvements and Terminal Improvements under Terminal leases are part of the Department's Capital Improvement Program (as defined below), and 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. See "CAPITAL PLANNING – Capital Development" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Concession and Parking Agreements

The Department has entered into numerous concessions agreements with terminal commercial managers, duty free concessionaires, food and beverage concessionaries, retail concessionaires and others. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – Airport Revenues Other than Airline Terminal, Landing, and Apron Fees – Concession Revenues."

Terminal Commercial Manager Concessions

The Department has entered into two terminal commercial manager concession agreements with Westfield Concession Management, LLC ("Westfield"), for concession development at TBIT, Terminals 1, 2, 3 and 6 and the LAX Theme Building (the "Westfield Concession Agreements"). Pursuant to the Westfield Concession Agreements, Westfield serves as a developer and manager of retail, specialty retail, food and beverage and other passenger services in the applicable terminals and space, including selecting concessionaires, subject to Department approval. Under the Westfield Concession Agreements, Westfield is required to develop concession and related spaces, market and promote the concessionaires, negotiate and administer contracts with each concessionaire, and monitor and manage concessionaire performance. The term of each Westfield Concession Agreement is 17 years, comprised of a two year development period and a 15 year operational period and both Westfield Concession Agreements are scheduled to expire on June 30, 2029. Under the Westfield Concession Agreements, Westfield and its concessionaires are required to make initial capital investments in initial premises improvements in an aggregate amount of approximately $160.5 million, initial capital investments in initial non-premises improvements in an aggregate amount of approximately $74.5 million and capital investments in mid-term premises improvements in an aggregate amount of approximately $32.1 million. The Department is to receive from Westfield the greater of an aggregate minimum annual guarantee of approximately $34.7 million or percentage rent comprised of base percentage rent (a percentage of Westfield's revenues less certain allowances for improvements and management fees) and contingent percentage rent (a certain percentage of Westfield's revenues in excess of certain benchmarks). Beginning in January 2014, each minimum annual guaranty is subject to increase based on the consumer price index and a percentage of the prior year's percentage rent and to decrease based on certain reductions in passenger enplanements. Under the Westfield Concession Agreements, Westfield is required to provide performance guaranties in the initial aggregate amounts of $2 million, which amounts are required to increase to two months minimum annual guaranty, but not less than $3 million. The Department may terminate the Westfield Concession Agreements in the tenth year of operation if Westfield does not meet certain performance targets, subject to certain buy-out payments for Westfield's investment in improvements.

Duty Free Concessions

The Department has entered into a duty free merchandise concession agreement with DFS Group L.P. ("DFS) for the design, construction, development and operation of duty free and duty paid merchandise concession at all Terminals at LAX (the "DFS Concession Agreement"). The term of the DFS Concession Agreement is 10 years and commenced in September 2013. Under certain circumstances, the Department has the right to extend the DFS Concession Agreement for three one year extension terms. Under the DFS Concession Agreement, DFS is required to make initial capital investments for initial improvements to its premises of approximately $25 million and make mid-term capital investments for refurbishment of its premises of approximately $17 million. The DFS Concession Agreement provides that the Department will receive from DFS the greater of a minimum annual guarantee or performance rent comprised of percentage rent (based on the application of certain percentages to gross sales of various categories of products) and contingent rent (10% of gross sales in excess of $175 million). Under the DFS Concession Agreement, the minimum annual guaranty is the greater of (i) $30 million, provided that in the second year of the DFS Concession Agreement, such amount will be increased based on the consumer price index, (ii) a percentage of the prior year's rent payment, unless, in certain circumstances, international enplaned passengers at LAX have decreased below certain thresholds, and (iii) commencing in the third year of the DFS Concession Agreement, $6.25 per international enplaned passenger, subject to annual consumer price index increases. DFS is required to provide a performance guaranty in an amount equal to 25% of its minimum annual guaranty.

For Fiscal Year 2013, revenues to the Department at LAX from duty free sales were approximately $50.4 million (derived from unaudited financial statements). See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2013."

Food and Beverage Concessions

The Department has entered into concession agreements with a number of food and beverage concessionaires for concessions at Terminals 4, 5, 7, 8 and the commuter facilities at LAX (the "Food and Beverage Concession Agreements"). The Food and Beverage Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Food and Beverage Concession Agreements is approximately $12.8 million. Under the Food and Beverage Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire's premises, aggregating approximately $36.3 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately $7.5 million. Each food and beverage concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Food and Beverage Concession Agreements are scheduled to terminate in June 2021 and 2023.

For Fiscal Year 2013, revenues to the Department at LAX for food and beverage concessions were approximately $36.5 million (derived from unaudited financial statements). See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2013."

Retail Concessions

The Department has entered into concession agreements with a number of retail concessionaires for concessions at Terminals 4, 5, 7 and 8 at LAX (the "Retail Concession Agreements"). The Retail Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Retail Concession Agreements is approximately $5.9 million. Under the Retail Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire's premises, aggregating approximately $10.4 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately $2.1 million. Each concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Retail Concession Agreements are scheduled to terminate in June 2021.

For Fiscal Year 2013, revenues to the Department at LAX from Retail Concession Agreements were approximately $21.9 million (derived from unaudited financial statements). See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2013."

Rental Cars and Customer Facility Charges

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 2013, the Approved Rental Car Companies paid $70.5 million in concession fees to the Department, although their total minimum annual guaranties were only slightly above $57.5 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 2013 of approximately $27.3 million (derived from unaudited financial statements) at LAX. Pledged Revenues do not include customer facility charge revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS – Senior Bonds – Senior Rate Covenant."

Advertising Concessions

The exclusive contract with advertising concessionaire JCDecaux Airport, Inc. ("JCDecaux") expires in April 2014 and may be extended by the Department for three additional one-year periods. This agreement permits the Department to take back certain advertising locations from JCDecaux in TBIT. This agreement also requires revenues from sold advertising to be evenly distributed throughout the term of such contracts to facilitate assignment of such contracts to a potential Terminal Media Operator. This agreement provides for an annual concession fee equal to the greater of a minimum annual guaranty of $14.0 million or 75% of gross sales. In the event that the Department takes back certain advertising locations, as described above, the minimum annual guaranty will be reduced proportionately but will not be reduced below approximately $10.8 million. Fiscal Year 2013 advertising revenues to the Department at LAX were approximately $19.9 million (derived from unaudited financial statements).

The Department is in the process of conducting a competitive process to identify and select a Terminal Media Operator for LAX. The scope of the Terminal Media Operator concession may include, among other things, traditional airport advertising, sponsorship, electronic media management and maintenance in the Terminals, digital activation sales and promotions, enhanced Wi-Fi services and digital passenger information and navigation services.

Parking

The Department has entered into an operating agreement with New South Parking-California, a partnership between Central Parking System, Inc. and Global Parking Systems, LA, LLC ("New South"), for the management of certain parking facilities at LAX and VNY. The agreement is scheduled to expire in May 2014. This agreement may be terminated by the Department and converted to a month-to-month contract on, among other occurrences, the Department's option to take back the Central Terminal Area parking garages or other parking lots upon 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 2013, parking revenues to the Department at LAX were approximately $73.9 million (derived from unaudited financial statements).

In July 2009, the Department purchased the property adjacent to Terminal 1, which is operated as the Park One parking lot (the "Park One Property"). In connection with the purchase, the Department assumed an operating lease with PNF-LAX, Inc. (the "PNF Lease") which, subject to the terms thereof, may be extended at the option of PNF-LAX, Inc. on a periodic basis through December 2028. PNF-LAX exercised an option to extend the term of the PNF Lease to December 31, 2017. Under the PNF Lease, the Department receives escalating annual revenues. In Fiscal Year 2013, the Department received approximately $8.4 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 2008 through 2013. See APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012."

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

	Fiscal Year Ended June 30				
	2009[2]	**2010[2]**	**2011[2]**	**2012[2]**	**2013**
Operating revenues:					
Aviation revenue					
Landing fees	$ 164,489	$ 169,683	$ 191,307	$ 205,568	$ 216,359
Building rentals[3]	190,380	191,626	220,940	247,939	257,251
Other aviation revenue[3][4]	48,711	54,525	88,989	86,402	84,934
Concession revenue[5]	243,096	236,911	263,195	278,767	304,139
Airport sales and services	2,229	1,820	1,916	2,190	808
Other operating revenue	2,366	1,136	1,497	1,224	1,982
Total operating revenue	$ 651,271	$ 655,701	$ 767,844	$ 822,090	$ 865,473
Operating expenses:					
Salaries and benefits	$ 298,612	$ 317,000	$ 323,522	$ 339,551	$ 338,004
Contractual services	148,627	141,253	143,684	162,071	162,661
Administrative expense	1,951	2,392	3,197	5,895	1,126
Materials and supplies	38,738	32,661	32,699	35,986	47,908
Utilities	29,018	28,832	29,606	30,664	32,472
Advertising and public relations	7,967	6,937	6,219	3,186	3,421
Other operating expenses	(2,002)	477	2,301	2,807	3,838
Total operating expenses before depreciation and amortization	$ 522,911	$ 529,552	$ 541,228	$ 580,160	$ 589,430
Income from operations before depreciation and amortization	$ 128,360	$ 126,149	$ 226,616	$ 241,930	$ 276,043
Depreciation and amortization	(86,927)	(86,976)	(103,300)	(123,941)	(134,500)
Operating Income	$ 41,433	$ 39,173	$ 123,316	$ 117,989	$ 141,543
Non-Operating revenues/ (expenses):					
Passenger facility charges	$ 103,982	$ 110,961	$ 117,821	$ 121,443	$ 124,610
Customer facility charges[5]	22,086	22,270	24,250	26,002	27,295
Interest income	53,602	32,050	29,896	27,553	25,231
Change in fair value of investments	2,723	11,955	(832)	5,249	(22,793)
Gain (loss) on sale of securities	--	--	--	--	--
Other non-operating revenue[4]	8,200	22,898	13,380	13,910	11,487
Interest expense	(20,483)	(35,416)	(78,740)	(83,068)	(93,610)
Bond expense	(455)	(922)	(902)	(993)	(953)
Other non-operating expenses	(26,967)	--	(981)	(252)	(55)
Net non-operating revenues/ (expenses)	$ 142,688	$ 163,796	$ 103,892	$ 109,844	$ 71,212
Income before capital grant Contributions	$ 184,121	$ 202,969	$ 227,208	$ 227,833	$ 212,755
Federal grants	88,241	80,955	67,939	59,854	12,264
Inter-agency transfers	(470)	7,224	804	3,466	(2,126)
Change in net assets	271,892	291,148	295,951	291,153	222,893
Net position, beginning of period	$2,678,236	$2,950,128	$3,241,276	$3,537,227	$3,828,380
Net position, end of period	$2,950,128	$3,241,276	$3,537,227	$3,828,380	$4,051,273

(1) Totals may not add due to rounding.
(2) Restated. Certain reclassifications have been made to conform to fiscal year 2013 presentation.
(3) Terminal use and gate use fees reclassified from other aviation revenue to building rentals revenue.
(4) Includes reimbursement of security-related expenses; TSA revenue pertaining to law enforcement officers and canines reclassified from operating revenue to non-operating revenue.
(5) Customer facility charges were reclassified from concession revenue to non-operating revenue.
Source: Department of Airports of the City of Los Angeles.

See also APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012."

Management Discussion of Fiscal Year 2013

Total operating revenue at LAX for Fiscal Year 2013 was approximately $865.5 million, an increase of approximately $43.4 million, or 5.3%, from Fiscal Year 2012, comprised primarily of an increase in aviation related revenue of approximately $18.6 million and an increase in non-aviation revenue of approximately $24.7 million, mostly from concession revenues.

Landing fees, net of the reliever fee, at LAX for Fiscal Year 2013 were approximately $216.4 million, an increase of approximately $10.8 million, or 5.3%, from Fiscal Year 2012. The increases in landing fee revenue resulted from higher levels of airfield operating and capital costs recovered through the Department's landing fee and the absence of a reliever fee subsidy to VNY. Building rental revenue at LAX for Fiscal Year 2013 increased approximately $9.3 million from Fiscal Year 2012 as new leases and renegotiated leases were signed with the airlines and other tenants and generally higher levels of Terminal building costs were recovered by the Department.

Total revenue from concessions at LAX for Fiscal Year 2013 was approximately $304.1 million, an increase of approximately $25.4 million, or 9.1%, from Fiscal Year 2012. The increases were due to a combination of higher levels of gross sales in the terminals and increases in parking revenues and rental car concession payments. In-terminal concession revenue constitutes rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rental cars, bus, limousine and taxi services.

In-terminal concession revenue at LAX for Fiscal Year 2013 increased approximately $15.5 million, or 12.3%, from Fiscal Year 2012. Duty free concession revenue experienced the most significant amount of in-terminal concession revenue growth at LAX for Fiscal Year 2013 with an increase of approximately $5.0 million from Fiscal Year 2012. Food and beverage and gift and news revenue at LAX for Fiscal Year 2013 increased from Fiscal Year 2012 as redeveloped concession spaces were returned to service following the implementation of new concession agreements. Off-terminal concession revenue at LAX for Fiscal Year 2013 was approximately $162.5 million, an increase of approximately $9.9 million, from Fiscal Year 2012. Increases of approximately $4.0 million and approximately $6.2 million in auto parking and rental car revenues, respectively, were slightly offset by an approximately $0.3 million decrease in bus and other ground transportation revenues.

Operating expenses before depreciation and amortization at LAX for Fiscal Year 2013 were approximately $589.4 million, an increase of approximately $9.3 million, or 1.6%, from Fiscal Year 2012. Materials and supplies expenses experienced the most significant growth for Fiscal Year 2013, increasing approximately $11.9 million, or 33%, from Fiscal Year 2012, primarily due to the Department's implementation of an expedited airfield markings rehabilitation program. All other expense categories at LAX experienced minor increases or decreases from Fiscal Year 2012, with an aggregate decrease in such expense categories of approximately $2.7 million from Fiscal Year 2012.

Management Discussion of Fiscal Year 2012

Total operating revenue at LAX for Fiscal Year 2012 was approximately $822.1 million, an increase of approximately $54.2 million, or 7.1%, from Fiscal Year 2011. Factors contributing to the increase include an increase in aviation related revenue of approximately $38.7 million from Fiscal Year 2011 and an increase in non-aviation revenue of approximately $15.6 million, mostly from concession revenues, from Fiscal Year 2011.

Landing fees, net of the reliever fee, at LAX for Fiscal Year 2012 were approximately $205.6 million, an increase of approximately $14.3 million, or 7.5%, from Fiscal Year 2011. The increases in landing fee revenue resulted from higher levels of airfield operating and capital costs recovered through the Department's landing fee. Building rental revenue at LAX for Fiscal Year 2012 increased approximately $24.6 million from Fiscal Year 2011 as new leases and renegotiated leases were signed with the airlines and other tenants and generally higher levels of terminal building costs were recovered by the Department. Land rentals at LAX for Fiscal Year 2012 decreased approximately $6.6 million from Fiscal Year 2011 as a result of offsetting the net retroactive payments in Fiscal Year 2011 of approximately $14.7 million. Excluding the retroactive revenues in Fiscal Year 2011, the year-to-year increase in land rentals was approximately $8.1 million.

Total revenue from concessions at LAX for Fiscal Year 2012 was approximately $278.8 million, an increase of approximately $15.6 million, or 5.9%, from Fiscal Year 2011. In-terminal concession revenue constitutes rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rental cars, bus, limousine and taxi services.

In-terminal concession revenue at LAX for Fiscal Year 2012 increased approximately $3.7 million, or 3%, from Fiscal Year 2011. Duty free concession revenue experienced the most significant concession revenue growth at LAX for Fiscal Year 2012 with an increase of approximately $8.7 million from Fiscal Year 2011. Food and beverage and gift and news revenue at LAX for Fiscal Year 2012 decreased from Fiscal Year 2011 as certain concession spaces were taken out of service for redevelopment under new concession agreements. Off-terminal concession revenue at LAX for Fiscal Year 2012 was approximately $152.6 million, an increase of approximately $11.9 million, from Fiscal Year 2011. Approximately $3.4 million and $5.8 million of the increase in off-terminal concession revenue were from auto parking and rental car, respectively.

Operating expenses before depreciation and amortization at LAX for Fiscal Year 2012 were approximately $580.2 million, an increase of approximately a $38.9 million, or 7.2%, from Fiscal Year 2011. Contractual services expenses experienced the most significant expense growth at LAX for Fiscal Year 2012 with an increase of approximately $18.4 million from Fiscal Year 2011. Increased use of consultants for planning, engineering, environmental and systems services was the primary driver of the increase in contractual services. Salaries and benefits expenses at LAX for Fiscal Year 2012 increased approximately $16 million from Fiscal Year 2011. The primary source of these increases was an increase in the year-end accrual for workers' compensation based on the actuary's adjustment to the estimated workers' compensation liability. Other expenses at LAX for Fiscal Year 2012 had an aggregate increase of approximately $4.7 million from Fiscal Year 2011.

Top Revenue Providers and Sources

The following table sets forth the top ten revenue providers at LAX for Fiscal Year 2013.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FISCAL YEAR 2013
(DOLLARS IN THOUSANDS)[(1)]

1.	United Airlines[(2)]	$ 97,979
2.	American Airlines	89,853
3.	Delta Air Lines	70,882
4.	Southwest Airlines[(3)]	54,874
5.	DFS Group	50,047
6.	The Hertz Corporation[(4)]	25,428
7.	Alaska Airlines	24,265
8.	Avis Rent A Car System[(5)]	22,634
9.	Virgin America	21,692
10.	JCDecaux Airport	20,913

(1) Excludes revenue from the federal government. The amounts in this table reflect those amounts billed by the Department to the applicable revenue provider as of June 30, 2013.
(2) As a result of a merger, data presented for United Airlines includes data for Continental Airlines.
(3) In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran, which was completed in 2011. Southwest and AirTran received a single operating certificate from the FAA in 2012, however Southwest and AirTran continue to operate as separate airlines while integrating. Data presented for Southwest includes data for AirTran.
(4) Includes approximately $6.4 million of Customer Facility Charges. Customer Facility Charges are not included in Pledged Revenues.
(5) Includes approximately $4.5 million of Customer Facility Charges. Customer Facility Charges are not included in Pledged Revenues.

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

The following table sets forth top ten revenue sources at LAX for Fiscal Year 2013.

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FISCAL YEAR 2013[(1)(2)]
(DOLLARS IN THOUSANDS)

1.	Building Rentals	$ 257,251
2.	Landing Fees	216,359
3.	Land Rentals	81,010
4.	Auto Parking	73,932
5.	Rental Cars	70,516
6.	Duty Free Sales	50,409
7.	Food and Beverage	36,476
8.	Gifts and News	21,913
9.	Advertising	19,875
10.	Bus, Limousine & Taxi	9,041

(1) The amounts in this table reflect those amounts received by the Department from the applicable revenue sources as of June 30, 2013.
(2) Customer Facility Charges for Fiscal Year 2013 were approximately $27.3 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; however, see "THE DEPARTMENT OF AIRPORTS – Oversight by the City Council."

Fiscal Year 2014 Budget

Department management developed the Fiscal Year 2014 LAX Operating Budget after considering a number of factors including recent years' operating revenue and expense trends, LAX passenger traffic projections, the Department's capital projects, including the issuance of additional debt to finance the Department's capital projects, and other Departmental goals. Staff from each of LAX's divisions prepared and submitted their preliminary budgets within the constraints defined by budget staff and submitted additional requests for review in January 2013. Budget hearings were conducted in March and April of 2013 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 2014 Operating Budget in June 2013.

The Fiscal Year 2014 LAX Operating Budget projects operating revenues of approximately $997.6 million, approximately 15.0% higher than budgeted in the Fiscal Year 2013 LAX Operating Budget. The Department has projected that LAX aviation revenues will increase due primarily to increased cost recovery from airline passenger terminal tenants at LAX. The Fiscal Year 2014 LAX Operating Budget projects that non-aviation revenues of approximately $335.3 million, approximately 15.3% higher than budgeted in the Fiscal Year 2013 LAX Operating Budget, as redeveloped terminal concessions and increased levels of passenger traffic contribute to greater terminal concession and ground transportation revenues. The Fiscal Year 2014 LAX Operating Budget projects operating expenses of approximately $654.8 million, approximately 4.4% higher than the Fiscal Year 2013 LAX Operating Budget. The Fiscal Year 2014 LAX Operating Budget does not include appropriations for the Series 2013 Bonds Projects or other capital improvement projects. See "CAPITAL PLANNING." Under the Fiscal Year 2014 LAX Operating Budget, the Department has budgeted approximately $370.8 million for salaries, benefits and other payroll expenses for the Department's employees at LAX (representing an increase of approximately 5.9% from the Fiscal Year 2013 LAX Operating Budget) and approximately $52.2 million for payments to the City for fire service, supplemental police assistance and other support services and personnel costs at LAX. Amounts budgeted for these expenses represent approximately 64.6% of the Department's operating budget at LAX. Contractual services, including payments for services provided by the City, as discussed above, are budgeted in the Fiscal Year 2014 LAX Operating Budget at approximately $184.8 million (representing an increase of approximately 3.2% from the Fiscal Year 2013 LAX Operating Budget). See also "THE DEPARTMENT OF AIRPORTS – Employees and Labor Relations" and "—Retirement Plan."

The following table sets forth a summary of the operating budget at LAX for Fiscal Year 2014.

TABLE 17
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
SUMMARY OF OPERATING BUDGET
FISCAL YEAR 2014[(1)]
(DOLLARS IN MILLIONS)

	Fiscal Year Ended June 30
Operating revenues:	
Aviation revenue	
Landing fees	$ 229.4
Building rentals	337.0
Land rentals	86.5
Other aviation revenue	8.3
Concession revenue	332.7
Airport sales and services	0.6
Miscellaneous revenue	2.0
Total operating revenue	$ 996.5
Operating expenses:	
Salaries and benefits	$ 370.8
Contractual services	184.8
Administrative expense	4.0
Materials and supplies	47.6
Utilities	34.5
Advertising and public relations	5.0
Other operating expenses	8.2
Total operating expenses	$ 654.8
Income from operations before depreciation and amortization	$ 341.6

(1) 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 2009 through 2013.

TABLE 18
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2009-2013[1]
(DOLLARS IN THOUSANDS)

	2009	2010	2011	2012	2013
Pledged Revenues[2]					
Total Operating Revenues[3]	$ 651,271	$ 655,701	$ 767,844	$ 822,090	$ 865,473
Interest Income	35,268	18,086	16,296	20,042	1,400
Build America Bonds Subsidy[4]	--	3,088	7,640	8,328	7,965
Non- Operating TSA Revenue[3]	5,884	3,196	4,027	4,876	1,253
Total Pledged Revenues	$ 692,423	$ 680,071	$ 795,807	$ 855,336	$ 876,091
LAX Maintenance and Operations Expenses[5]	(519,495)	(527,803)	(539,534)	(578,099)	(587,948)
Net Pledged Revenues[6]	$ 172,928	$ 152,269	$ 256,273	$ 277,237	$ 288,143
Senior Bond Aggregate Annual Debt Service	$ 18,433	$ 24,710	$ 60,095[7]	$ 60,577[7]	$ 45,486[7]
Senior Bond Debt Service Coverage Ratio	9.38x	6.16x	4.26x	4.58x	6.33x
Subordinate Bond Debt Service[8]	$ 15,777	$ 23,878[9]	$ 40,649	$ 45,508	$ 49,904
Subordinate Bond Debt Service Coverage Ratio	9.79x	5.34x	4.83x	4.76x	4.86x
Total Debt Service Coverage Ratio	5.05x	3.13x	2.54x	2.61x	3.02x

(1) Derived from unaudited financial statements.
(2) As defined in the Senior Indenture.
(3) TSA Revenue – Law Enforcement Officers and Canine reclassified from Operating Revenue to Non-Operating Revenue; Operating Revenues for Fiscal Years 2009, 2010 and 2011 are net of rent credits for capital leases.
(4) Represents cash subsidy payments from the United States Treasury received in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds. See "CERTAIN INVESTMENT CONSIDERATIONS – Federal Funding; Impact of Federal Sequestration."
(5) As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.
(6) As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.
(7) Net of $19 million, $25.2 million and $34.4 million passenger facility charge reimbursements of Fiscal Years 2011, 2012 and 2013 debt service payments, respectively, for the Series 2008A Senior Revenue Bonds.
(8) Also includes actual debt service with respect to the Subordinate Commercial Paper Notes.
(9) 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 2014 through 2019 as projected by the Airport Consultant.

TABLE 19
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PROJECTED DEBT SERVICE COVERAGE
FISCAL YEARS 2014-2019[(1)]
(DOLLARS IN THOUSANDS)

	2014	2015	2016	2017	2018	2019
Pledged Revenues[(2)]	$1,030,489	$1,176,599	$1,265,631	$1,370,957	$1,451,970	$1,549,525
LAX Maintenance and Operations Expenses[(3)]	638,769	677,645	711,528	754,041	791,744	836,286
Net Pledged Revenues[(4)]	$ 391,720	$ 498,964	$ 554,103	$ 616,916	$ 660,226	$ 713,259
Senior Bond Aggregate Annual Debt Service[(5)]	$ 59,908	$ 131,443	$ 120,188	$ 151,976	$ 162,627	$ 156,507
Senior Bond Debt Service Coverage Ratio[(6)]	6.54x	3.80x	4.61x	4.06x	4.08x	4.56x
Subordinate Pledged Revenues	$ 331,812	$ 367,512	$ 433,915	$ 464,940	$ 498,599	$ 556,732
Subordinate Bonds Aggregate Annual Debt Service[(7)]	70,776	61,475	66,233	76,341	81,099	101,081
Subordinate Bonds Debt Service Coverage Ratio[(6)]	4.69x	5.98x	6.55x	6.09x	6.15x	5.51x
Total Debt Service Coverage	3.00x	2.59x	2.97x	2.70x	2.72x	2.77x

(1) Amounts set forth in this table are projections. Actual results may differ materially from these projections. See "INTRODUCTION - Forward-Looking Statements" above.
(2) As defined in the Senior Indenture.
(3) As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.
(4) As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.
(5) Senior Bond Aggregate Annual Debt Service is net of capitalized interest and PFC revenues expected to pay Senior Lien Debt Service. Assumes the issuance of Additional Senior Bonds. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings."
(6) No Transfers were assumed for purposes of calculating debt service coverage ratios.
(7) Net of capitalized interest. For the purposes of these projections, the Airport Consultant has assumed that approximately $17.7 million of Subordinate Commercial Paper Notes will be outstanding. 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 20, reported by the Office of Finance from unaudited financial statements, summarizes assets of the Pool as of June 30, 2013.

TABLE 20
CITY OF LOS ANGELES POOLED INVESTMENT FUND[1]
ASSETS AS OF JUNE 30, 2013
(Dollars in Millions)

Description	Market Value[2]	% of Total	Department Market Value[3]	LAX Market Value[4]
Bank Deposits	$ 141	1.9%	$ 33	$ 31
CDARS	7	0.1	2	2
Commercial Paper	892	12.1	211	198
Corporate Notes	243	3.3	57	54
U.S. Federal Agencies	254	3.4	60	56
U.S. Treasuries	97	1.3	23	22
Total Short-Term Core Portfolio:	$ 1,634	22.2%	$ 386	$ 363
Corporate Notes	1,225	16.6	290	272
U.S. Federal Agencies	1,050	14.1	248	233
U.S. Treasuries	3,548	47.0	839	788
Municipal Bonds	10	0.1	2	2
Total Long-Term Reserve Portfolio	$ 5,833	77.8%	$ 1,379	$ 1,295
Total Cash & Pooled Investments	$ 7,467	100.00%	$ 1,765	$ 1,658

(1) Derived from unaudited financial statements. Based on General Pool 9218 – Combined, Portfolio Management Report provided by Office of Finance. Totals may not add due to rounding.
(2) Total amount held by the City in the Pool, including the funds of other departments.
(3) The Department's share of the Pool, including restricted assets.
(4) Inclusive of restricted cash; fund not segregated from other funds in the Pool.
Source: Office of Finance, City of Los Angeles and Department of Airports of the City of Los Angeles, California.

The average life of the investment portfolio in the Pool as of June 30, 2013 was approximately 2.3 years.

The City's treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The City Treasurer indicates that the City does not invest in structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments and mortgage-derived interest or principal-only strips. See also Note 3 – APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012."

Risk Management and Insurance

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

The Department carries commercial aviation general liability insurance with coverage limits of $1.3 billion for losses arising out of liability for airport operations. The deductible on the commercial aviation liability coverage is $10,000 per occurrence with an annual $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 $2.0 billion for all Department properties. The deductible on this coverage is $100,000 per occurrence, no aggregate. The Department's insurance also incorporates a property insurance special endorsement that provides coverage for property losses resulting from acts of terrorism for declared foreign acts of terrorism. Coverage under this endorsement parallels the general all-risk limits of $2.0 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 equal to the full policy limits of $2.0 billion and the deductible is 6 hours from initial declared interruption.

The Department has also purchased a war and allied perils (also referred to as terrorism insurance) endorsement with coverage of up to $1.0 billion with a deductible of $10,000 per occurrence and an annual $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 June 30, 2013, there was approximately $109.0 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, 2013 AND 2012." Additionally, the Department employs an active loss prevention program for both general liability and property/casualty perils. This on-going program seeks to identify, eliminate or mitigate the loss or peril before it becomes a loss or claim.

CAPITAL PLANNING

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

Capital Development

On June 18, 2013, the Board approved the Department's Capital Improvement Program (the "Capital Improvement Program") for Fiscal Years 2014 through 2018. The Capital Improvement Program is a multi-year comprehensive planning tool which, among other things, provides a list of proposed capital projects developed based on prioritized needs and affordability, is used to inform decision makers and stakeholders of proposed capital expenditures and opportunity costs, and is designed to assist with the development of capital budgets. The Capital Improvement Program is designed to be updated periodically as capital budgets are developed. The Board has previously authorized funding for certain projects and programs included in the Capital Improvement Program. The Board's approval of the Capital Improvement Program does not constitute project or program approval of appropriations for their funding. Specific projects and programs may require additional environmental review and further Board action. Capital Improvement Program projects include, among other things, completion of the

Bradley West Project, LAX Terminal 4 Connector, Central Terminal Area construction, LAX Taxiway T construction, LAX Midfield Satellite Concourse North Element and LAX Runway Safety Area improvements. The Capital Improvement Program also includes an annual Capital Renewal Allowance to allow the Department to address small and undefined capital improvements and/or equipment replacements and other miscellaneous projects.

On a formal basis the Department reviews and assesses the capital needs annually, and continuously on an informal basis, taking into account improved information regarding the condition and/or requirements of new and existing facilities, improved cost estimates for contemplated projects, new opportunities for investments or acquisitions that arise from time to time, current and forecasted traffic levels and changes within the industry that may influence the cost of the Capital Improvement Program. 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 to or removal of projects from the Capital Improvement Program.

The Report of the Airport Consultant organizes the Department's capital plans into the following categories:

- The Series 2013 Bonds Projects includes projects to be funded, in part, with Series 2013 Bond proceeds.
- "Other Incorporated Projects" includes future projects other than the Series 2013 Bonds Projects that the Department expects to be completed during the projection period (through Fiscal Year 2019). These projects include certain (i) terminal projects such as, renovation and modernization of certain terminal facilities, (ii) airfield and apron projects such as noise mitigation, sound proofing, runway safety improvements, airplane parking improvements and infrastructure projects, and (iii) landside projects such as parking and roadway improvements.
- "Ongoing Projects" includes projects underway at LAX that have already been funded, provided, however, that certain TSA grants have not yet been realized. These projects include certain terminal projects such as the Bradley West Terminal Project, and airfield and apron projects such as the Taxilane S and T projects.

The Series 2013 Bonds Projects, Other Incorporated Projects and Ongoing Projects are referred to herein as the "Capital Program."

"Future Projects," which are not part of the current Capital Improvement Program but include projects at LAX that the Department may consider but are not reflected in the cost estimates for the Capital Improvement Program because (i) the scope, timing, cost, or approval of these projects are uncertain, (ii) all environmental reviews are not yet complete or is not expected to be completed within the projection period (through Fiscal Year 2019) or (iii) these projects are not expected to be undertaken within the projection period. Some of these projects are discussed in "AIRPORT PLANNING" below.

The Department plans to undertake certain Other Incorporated Projects and any Future Projects, or portions thereof, as demand at LAX warrants, if costs of such projects are reasonable and if financing thereof is available at reasonable rates.

Capital Financing

Capital Program Costs

The total projects in the Capital Program are expected to cost approximately $7.3 billion, comprised of approximately:

- $481 million for the Series 2013 Bonds Projects;
- $3.8 billion for the Other Incorporated Projects; and
- $3.0 billion for the Ongoing Projects.

Cost estimates include design, engineering, construction, escalation for inflation (as appropriate) and contingency amounts. The Capital Program is expected to be financed with a combination of grants, passenger facility charges, Department and other funds, the proceeds of the Series 2013 Bonds, Existing Senior Bonds and Existing Subordinate Obligations and Additional Senior Bonds and/or additional Subordinate Obligations.

Funding sources for the Ongoing Projects have already been secured, provided, however, that certain TSA grants have not yet been realized. The Department does not currently expect to issue Additional Senior Bonds or additional Subordinate Bonds to finance the Ongoing Projects. 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. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

The estimated costs of, and the projected schedule for, the Capital Program are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the Capital Program. The Department may ultimately decide not to proceed with the projects described above, including portions of the Series 2013 Bonds Projects not financed with the proceeds of the Series 2013 Bonds, 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." See also "USE OF AIRPORT FACILITIES – Airport Terminal Tariff."

Grants

A portion of the Capital Program is expected to be financed with federal and other grants. Projects included in the Program are expected to be financed from AIP and TSA grants in the amount of approximately $382 million, comprised of approximately:

- $37 million for the Series 2013 Bonds Projects;
- $169 million for the Other Incorporated Projects; and
- $175 million for the Ongoing Projects.

See "CERTAIN FUNDING SOURCES – Grants."

Passenger Facility Charges

A portion of the Capital Program is expected to be financed with passenger facility charges. Projects included in the Program are expected to be financed from PFC revenues on a pay-as-you-go basis in the approximate amount of $699 million, comprised of approximately:

- $219 million for the Other Incorporated Projects and;
- $480 million for the Ongoing Projects.

See "CERTAIN FUNDING SOURCES – Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for additional information about the Department's expected use of PFC revenues.

Department and Other Funds

A portion of the Capital Program is expected to be financed with Department Funds including funds deposited in the TRIF pursuant to the Rate Agreements with the airlines and certain other funds including grants other than AIP and TSA grants. Projects included in the Capital Program are expected to be financed from Department funds and other funds including grants other than AIP and TSA grants in the amount of approximately $2.1 billion, comprised of approximately:

- $102 million for the Series 2013 Bonds Projects;
- $1.4 billion for the Other Incorporated Projects; and
- $535 million for the Ongoing Projects.

See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX" regarding Department funds and revenues. See also "USE OF AIRPORT FACILITIES – Rate Agreement" regarding the TRIF.

Debt Financing

A portion of the Capital Program is expected to be financed with the proceeds of Senior Bonds and Subordinate Obligations. Projects included in the Capital Program are expected to be financed from the proceeds of Senior Bonds and Subordinate Obligations funds in the amount of approximately $4.1 billion, comprised of:

- For the Series 2013 Bonds Projects, approximately:
  - $251 million of Series 2013 Bonds and Additional Senior Bonds; and
- For the Other Incorporated Projects, approximately:
  - $1.4 billion of Additional Senior Bonds;
  - $404 million of Additional Subordinate Obligations; and
  - $147 million of previously issued Senior Bonds and Subordinate Obligations.
- For the Ongoing Projects, approximately:
  - $1.8 billion of previously issued Senior Bonds and Subordinate Obligations.

See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings" regarding the Department's future financing plans.

Charter and Administrative Code Requirements

Pursuant to 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 Capital Improvement Plan for Fiscal Year 2014 through 2018 and debt accountability report were submitted by the Department pursuant to the Charter on June 26, 2013.

AIRPORT PLANNING

In order for the Department to plan to meet the projected needs for air transportation while balancing those needs with the concerns of airport area communities, the Department has undertaken an LAX Master Plan, an LAX Specific Plan and other community focused steps as part of its capital development for LAX.

LAX Master Plan

The "LAX Master Plan" is a conceptual strategic framework for future improvements at LAX and was adopted by the Board and approved by the City Council, together with the LAX Master Plan EIR, in 2004. Approval of the LAX Master Plan did not authorize construction or completion of any of the individual projects identified in the Master Plan, but rather provided a programmatic approval of the conceptual framework. Individual projects that implement a master plan are subject to additional environmental review and approvals prior to commencement of construction.

The LAX Master Plan contemplates improvements serving the landside functions at LAX, such as the commercial and private vehicle landside components of LAX, and improvements serving the airside functions of LAX, such as those associated with the airfield and with passenger processing facilities and gates. It includes concepts for a new landside Ground Transportation Center; a new Intermodal Transportation Center with connection to the Los Angeles County Metropolitan Transportation Authority's light rail line known as the Metro Green Line; a new consolidated rental car facility; a new on-airport roadways to support the Ground Transportation Center and Intermodal Transportation Center; 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 Ground Transportation Center, Intermodal Transportation Center and a proposed new consolidated rental car facility to the Central Terminal Area. The LAX Master Plan also includes concepts for improvements within the Central Terminal Area, including demolition of the parking garages in the central portion of the Central Terminal Area and replacement with new passenger processing facilities; demolition of the concourses associated with Terminals 1, 2, and 3; and development of new aircraft gates, including gates on the west side of the TBIT and a new Midfield Satellite Concourse (accompanied by cessation of the use of the west remote gates). Finally, the LAX Master Plan includes concepts for airfield improvements, including relocation of Runway 6R/24L 340 feet south, construction of a centerfield taxiway in the north airfield; construction of new north-south taxiways; and other runway and taxiway improvements.

LAX Plan

In connection with its approval of the LAX Master Plan, the City Council amended the City's general plan to include a general plan component specific to LAX, the "LAX Plan." As a component of the land use element of the City's General Plan, the LAX Plan establishes land use categories that are consistent with the goals and objectives for modernization of LAX and provides policies and programs that further these goals and objectives identified in the LAX Master Plan.

LAX Specific Plan

In 2004, the City Council adopted the LAX Specific Plan. Whereas the LAX Plan establishes a land use policy framework, the LAX Specific Plan is an ordinance that establishes zoning and development regulations consistent with the LAX Plan. It is a principal mechanism by which goals and objectives of the LAX Plan are achieved and the policies and programs are implemented. Prior to the amendments to the LAX Specific Plan discussed below, the LAX Specific Plan established procedures for processing future specific projects and activities that are anticipated under the LAX Master Plan. The LAX Specific Plan required the Department to initiate a Specific Plan amendment study ("SPAS") to address, among other things, security, traffic, aviation activity and corresponding environmental analysis consistent with the California Environmental Quality Act ("CEQA") in certain circumstances, including prior to seeking a determination of consistency with the LAX Plan for certain projects, described below, referred to as the "Yellow Light Projects:"

- Development of the Ground Transportation Center, including baggage tunnel, associated structures and equipment;
- Development of an automated "people mover" from the Ground Transportation Center to the Central Terminal Area, including its stations and related facilities and equipment;
- Development of certain on-site road improvements associated with above-referenced Ground Transportation Center developments;
- Demolition of Terminal 1, Terminal 2 and Terminal 3; and
- North Runway reconfiguration, as contemplated in the LAX Master Plan, including center taxiways.

The LAX Specific Plan Amendment Study, the SPAS Final EIR and Related Matters

The LAX Specific Plan Amendment Study

In January 2005, several petitioners challenged the approval of the LAX Master Plan and the LAX Master Plan EIR. The lawsuits were settled pursuant to a stipulated settlement and judgment (the "Stipulated Settlement"). The Stipulated Settlement requires the Department to, among other things, revisit the Yellow Light Projects and provide funding for certain noise and other mitigation projects. See also, "—LAX Master Plan Litigation Settlements."

The Department commenced a SPAS process in February 2006 in accordance with the Stipulated Settlement which focused on (i) alternative designs, technologies and configurations for the LAX Master Plan program 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 such alternative designs, technologies and configurations for the Alternative Projects, (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.

The SPAS Draft EIR, the SPAS Report and the Alternative Projects

In July 2012, the Department released a draft environmental impact report ("SPAS Draft EIR") and a Preliminary LAX Specific Plan Amendment Study Report ("SPAS Report"). The SPAS Draft EIR identified and evaluated nine alternatives, plus various combinations based upon the nine alternatives, for the Yellow Light Projects, the environmental impacts of each and mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan EIR (i.e., the Alternative Projects) along with other required components of an environmental impact report pursuant to CEQA.

The Alternative Projects include, among other things, various combinations of the following potential projects: (i) airfield improvements, including the movement of Runway 6L/24R north, Runway 6R/24L south, runway modifications for safety and efficiency, a new centerfield taxiway, taxiway and taxi lane modifications and airside road relocations; (ii) terminal improvements, including additions/demolitions to existing terminals/concourses and, for most SPAS alternatives, construction of a new terminal – Terminal 0; and (iii) ground access improvements, including the development of an Intermodal Transportation Facility, a Consolidated Rental Car Facility, a dedicated bus way, connection to a planned Metro LAX/Crenshaw Light Rail Transit Station, and landside road relocations.

The Alternative Projects also include an alternative which represents what would reasonably be expected to occur in the foreseeable future if the LAX Master Plan and all of the LAX Master Plan projects, including the Yellow Light Projects, were implemented as originally envisioned ("Alternative 3") and an alternative which represents what would reasonably be expected to occur if all ongoing and reasonably foreseeable non-Yellow Light Projects identified in the LAX Master Plan were implemented, and none of the Yellow Light Projects or any of the identified alternatives to the LAX Master Plan projects were constructed or implemented ("Alternative 4"). Non-Yellow Light Projects include the Bradley West Project, an extension to Runway 6R/24L for runway safety area improvements, the Midfield Satellite Concourse and related passenger processor and connector within the Central Terminal Area, a Consolidated Rental Car Facility, a new parking structure at the Intermodal Transportation Facility and various tenant improvements.

The SPAS Report summarizes the concept-development process for the nine- plus alternatives, identifies potential amendments to the LAX Specific Plan that would be needed to implement any of the alternatives, and provides complementary analyses to the SPAS Draft EIR in the areas of security and financial sustainability. The SPAS Report also presents an order-of-magnitude comparative financial analysis of the alternatives proposed as part of the SPAS. The analysis is not intended to be a feasibility analysis but rather an analysis that compares the relative costs and associated impacts of the alternatives to each other and whose only purpose was to compare the relative financial impacts of the nine alternatives. The relative costs and funding assumptions presented in the SPAS Report will likely differ from how the Department elects to ultimately finance any projects the Department may elect to pursue.

The SPAS Report contains order-of-magnitude costs of LAX Base Development Projects for Fiscal Years 2012 through 2025 of approximately $6.5 billion. The "LAX Base Development Projects" are comprised of certain terminal, airfield and apron and landside projects which the Department expects to undertake regardless of the alternative selected. The LAX Base Development Projects may be subject to certain environmental reviews and other appeals prior to commencement of construction. The LAX Base Development Projects include approximately $2.1 billion of projects currently underway at LAX. In addition to the costs associated with LAX Base Development Projects, the SPAS Report contains order-of-magnitude costs for the nine alternatives ranging from approximately $1.7 billion (Alternative 4) to approximately $16.8 billion (Alternative 3), with most other alternatives ranging from approximately $2.6 billion to approximately $4.8 billion. The SPAS Report also presents a high-level approximation of funding sources for the various alternatives including federal grants, passenger facility charges, Department funds (including Net Pledged Revenues and Subordinate Pledged Revenues), customer facility charges, future Additional Senior Bonds and the issuance of Additional Subordinate Obligations and other sources. In comparing the various alternatives, approximations of future Additional Senior Bonds and Additional Subordinate Obligations in connection with non-LAX Base Development Projects range from no new bonding (Alternative 4) to approximately $13.7 billion (Alternative 3), with approximations of future bonds for most other alternatives ranging from approximately $842 million to approximately $2.3 billion.

As described in the SPAS Report, the SPAS alternatives were formulated at a programmatic level of conceptual planning, and no design or engineering plans, or construction phasing plans or schedules, are available for any of the alternatives. For the purposes of the SPAS Report, the Department generally assumed that improvements proposed under each alternative would be completed by 2025, but there is no specific requirement that any such improvements be completed by 2025.

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

Board actions related to the SPAS Final EIR, the SPAS Proposed Plan Amendments and Related Actions

At the conclusion of the applicable public review and comment period for the SPAS Draft EIR, the Department prepared a SPAS environmental impact report (the "SPAS Final EIR").

Of the Alternative Projects presented in the SPAS Report and the SPAS Final EIR, Department management recommended a combination of certain airfield and terminal elements of one proposed alternative and the with the ground transportation elements of another proposed alternative (together, the "SPAS Staff-Recommended Alternative"). The order-of-magnitude costs for the SPAS Staff Recommended Alternative is approximately $4.8 billion (exclusive of LAX Base Development Projects). Based on the high-level approximation of funding sources contained in the SPAS Report, approximations of future Additional Senior Bonds and Additional Subordinate Obligations in connection with non-LAX Base Development Projects for the SPAS Staff Recommended Alternative includes an order-of-magnitude of approximately $2.3 billion of future bonds. The SPAS Staff-Recommended Alternative includes, among other things, the following elements:

North Airfield Elements:

- Construction of a centerline taxiway
- Movement of Runway 6L/24R 260 feet north
- Extension of Runway 6R/24L eastward
- Reconfiguration of Taxilane E and Taxilane D to service the full length of the north airfield
- Relocation of Lincoln Boulevard northward to be compatible with the movement of Runway 6L/24R

Terminal Elements:

- Construction of a new Terminal 0 east of Terminal 1 and west of Sepulveda Boulevard
- Concourse extension for the new TBIT and future Midfield Satellite Concourse to newly established aircraft parking limit line
- Partial demolition and gate reconfiguration of Terminal 1
- Redevelopment of Terminal 3
- Elimination of West remote gates
- Total of 153 passenger gates

Ground Transportation Elements:

- Maintain private vehicle access to the Central Terminal Area
- Modification of the Skyway roadway entrance to the Central Terminal Area
- Development of an intermodal transportation facility
- Development of parking east of Parking Lot C
- Development of a Consolidated Rental Car Facility and parking at Manchester Square
- Development of an Automated People Mover system along 98th Street, connecting LAX and Los Angeles County Metropolitan Transportation Authority facilities

The Board was presented with and considered the SPAS Report, the SPAS Final EIR and recommended technical amendments to the City's General Plan, the LAX Plan and the LAX Specific Plan (collectively, the "SPAS Proposed Plan Amendments"). On February 5, 2013, the Board adopted a resolution, which among other things, certified the SPAS Final EIR; adopted a SPAS mitigation, monitoring and reporting program (the "SPAS MMRP"); adopted the SPAS CEQA findings; adopted the SPAS Statement of Overriding Considerations; determined that the SPAS is complete; selected the SPAS Staff-Recommended Alternative, including the SPAS Proposed Plan Amendments, as the best Alternative Project, subject to future detailed planning, engineering and project-level environmental review, such as project-level review of individual improvements under CEQA and to the evaluation and approval processes of the FAA; further adopted certain voluntary commitments associated with the SPAS Staff-Recommended Alternative; recommended that the City Planning Commission review and consider the SPAS Final EIR and the SPAS Proposed Plan Amendments; recommended that the City Council, among other things, affirm the Board's certification of the SPAS Final EIR, approve the SPAS Proposed Plan Amendments, adopt the SPAS MMRP, adopt the SPAS CEQA findings and SPAS Statement of Overriding Considerations, selected the Staff-Recommended Alternative as the best Alternative Project, subject to the further review described above and directed staff to file a Notice of Determination in connection with the SPAS Final EIR.

Approval of the SPAS Staff-Recommended Alternative by the City Council would provide a starting point for further analysis from which the specific details of the proposed improvements would be further defined and evaluated in connection with current and future FAA standards and a basis to move forward with applicable further review.

City Planning Commission Actions Related to the SPAS Proposed Plan Amendments and Related Actions

The City Planning Commission also reviewed and considered the SPAS Final EIR and the SPAS Proposed Plan Amendments. On February 14, 2013, the City Planning Commission adopted a resolution, which among other things, approved the SPAS Proposed Plan Amendments; and approved the environmental findings of the SPAS Final EIR. The City Planning Commission reviewed and considered the SPAS MMRP and recommended that the City Council approve and adopt, as applicable, the SPAS Proposed Plan Amendments; review and consider the SPAS Final EIR; adopt environmental findings of the SPAS Final EIR; review and consider the SPAS MMRP; and adopt the SPAS Statement of Overriding Considerations.

City Council Actions Relating to the SPAS Final EIR, the SPAS Proposed Plan Amendments and Related Actions

On April 30, 2013, the City Council, upon recommendation of both its Planning and Land Use Management and Trade, Commerce and Tourism Committees, and having reviewed and considered the SPAS Final EIR, adopted a resolution which, among other things, contained findings that the City Council considered the environmental effects of the project as described in the SPAS Final EIR; contained findings that the SPAS EIR, the SPAS Statement of Overriding Considerations and the SPAS MMRP complied with CEQA; affirmed the certification of the SPAS Final EIR; selected the Staff-Recommended Alternative as the best Alternative Project, subject to further review described above; adopted the SPAS Proposed Plan Amendments.

On April 30, 2013, upon, among other things, recommendation of its Trade, Commerce, and Tourism Committee, the City Council also denied a CEQA Section 21151(c) appeal filed by the Alliance for a Regional Solution to Airport Congestion ("ARSAC") of the Board's February 5, 2013 certification of the SPAS Final EIR.

On May 21, 2013, the City Council further adopted an ordinance amending the LAX Specific Plan as part of the SPAS Proposed Plan Amendments.

Approval of the SPAS Staff-Recommended Alternative by the City Council would provide a starting point for further analysis from which the specific details of the proposed improvements would be further defined and evaluated in connection with current and future FAA standards and a basis to move forward with applicable further review.

LAX Master Plan Litigation Settlements

The Stipulated Settlement also requires, in certain limited circumstances, gate reductions at LAX. However, if LAX does not have 75 million passengers annually or if the LAX Master Plan is substantially revised pursuant to a LAX Specific Plan Amendment 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 Stipulated Settlement is discussed in more detail above. See "—LAX Specific Plan Amendment Study."

The Department 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 originally 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 collections 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. In 2011, the FAA authorized the Department to collect approximately $34.1 million in passenger facility charges for reimbursement of eligible expenditures related to the Lennox Schools' sound mitigation program. During Fiscal Year 2012 the Department has delivered payments to Lennox Schools in the amount of approximately $10 million. No monies were requested by Lennox Schools in Fiscal Year 2013. The Department expects to receive a request from Lennox Schools for up to $10 million for Fiscal Year 2014. The Department submitted a PFC application to the FAA on behalf of Inglewood Unified School District in order to receive approval to fund a sound insulation program for Inglewood Unified School District from passenger facility charges.

The Stipulated Settlement contains an agreement to apply for FAA approval of specified operational restrictions at LAX regarding departures and routing during certain time periods. The Department has submitted the required application, which the FAA received on January 30, 2013, and submitted a supplement to the application on June 28, 2013, in response to the FAA's request for additional information. The Department is awaiting a decision from the FAA.

SPAS Litigation

On May 30, 2013, ARSAC filed a petition for writ of mandate in California Superior Court against the Department, the Board, the Executive Director of the Department, the City, the City Council and the Mayor (collectively, the "Respondents") alleging that the SPAS Final EIR was not completed in compliance with CEQA; and the Respondents violated their duties under the law, abused their discretion, failed to proceed in the manner required by law and decided the matters without substantial evidence. In the petition for writ of mandate ARSAC requests, among other things, the court to set aside all approvals based upon the SPAS Final EIR. Lawsuits on similar grounds have been filed by the City of Inglewood, Culver City, Ontario, the County of San Bernardino and the SEIU United Service Workers West. A hearing date has been set for August 25, 2014. The Department cannot predict the outcome of these lawsuits.

In 2013, ARSAC also provided written notice to the Department of alleged defaults under the Stipulated Settlement. The Department has met and conferred with ARSAC to attempt to resolve the issues. The Department cannot predict the outcome of this dispute.

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 on February 13, 2011.

The Department has a residential Noise 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, through voluntary acquisition of properties and relocation assistance for certain residential neighbors near LAX and acoustic treatment and air conditioning or positive ventilation system improvements to certain other residential dwelling units. Acoustic treatment generally includes replacing doors and windows, modifying wood frame walls, adding insulation to attics, fitting chimneys and vents with dampers and/or acoustic louvers and updating.

The FAA has approved the collection and use of PFC revenues in the amount of $785 million for the residential Noise Mitigation Program and in the amount of $34.1 million for reimbursement of eligible expenditures related to the Lennox Schools' sound mitigation program. See "AIRPORT PLANNING – LAX Master Plan Litigation Settlements." As of June 30, 2013, the Department has expended approximately $642.3 million of PFC revenues in connection with the residential Noise Mitigation Program and for reimbursement of eligible expenditures related to the Lennox Schools' sound mitigation program. See "CERTAIN FUNDING SOURCES – Passenger Facility Charges" and "CAPITAL PLANNING – Capital Financing."

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 applicable law.

Hazardous Substances

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

The Department has an Environmental Services 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 Services Division also monitors underground storage tanks and hazardous substances, and performs the mandated regulatory reporting on these programs. In the course of such investigations and monitoring, the Department may discover previously unknown contamination. No assurance can be given that the remediation costs for any such contamination will not be material.

The Department conducts annual inspections of tenant and Department operations, regarding compliance with the Department's National Pollutant Discharge Elimination System Stormwater Permit for Industrial Facilities (the "Stormwater Discharge Permit"), issued by the State Water Resources Control Board ("SWRCB"). 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. One program involves the release of jet fuel to ground water underlying LAX. The tenant at the time of the release, Continental Airlines (now merged with and into United Airlines), has accepted responsibility for the remediation and active remediation systems are in place at the direction of the SWRCB.

The Park One Property is also environmentally impacted and the subject of the second major remediation project. From approximately 1941 to 1988, the Park One Property was used for aerospace manufacturing, and included the use of chlorinated solvents. As a result, the soil and groundwater were impacted, including with volatile organic compounds and 1,4-dioxane. The Los Angeles Regional Water Quality Control Board (the "RWQCB") 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 RWQCB issued a letter stating that contaminated soils in all areas covered by site investigations except the northwest quadrant had been adequately addressed. Currently, the remediation plan for the remaining portion, approximately the northwest quadrant, is being reconsidered by the RWQCB. 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.

The Department is in a dispute with the Los Angeles County Sanitation District No. 20 ("LACSD 20") regarding a nitrate plume in the groundwater underlying the Department's and LACSD 20's property in Palmdale, which contamination allegedly was caused by the discharge of effluent from the LACSD 20's Palmdale Water Reclamation Plant ("Palmdale WRP"). The Lahontan Regional Water Quality Control Board ("LRWQCB") had issued a Cleanup and Abatement Order and has proposed a Revised Cleanup and Abatement Order under which the Department and LACSD 20 would be required to take certain remediation actions with respect to the groundwater, the cost of which has been previously estimated at approximately $15 million. In December 2012, the LRWQCB issued an Investigative Order to LACSD 20 and the Department to submit technical reports for discharge from the Palmdale WRP including, among other items, a report addressing feasibility and costs to remove nitrate from water to more stringent levels of 3 mg/l or less, which if required could substantially increase the overall remediation costs. The full extent of the remediation actions that the LACSD 20 and the Department may have to take with respect to the groundwater and the costs that may be incurred or contributions that will ultimately need to be made by the Department, however, cannot be determined at this time. No assurance can be given that such costs will not be material. Currently, and from time to time, there are smaller remediation projects in place at LAX.

On December 14, 2011, the SWRCB issued the Department a Notice of Violation ("Notice"), generally alleging violations of underground storage tank construction, monitoring and testing laws and regulations at facilities where the Department owns and/or operates underground storage tanks. The SWRCB and the Department have entered into a tolling agreement which has been extended to expire in January 2014. During the pendency of the tolling agreement, the Department is investigating this matter and is cooperating with the SWRCB's investigation. The Notice does not identify any specific violations but the SWRCB subsequently identified a number of alleged violations which are under review by the Department along with continued improvements of the Department's overall underground storage tanks compliance program, and it is not possible to predict with certainty the amount of damages or fines that may be payable. There can be no assurance that such amounts will not be material.

Emission Standards

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

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

As part of the environmental impact report prepared under CEQA for the LAX Master Plan, 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.

AB 32 specifically regulates the release of certain GHG emissions from stationary sources within the State. The Mandatory Reporting requirement under AB 32 requires facilities that generate greater than 25,000 MtCO2e per year to report their GHG emissions. The Department owns and operates a cogeneration plant at LAX along with other stationary sources in the facility (e.g., natural gas boilers and heaters). This facility complies in all material respects with all requirements under AB 32. In addition to the AB 32 Mandatory Reporting requirement, the Department must also report its GHG emissions to the United States Environmental Protection Agency. Since 2013, the Department has reported its GHG emissions from these sources in substantial compliance with applicable requirements. The State Attorney General's Office has been using CEQA aggressively to apply the provisions of AB 32 to local and regional plans as well as to projects. 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. Beginning in January 2013, facilities such as LAX that are subject to the Mandatory Reporting requirement under AB 32 will be required to comply with the California Cap and Trade Program applicable to certain sources of GHG emissions in the State such as refineries, power plants, industrial facilities and transportation fuels. The California Cap and Trade Program includes an enforceable GHG cap that will decline over time. Under the California Cap and Trade Program, CARB will distribute GHG allowances, which are tradable permits, equal to the emission allowed under the cap. The Department will be required to obtain emission allowances for annual emissions at LAX. These emission allowances can be obtained by way of free allocation from CARB, through purchase from the secondary market and CARB auction, and reserve sale. The cost to the Department of obtaining required emissions allowances will be dependent on the price fluctuations through the course of the program. Various industries throughout the State may seek to purchase emission allowances in order to comply with the Cap and Trade Program, which may cause the price of allowances to increase. The emission allowance price has averaged approximately $15 per MtCO2e since January 2013. LAX emits on average approximately 47,000 MtCO2e annually. The Department's purchase of allowances may vary and no assurance can be given that such costs will not be material.

The SCAQMD imposes rules and regulations specifically targeted to various air pollutants and types of operations such as hydrant fueling, private vehicle fueling, power generators, boilers and the use of various volatile organic chemical containing materials. The 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 four full-time professional staff assigned to maintain compliance with the various rules and regulations.

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

Environmental Impact Report Process

In certifying the LAX Master Plan Program 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 applicable mitigation measures of the MMRP. See "AIRPORT PLANNING" regarding the LAX Master Plan Program EIR, LAX Specific Plan, the Stipulated Settlement and SPAS.

As is described in further detail above under "AIRPORT PLANNING," the Department entered into the Stipulated Settlement. The Stipulated Settlement removed potential litigation obstacles to allow the Department to proceed with a series of projects in the LAX Master Plan for which a SPAS is not required, while the Department undertook a SPAS. These obstacles 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 the LAX Master Plan and that are not Yellow Light Projects, including for example the Crossfield Taxiways project and various other terminal, airfield and apron projects. The LAX Master Plan State environmental review and approval was programmatic. Therefore, all site-specific projects that implement the LAX Master Plan are potentially 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.

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 Net Pledged Revenues or the operation of LAX, except as described under "THE DEPARTMENT OF AIRPORTS – Subsidization within the Airport System," "USE OF AIRPORT FACILITIES," "AIRPORT PLANNING," "AIRPORT SYSTEM ENVIRONMENTAL MATTERS" and below.

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, among others, J.P. Morgan Chase & Co. 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, among others, J.P. Morgan Securities, Inc., UBS Financial Services, Inc. and UBS Securities, LLC. On June 24, 2010 and April 11, 2011 respectively, the City filed second and third amended complaints that added additional parties 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 J.P. Morgan Chase & Co. and J.P. Morgan Securities, Inc., UBS AG, UBS Financial Services, Inc., and UBS Securities, LLC. 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 and a second amended complaint on April 11, 2011.

On December 27, 2011, December 14, 2012 and February 19, 2013, the court presiding over the Multi-District Litigation proceeding granted final approval of several partial class settlements. The City and the Department have opted out of the class and the class settlements do not affect the claims of the City or the Department.

JPMS which is an affiliate of certain defendants in the above-referenced lawsuits, is a Series 2013 Bond Underwriter. JPMS has informed the Department that UBS Financial Services Inc. which is a defendant and an affiliate of certain defendants in the above-referenced lawsuits, has entered into a dealer agreement with JPMS for the retail distribution of certain securities offerings at the original issue prices and that pursuant to the dealer agreement (if applicable to this transaction), each of UBS Financial Services Inc. will purchase Series 2013 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2013 Bonds that such firm sells. See "UNDERWRITING." Neither the Department nor the Series 2013 Underwriters can predict the outcome of these lawsuits.

On October 10, 2013, the Department filed a complaint in the Superior Court of California, County of Los Angeles, against Tutor-Saliba Corporation/O&G Industries, Inc., JV, a California joint venture enterprise; R&L Brosamer; HNTB Corporation; and CH2M Hill, Inc. for, among other things, breach of contract, negligence and breach of warranties related to recently constructed portions of Runway 25L, the centerline taxiway and other airfield improvements. The complaint alleges that, among other things, certain of the defendants were negligent in their construction methods and have caused and will cause the Department property damage and economic losses. The amount of damages has not been specified at this time and the Department cannot predict the outcome of this lawsuit.

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

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APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

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AIRPORT CONSULTANT LETTER

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Letter Report of the Airport Consultant

Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2013 Series A
Subordinate Revenue Bonds, 2013 Series B

PREPARED BY:

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OCTOBER 30, 2013

October 30, 2013

Mr. Sean O. Burton, 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, 2013 Series A
Subordinate Revenue Bonds, 2013 Series B
Appendix A: Report of the Airport Consultant

Dear Mr. Burton:

This Letter Report of the Airport Consultant (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, Senior Revenue Bonds, 2013 Series A (the Series 2013 Senior Bonds), and its Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the Series 2013 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 Los Angeles International Airport, Senior Revenue Bonds, 2012 Series A, B, and C issued by the Department in December 2012 (the Series 2012 Bonds), R&A prepared the Report of the Airport Consultant dated November 28, 2012 (the Series 2012 Report), which was included as Appendix A in the Official Statement for the Series 2012 Bonds. The Series 2012 Report incorporated estimates of future debt service associated with the Series 2012 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 2012 Report, specifically the Department's fiscal year (FY) ending June 30, 2013 through FY 2018.

This Letter Report discusses analyses completed since the Series 2012 Report by R&A and its sub-consultants Partners for Economic Solutions and pH2 Consulting 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.

Actual FY 2013 airline traffic growth at the Airport was slightly higher than projected in the Series 2012 Report. Actual FY 2013 enplaned passengers were 32,524,178, approximately 226,000 (or 0.7 percent) higher than the 32,298,200 enplaned passengers projected in the Series 2012 Report for FY 2013. Because actual FY 2013 enplaned passengers were not materially different from the FY 2013 projection reflected in the Series 2012 Report, passenger and landed weight projections for FY 2014 through FY 2018 have not been changed from the projections reflected in the Series 2012 Report. Because Phase 1 of the Midfield Satellite Concourse project (included in Other Incorporated Projects in both the Series 2012 Report and in this Letter Report, and originally expected to open in FY 2018) is now expected by the Department to open in FY 2019, the projection period reflected in this Letter Report is FY 2014 through FY 2019 (the Projection Period).

In various sections of this Letter Report, comparisons are made between FY 2019 amounts reflected in this Letter Report to FY 2018 amounts reflected in the Series 2012 Report. As described above, the projection period for the Series 2012 Report ended with FY 2018. The comparisons between FY 2019 in this Letter Report and FY 2018 in the Series 2012 Report are solely intended to demonstrate the differences, if any, between the end points of the respective projections (after debt service, operating expenses, and revenues associated with capital projects discussed in the "Airport Capital Program" section of this Letter Report have been incorporated).

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 significant changes to the estimated costs or funding sources for the Airport's capital program since the Series 2012 Report, and there have been no significant changes to the overall financial projections or the projections of debt service coverage ratios since the Series 2012 Report.

This Letter Report serves to confirm certain key findings and conclusions described in the Series 2012 Report, including:

- 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 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 (as defined below); and

- Projected Airport operating expenses and capital costs, including increases in annual operating and capital costs through the Projection Period related to the Series 2013 Senior Bonds Projects (as defined below), the Series 2013 Subordinate Bonds Projects (as defined below), 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.

This Letter Report, along with the Series 2012 Report, is intended for inclusion in the Official Statement for the Series 2013 Senior Bonds and the Series 2013 Subordinate 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.

Mr. Sean O. Burton
Board of Airport Commissioners
October 30, 2013

Summary of Changes Since Series 2012 Report (1 of 2)	CHANGE(S) SINCE SERIES 2012 REPORT	ESTIMATED IMPACT OF CHANGE(S) TO OVERALL/KEY FINANCIAL RESULTS
Air Traffic Projections	Actual FY 2013 enplaned passengers increased 3.2 percent from FY 2012 (the Series 2012 Report projected a 2.5 percent increase). Enplaned passenger and landed weight projections for FY 2014 through FY 2018 have NOT changed from the Series 2012 Report.	No change in projected enplaned passengers or landed weight for FY 2014 through FY 2018. Because actual FY 2013 enplaned passengers were higher than shown in the Series 2012 Report, the resulting projected growth rate in FY 2014 is now lower.
	Projection Period now includes FY 2019 (FY 2018 was the last year in the Series 2012 Report) because Phase 1 of the Midfield Satellite Concourse project is now expected to open in FY 2019. Enplaned passenger growth in FY 2019 was assumed at the same 1.7 percent growth reflected for FY 2018.	Impact of Phase 1 of the Midfield Satellite Concourse project now reflected in FY 2019. Overall, there is no material change to overall results related to airline traffic.
Airport Capital Program	Refinements to costs, draws, and funding for certain projects. Overall cost is now estimated at $7.287 billion (reflecting an approximate 4.8 percent increase from the overall cost of $6.951 billion in the Series 2012 Report).	No significant impact.
Series 2013 Senior Bonds, Series 2013 Subordinate Bonds, and Future Bond Issues	Timing and amounts have been refined series by series.	No significant impact. Financial results vary from year to year relative to those set forth in the Series 2012 Report, but no significant impact.
Debt Service	Actual Debt Service for Series 2012 Senior Bonds has been incorporated (the 2012 Report reflected estimates).	No significant impact. Financial results vary from year to year relative to those set forth in the Series 2012 Report, but no significant impact.
Operating Expenses	Budgeted FY 2014 LAX Maintenance and Operation (M&O) Expenses have been incorporated and serve as the base for projections. Refinements to assumptions related to incremental expenses associated with projects.	Projected LAX M&O Expenses are now lower in each FY between FY 2014 and FY 2018 by roughly $27.0 to $46.5 million (or 3.8 to 5.5 percent lower) relative to FY 2014-2018 amounts in the Series 2012 Report. Projected FY 2019 LAX M&O Expenses are approximately $1.6 million lower than projected for FY 2018 in the Series 2012 Report.

Summary of Changes Since Series 2012 Report (2 of 2)	CHANGE(S) SINCE SERIES 2012 REPORT	ESTIMATED IMPACT OF CHANGE(S) TO OVERALL/KEY FINANCIAL RESULTS
Nonairline Revenues (as reflected on Table 10, this includes revenues from nonairline tenant building rents, land rentals, auto parking, car rentals and other ground transportation, terminal concessions, and various other sources)	Budgeted FY 2014 nonairline revenues have been incorporated and serve as the basis for nonairline revenue projections.	Projected nonairline revenues are lower each FY between FY 2014 and FY 2018 by roughly $14.2 million to $19.7 million (or 2.5 to 3.4 percent lower) relative to FY 2014-2018 in the Series 2012 Report. Projected FY 2019 nonairline revenues are approximately $6.4 million higher than projected for FY 2018 in the Series 2012 Report.
Terminal Rentals	No changes to methodology for terminal rentals since Series 2012 Report. Revised based on actual debt service, revised future debt service, revised amortization of Department funds, and budgeted FY 2014 M&O Expenses.	Projected terminal rental payments are higher each FY between FY 2014 and FY 2018 by approximately $3.5 million to $37.6 million (or 1.3 to 8.7 percent higher). Projected FY 2019 payments are approximately $57.7 million (or 11.6 percent) higher than projected for FY 2018 in the Series 2012 Report.
Landing Fees and Apron Fees	Revised based on actual debt service, revised future debt service, revised amortization of Department funds, and budgeted FY 2014 M&O Expenses.	Projected landing and apron fees are lower each FY between FY 2014 and FY 2018 by approximately $2.6 million to $38.1 million (or 1.0 to 11.0 percent lower). Projected FY 2019 landing and apron fees are approximately $3.3 million (or 1.0 percent) higher than projected for FY 2018 in the Series 2012 Report.
Projected Passenger Airline Cost per Enplaned passenger (CPE)	Revised based on refinements described above in this summary regarding future bonds, debt service, amortization of Department funds, and M&O Expenses.	Projections of CPE for FY 2014-2017 are now within a range of approximately $0.57 higher or lower. Projected FY 2019 is approximately $0.82 higher than projected for FY 2018 in the Series 2012 Report.
Projected Debt Service Coverage (Combined)	Projected combined debt service coverage ratio calculations revised based on refinements described above to M&O Expenses, revenues, amortization of Department funds, future bonds, and debt service.	Combined debt service coverage ratios projected for FY 2014-2018 are now generally higher each year by approximately 0.08x to 0.40x, except for FY 2017 which is lower by approximately 0.15x. The combined debt service coverage ratio projected for FY 2019 is approximately 0.02x lower than projected for FY 2018 in the Series 2012 Report.

SERIES 2013 SENIOR BONDS

Proceeds of the Series 2013 Senior Bonds will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including construction of the Terminal 4/Tom Bradley International Terminal (TBIT) Connector Building and the Bradley West Interior Enhancements (referred to collectively in this Letter Report as the Series 2013 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 2013 Senior Bonds.

SERIES 2013 SUBORDINATE BONDS

Proceeds of the Series 2013 Subordinate Bonds will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including Runway 7L-25R and Taxiway B East End Rehabilitation (referred to collectively in this Letter Report as the Series 2013 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 2013 Subordinate Bonds.

FUTURE BONDS

The Department anticipates issuing additional Senior Bonds and additional Subordinate Bonds subsequent to the issuance of the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds to finance other capital projects described herein that are anticipated to be completed during the Projection Period.

This Letter Report incorporates estimated debt service requirements for the Series 2013 Senior Bonds and the Series 2013 Subordinate 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 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 2013 Senior Bonds Projects and the Series 2013 Subordinate 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 2013 Senior Bonds and the Series 2013 Subordinate Bonds) assume level annual debt service by bond series.

The amount and timing of future bonds incorporated in this Letter Report vary somewhat from the assumptions reflected in the Series 2012 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 significantly since the Series 2012 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 2013 Senior Bonds and the Series 2013 Subordinate Bonds) may ultimately vary from what was reflected in the Series 2012 Report and from what is presented in this Letter Report depending on decisions of 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 (1) the Tom Bradley International Terminal (TBIT) Interior Improvements Project; (2) the Bradley West Terminal Project; and (3) certain future terminal projects. The use of PFC revenues to pay portions of debt service associated with the TBIT and the Bradley West Terminal Project has been approved by the Federal Aviation Administration (FAA), and the Department expects to submit future PFC applications for future terminal projects. The expected use of PFC revenues to pay portions of debt service (including certain amounts irrevocably committed by the Department through FY 2014) is reflected in Table 7, 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.

The Department also expects to use PFC revenues on a pay-as-you-go basis to pay for a portion of costs associated with certain approved projects (as reflected in Table 5 included later in this Letter Report).

The estimated capital project funding sources, projected airline payments, and other key financial results reflected in this Letter Report and the Series 2012 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 2012 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 2012 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 2012 Report remain valid (see Chapter I Economic Base for Air Transportation of the Series 2012 Report). A brief discussion of the most recent unemployment data, as well as a summary of recent forecast data from 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 $892 billion in gross regional product in Calendar Year (CY) 2012 (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 recent economic survey published by NABE (September 2013) indicates a consensus for modest real GDP growth in the U.S. in CY 2013 and CY 2014. The NABE survey also projects that the annual U.S. unemployment rate will be 7.54 percent in CY 2013, and 7.01 percent in CY 2014.

As of August 2013 (latest data currently available), the non-seasonally adjusted unemployment rate for the Air Trade Area was 9.43 percent. This is higher than the August 2013 rate in California (8.8 percent non-seasonally adjusted) and the U.S. (7.3 percent non-seasonally adjusted). (Note: There are no seasonally adjusted monthly unemployment data available for the Air Trade Area; in August 2013 the seasonally adjusted unemployment rate was 8.9 percent in California and 7.3 percent in the U.S.)

By comparison, the non-seasonally adjusted unemployment rates in August 2012, as provided in the Series 2012 Report, were 10.7 percent in the Air Trade Area, 10.4 percent in California, and 8.2 percent in the U.S.. (Note: In August 2012 the seasonally adjusted unemployment rate was 10.6 percent in California and 8.1 percent in the U.S.)

The NABE forecast projects a modest economic recovery with annual GDP growth of 1.6 percent in CY 2013 and 2.8 percent in CY 2014. By comparison, data provided in the Series 2012 Report showed that NABE (May 2012) forecasted annual GDP growth of 2.3 percent in CY 2012.

Similar to the NABE forecast, the *2013-2014 Mid-Year Economic Forecast and Industry Outlook* from the LAEDC projects that the unemployment rate in both California and the Air Trade Area will improve in CY 2013 and CY 2014. LAEDC forecasts that job gains in California and the Air Trade Area will occur in the leisure and hospitality, health care, professional, scientific and technical services, and construction industries. LAEDC anticipates continued economic recovery in the Air Trade Area in CY 2013 and CY 2014 with growth led by improvements in the entertainment, tourism, international trade, and health care industries.

Based on the analysis included in Chapter I (Economic Base for Air Transportation) of the Series 2012 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 2012 Report remain valid.

UPDATED INFORMATION REGARDING AIR TRAFFIC

A review of more current Airport activity data since the date of the Series 2012 Report was undertaken to assess the reasonableness of the activity projections included therein for use in conjunction with the proposed issuance of the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds.

Based on this review and actual FY 2013 enplaned passenger data, nothing has come to our attention since the date of the Series 2012 Report that would significantly affect the air traffic assumptions, projections, or conclusions set forth in the Series 2012 Report or call into question the reasonableness of such assumptions, projections, or conclusions. The Series 2012 Report's enplaned passenger and landed weight projections for FY 2014 to FY 2018 have not changed. As mentioned previously, data for actual FY 2013 is now incorporated and FY 2019 is now included in the Projection Period.

For the Series 2012 Report, projections of enplaned passengers at the Airport were prepared in September 2012 by R&A for the Near-Term (FY 2013-15) and the Longer-Term (FY 2016 -2018). At the time of that report, it was estimated that FY 2013 enplaned passengers would increase by approximately 2.5 percent. Based on actual results, however, total enplaned passengers increased by 3.2 percent in FY 2013. In FY 2013, additional flights and seat capacity, along with higher load factors by carriers, resulted in a 3.7 and 2.1 percent increase in domestic and international enplaned passengers, respectively.

Weekly Scheduled Departures. **Table 1** presents the increase in scheduled airline departures at the Airport for September 12-18 in 2012 and 2013. As shown, scheduled domestic airline departures increased 3.9 percent and scheduled international airline departures increased 7.2 percent. These increases are driven mainly by Delta Air Lines (domestic and international), Spirit, Virgin America, American and Alaska (domestic), and Philippine, TACA, WestJet and Copa (international).

Table 1 Weekly Scheduled Departures [1/]

DESTINATION	SEPT. 12-18 2012	SEPT. 12-18 2013	PERCENTAGE CHANGE
Domestic	4,415	4,588	3.9%
International	838	898	7.2%
Total	5,253	5,486	4.4%

NOTE:

1/ Week of September 12-18.

SOURCE: Official Airline Guide (OAG), August 2013.
PREPARED BY: Ricondo & Associates, Inc., September 2013.

Changes in Air Service. Notable air service changes at LAX in FY 2013 are reflected below in **Table 2**.

Table 2 Changes in Air Service During FY 2013

AIRLINE	SERVICE ADDITIONS	SERVICE REDUCTIONS
American	Eugene* Raleigh Durham* Redmond*	San Juan**
Delta	Boston* Nashville* Seattle* Spokane*	Philadelphia**
Emirates		Dubai
Qantas		Auckland**
Thai Airways		Bangkok**
United		El Paso** Mexico City Philadelphia** Tulsa**
Virgin America	Las Vegas* Newark* San Jose*	

NOTES:

* New destination.

** Eliminated destination.

SOURCE: Official Airline Guide (OAG), August 2013.
PREPARED BY: Ricondo & Associates, Inc., September 2013.

Proposed Airline Merger. On February 11, 2013, American and US Airways announced plans to merge. The proposed merger would require various approvals from the U.S. Department of Justice, the U.S. Bankruptcy Court, and from creditors of the parent company of American, which had filed for Chapter 11 bankruptcy on November 29, 2011. In August 2013, the U.S. Department of Justice and several U.S. states filed suit to block the merger, alleging that the merger would violate federal antitrust laws. The proposed merger is a key feature of American's bankruptcy reorganization plan. Depending upon the outcome of the antitrust lawsuit and/or potential revisions to plans to merge, it is possible that a merger could still take place. American and US Airways represent FY 2013 enplaned passenger market shares of 15.5 percent and 3.0 percent, respectively, at the Airport. The possible merger is not assumed to have a material adverse impact on enplaned passengers and operations at the Airport.

Restated Projections Do Not Reflect a New Projection. The Series 2012 Report enplaned passenger projections have been updated for FY 2013 to reflect actual FY 2013 enplaned passengers, but the projections of total enplaned passengers from FY 2014 through FY 2018 have not changed. Because actual FY 2013 enplaned passengers were higher than shown in the Series 2012 Report, the resulting growth rate in FY 2014 is now lower. FY 2019 has been added to the Projection Period. The growth rate for FY 2019 enplaned passengers is assumed to be equal to the 1.7 percent growth rate projected for FY 2018 in the Series 2012 Report.

Table 3 presents enplaned passenger projections provided in the Series 2012 Report and shows how they have been restated in this Letter Report.

See Section 2.7 of the Series 2012 Report (page A-91) for a detailed discussion of the various projection methodologies that were analyzed and used in the development of the projections of enplaned passengers.

As presented in the restated projections column of Table 3, total enplaned passengers at the Airport are projected to increase from approximately 32.5 million in FY 2013 to 35.6 million in FY 2018 and 36.2 million in FY 2019. This increase represents a compound annual growth rate (CAGR) of 1.8 percent for both FY 2013-2018 and FY 2013-2019.

AIRPORT CAPITAL PROGRAM—CHANGES SINCE THE SERIES 2012 REPORT

As discussed in more detail below, there have been no significant changes to the Airport's Capital Improvement Program (CIP) since the Series 2012 Report was prepared. The total CIP cost has increased by approximately 4.8 percent, from $6.951 billion reflected in the Series 2012 Report to $7.287 billion as reflected in this Letter Report, primarily as a result of refined cost estimates for future projects.

Table 3 Historical & Projected Enplaned Passengers - LAX

Fiscal Year	Historical	Annual Percentage Change	Series 2012 Report Projections	Annual Percentage Change	Series 2012 Report Projections w/Actual FY 2013 and extension to FY 2019	Annual Percentage Change
2003	27,710,328	-1.5%				
2004	29,079,847	4.9%				
2005	30,548,251	5.0%				
2006	30,655,146	0.3%				
2007	30,803,470	0.5%				
2008	31,142,339	1.1%				
2009	28,329,019	-9.0%				
2010	29,003,142	2.4%				
2011	30,280,571	4.4%				
2012	31,516,917	4.1%				
2013	32,524,178	3.2%	32,298,200	**2.5%**	32,524,178	**3.2%**
2014			33,006,100	**2.2%**	33,006,100	**1.5%**
2015			33,682,300	2.0%	33,682,300	2.0%
2016			34,376,500	2.1%	34,376,500	2.1%
2017			34,975,900	1.7%	34,975,900	1.7%
2018			35,561,400	1.7%	35,561,400	1.7%
2019 [1/]					36,156,700	1.7%
Compound Annual Growth Rate						
2003 - 2013	1.6%					
2009 - 2013	3.5%					
2013 - 2015			2.1%		1.8%	
2015 - 2018			1.8%		1.8%	
2013 - 2018			1.9%		1.8%	
2013 - 2019					1.8%	

Note:
1/ FY 2019 is now included because the Midfield Sattelite Concourse project is now expected to open in FY 2019 (previously it was expected to open in FY 2018). Passenger growth in FY 2019 is assumed at the same 1.7 percent growth reflected for FY 2018.

SOURCES: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc. (projected), August 2013.
PREPARED BY: Ricondo & Associates, Inc., October 2013.

For purposes of this Letter Report, the CIP is organized into the following categories:

- **The Series 2013 Senior Bonds Projects.** Include capital projects to be funded, in part, with the Series 2013 Senior Bond proceeds. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Series 2013 Senior Bonds Projects **have been included** in the financial analysis presented in this Letter Report. In the Series 2012 Report, the Series 2013 Senior Bonds Projects were included in Other Incorporated Projects.
- **The Series 2013 Subordinate Bonds Projects.** Include the capital projects to be funded, in part, with Series 2013 Subordinate Bond proceeds. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Series 2013 Subordinate Bonds Projects **have been included** in the financial analysis presented in this Letter Report. In the Series 2012 Report, the Series 2013 Subordinate Bonds Projects was included in Other Incorporated Projects.
- **Other Incorporated Projects.** Include future capital projects in the CIP that are not funded with Series 2013 Senior Bond proceeds or Series 2013 Subordinate Bond proceeds but are certain enough in terms of scope, timing, cost, or approval to incorporate in this Letter Report, and the Department expects to complete during the Projection Period (through FY 2019). These projects are referred to in this Letter Report as the Other Incorporated Projects. These projects, along with the Series 2013 Senior Bonds Projects and the Series 2013 Subordinate Bonds Projects above, were reflected as the Other Incorporated Projects in the Series 2012 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 presented in this Letter Report.
- **Ongoing Projects.** Include the capital projects currently underway that have already been funded. Estimated operating expenses, capital costs (including debt service and/or amortization of cash-funded assets), and revenues associated with the Ongoing 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 included** in this Letter Report because the scope, timing, cost, and approval of these projects are uncertain.

Table 4 reflects current estimated project costs for the Series 2013 Senior Bonds Projects, the Series 2013 Subordinate Bonds Projects, Other Incorporated Projects, and Ongoing Projects—totaling approximately $7.287 billion. This is the same group of projects reflected in Table 4-1 of the Series 2012 Report, however the Series 2013 Senior Bonds Projects and the Series 2013 Subordinate Bonds Projects which were included in Other Incorporated Projects in the Series 2012 Report have been moved to the top of Table 4; the Terminal 5 Improvement Project is now shown under the Other Incorporated Projects heading; and the Terminal 6 Improvement Project is now shown under the Ongoing Projects heading. All estimated project costs presented in Table 3 are gross costs and include design, engineering, construction, escalation for inflation (as appropriate), and contingency amounts.

Since the 2012 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 2012 Report), but overall there has been no significant change to overall capital program costs. Total estimated costs have increased by approximately $335.9 million, from $6.951 billion to $7.287 billion (representing an approximate 4.8 percent increase).

Exhibit 1 highlights the location of key elements of the Series 2013 Senior Bonds Projects and the Series 2013 Subordinate Bonds Projects.

As shown on Table 4, the Series 2013 Senior Bonds Projects include construction of the Terminal 4/TBIT Connector Building and the Bradley West Interior Enhancements Project. These projects are described in the following paragraphs.

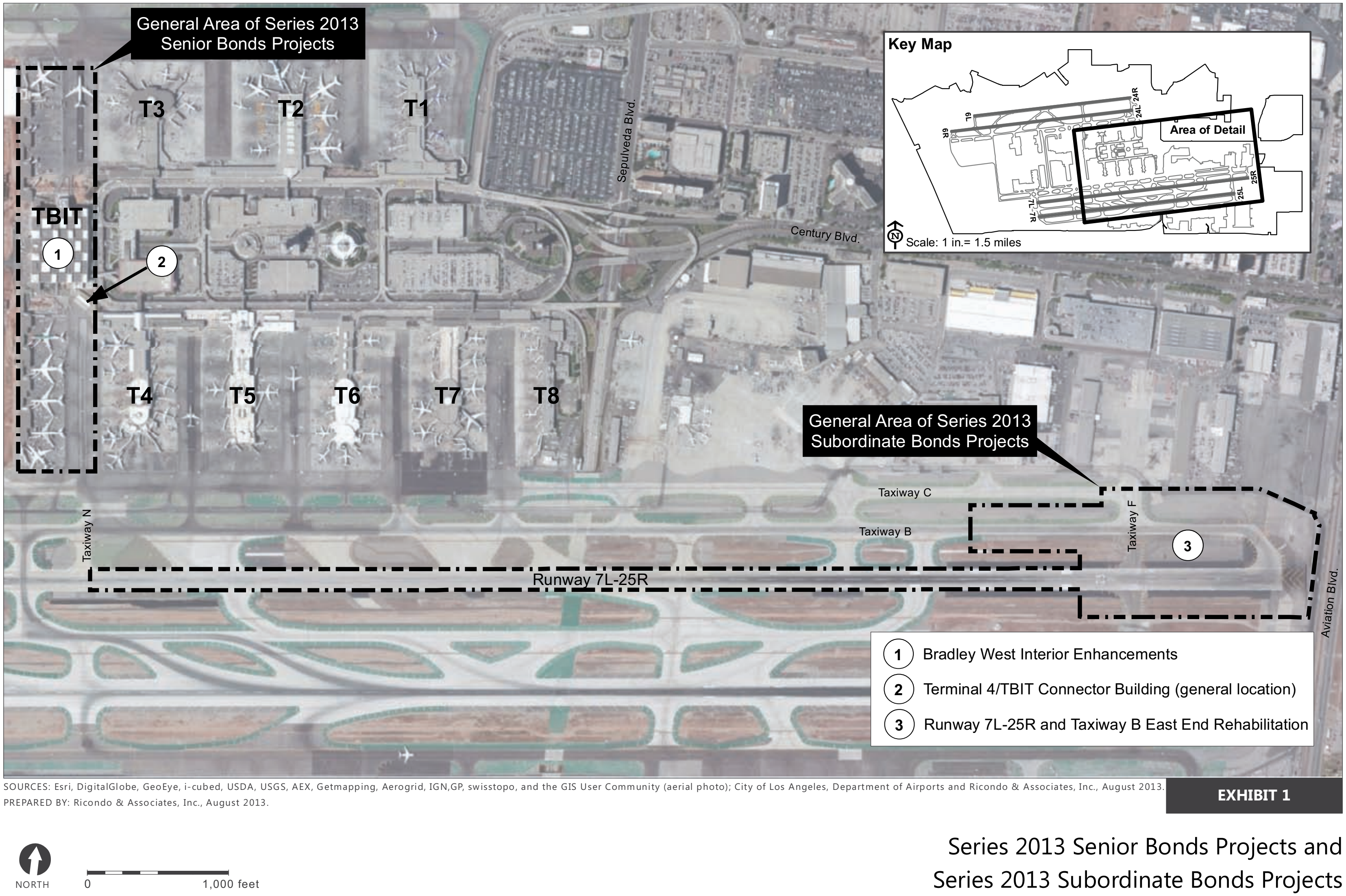
- **Bradley West Interior Enhancements Project** – This project includes (1) enlargement and reconfiguration of main terminal (core) space in TBIT that will connect to the Terminal 4/TBIT Connector Building and (2) demolition of the original (pre-Bradley West) TBIT concourses. Interior enhancements include the enlargement of existing Federal Inspection Services (FIS) areas, including passenger processing space and sterile corridors between TBIT and Terminal 4. This project element also includes the re-configuration of the security screening checkpoint. The demolition of the original concourses allows for the configuration of gates on both sides of the new Bradley West Concourses. With the exception of Gate 123, the original TBIT concourses will be demolished along with any existing utilities, and the area will be prepared for apron construction included in the "Bradley West Aprons" project under Ongoing Projects. As reflected in Table 4, the Bradley West Interior Enhancements Project is estimated to cost approximately $250.0 million.

Table 4 Summary of the Series 2013 Projects, Other Incorporated Projects, and Ongoing Projects -- Estimated Costs

			ESTIMATED PROJECT COSTS [1/]
SERIES 2013 PROJECTS			
Series 2013 Senior Bonds Projects			
Bradley West Interior Enhancements		$	250,000,000
Terminal 4/TBIT Connector Building			157,378,000
	[a1]	$	407,378,000
Series 2013 Subordinate Bonds Projects			
Runway 7L-25R and Taxiway B East End Rehabilitation	[a2]	$	73,206,000
Total Series 2013 Projects	**[A]=[a1]+[a2]**	**$**	**480,584,000**
OTHER INCORPORATED PROJECTS [2/]			
Terminal Projects			
Terminal Improvement Projects [3/]		$	1,319,555,000
Midfield Satellite Concourse - Phase 1			525,000,000
Terminal 5 Improvement Project [4/]			325,640,000
Other Terminal Related Improvements [5/]			266,873,000
	[b1]	$	2,437,068,000
Airfield and Apron Projects			
Runway Safety Area Improvements		$	182,347,000
Midfield Satellite Concourse - Phase 1 Aprons			175,000,000
Noise Mitigation and Soundproofing			229,573,000
West Maintenance Facility Pad and Infrastructure			109,000,000
Other Airfield and Apron Projects [6/]			136,728,000
	[b2]	$	832,648,000
Landside, Infrastructure, and IT Projects			
Landside Projects (Parking and Roadway Improvements)		$	327,504,000
Infrastructure Projects			116,756,000
Information Technology (IT) Projects			67,210,000
	[b3]	$	511,470,000
Total Other Incorporated Projects	**[B]=[b1]+[b2]+[b3]**	**$**	**3,781,186,000**
ONGOING PROJECTS [7/]			
Terminal Projects			
Bradley West Terminal Project		$	1,671,425,000
Central Utility Plant			423,835,000
Terminal 6 Improvement Project [8/]			244,997,000
Elevators and Escalators Replacements			240,036,000
Fire Life Safety System Upgrades - Terminals 1 & 2			4,256,000
	[c1]	$	2,584,549,000
Airfield and Apron Projects			
Taxilane S		$	162,041,000
Taxilane T			156,284,000
Bradley West Aprons			122,300,000
	[c2]	$	440,625,000
Total Ongoing Projects	**[C]=[c1]+[c2]**	**$**	**3,025,174,000**
TOTAL SERIES 2013 PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING PROJECTS	**= [A+B+C]**	**$**	**7,286,944,000**

NOTES:
1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
2/ Other Incorporated Projects are future projects that are anticipated to be completed during the Projection Period. The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the report (with the impacts reflected in the Projection Period.
3/ Includes the renovation and modernization of terminal facilities, as well as improvements to baggage screening systems, concessions, bathrooms, and other facilities with various terminals.
4/ The Terminal 5 Improvement Project is $51.4 million higher than previously shown in the Series 2012 Report because the project now includes certain improvements that were included under "Terminal Improvement Projects" (under Other Incorporated Projects) in the Series 2012 Report
5/ Includes a concessions enabling project, buyout of a First Class lounge, improvements to the Commuter Terminal, relocation of a passenger boarding bridge, and a project to provide aircraft ground power
6/ Includes runway, taxiway, and apron pavement rehabilitation, Taxilane D-10 reconstruction, Airport Operation Areas (AOA) perimeter fence enhancements and other airfield and apron improvements
7/ Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds. The financial impacts, if any, associated with Ongoing Projects are incorporated in the report (with the impacts reflected in the Projection Period
8/ The Terminal 6 Improvement Project has been completed, but is shown here for reference

SOURCE: City of Los Angeles, Department of Airports, September 2013.
PREPARED BY: Ricondo & Associates, Inc., October 2013.



SOURCES: Esri, DigitalGlobe, GeoEye, i-cubed, USDA, USGS, AEX, Getmapping, Aerogrid, IGN,GP, swisstopo, and the GIS User Community (aerial photo); City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., August 2013.
PREPARED BY: Ricondo & Associates, Inc., August 2013.

EXHIBIT 1

Series 2013 Senior Bonds Projects and
Series 2013 Subordinate Bonds Projects

This project is distinct from the Bradley West Terminal Project (included in Ongoing Projects on Table 3) which includes construction of the Bradley West Core and Concourses.

- **Terminal 4/TBIT Connector Building** – This project consists of the design and construction of a California Green Building Standards Code (CALGreen)-certified, multi-use, multi-level facility connecting Terminal 4 and TBIT. The project includes a Checked Baggage Inspection System (CBIS), South Matrix Interline Baggage Transfer facility, five lane Passenger Security Screening Check Point (PSSCP), South Terminals Passenger Busport, Upper Level World Way Public Plaza, and a Secure Passenger connection between TBIT and Terminal 4. This project will also include the installation of a new fire water line in the proximity of the Terminal 4/TBIT Connector Building and capped for future utility connections. As reflected in Table 4, the Terminal 4/TBIT Connector Building is estimated to cost approximately $157.4 million.

The Series 2013 Subordinate Bonds Projects include Runway 7L-25R and Taxiway B East End Rehabilitation, as described in the following paragraph.

- **Runway 7L-25R and Taxiway B East End Rehabilitation** – This project will rehabilitate the deteriorating concrete pavement at the east end of Runway 7L-25R and Taxiway B. The project also includes the easterly extension of Taxiway C to end of the Runway 7L-25R. The project will include full reconstruction of the Runway 7L-25R from the east end of the runway to Taxiway F. The 50-foot wide main wheel gear section of Runway 7L-25R will be reconstructed from Taxiway F to Taxiway N. The project will also reconstruct the east end of Taxiway B from Taxiway F to the eastern end of Runway 7L-25R. The project also includes the extension of Taxiway C from Taxiway F to the east end of Runway 7L-25R. As reflected on Table 4, the Runway 7L-25R and Taxiway B East End Rehabilitation is estimated to cost approximately $73.2 million.

In addition to projects in the categories discussed above (the Series 2013 Senior Bonds Projects, the Series 2013 Subordinate Bonds Projects, Other Incorporated Projects, Ongoing 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 projects (1) are not being funded with the Series 2013 Senior Bonds or the Series 2013 Subordinate 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 2012 Report or this Letter Report.

UPDATED FINANCIAL ANALYSIS—NO SIGNIFICANT CHANGES TO OVERALL RESULTS SINCE THE SERIES 2012 REPORT

As presented in the updated financial tables included below, which are similar to the financial tables that were included in Chapter 4 (Financial Analysis) of the Series 2012 Report, there have been no significant changes to the overall financial projections and debt service coverage ratios.

As mentioned previously in the section titled "Updated Information Regarding Air Traffic," the Series 2012 Report's enplaned passenger projections for FY 2014 to FY 2018 remain unchanged. FY 2013 has been updated to reflect actual results and FY 2019 has been added to the Projection Period for purposes of this Letter Report because Phase 1 of the Midfield Satellite Concourse (included in Other Incorporated Projects) is now expected to open in FY 2019. In the Series 2012 Report, the projection period ended with FY 2018, as all of the projects incorporated in the financial analyses (including Phase 1 of the Midfield Satellite Concourse) were expected to open by FY 2018.

Since the Series 2012 Report, certain financial information or data has become available (e.g., the FY 2014 Budget) and certain assumptions incorporated in the financial projections have been refined, as discussed and reflected in the sections and tables below.

Table 5 presents estimated project costs and sources of funds for the Series 2013 Senior Bonds Projects, the Series 2013 Subordinate Bonds Projects, Other Incorporated Projects, and Ongoing Projects. Various individual project costs have been refined or adjusted relative to estimates reflected in the Series 2012 Report, but overall there have been no significant changes to the Airport's CIP. Current estimated CIP costs have increased by approximately 4.8 percent relative to estimates reflected in the Series 2012 Report, and the totals by funding source have not changed significantly. Total expected funding from sources other than bond proceeds, or specifically Transportation Security Administration (TSA), FAA Airport Improvement Program (AIP), Department, PFC pay-as-you-go, and other funds has increased by approximately $454 million since the Series 2012 Report (primarily as a result of an increase in projected available Department funds).

As a result of the increase 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 2012, and to be issued during the remainder of the Projection Period) has decreased relative to the total amount that was reflected in the Series 2012 Report by approximately $101 million—from approximately $2.514 billion to $2.413 billion.

Table 5 Summary of the Series 2013 Projects, Other Incorporated Projects, and Ongoing Projects -- Costs and Funding (Based on $4.50 PFC Level Throughout Projection Period)

		ESTIMATED PROJECT COSTS 1/	ESTIMATED SOURCES OF FUNDS: TSA FUNDS	AIP FUNDS	DEPARTMENT FUNDS 2/	OTHER FUNDS 3/	PFC PAY-AS-YOU-GO FUNDS	PRIOR BOND PROCEEDS 4/	SERIES 2013 BOND PROCEEDS	FUTURE BOND PROCEEDS 5/: SUBORDINATE	SENIOR
SERIES 2013 PROJECTS											
Series 2013 Senior Bonds Projects											
Bradley West Interior Enhancements		$ 250,000,000	$ -	$ -	$ 60,000,000	$ -	$ -	$ -	$ 100,000,000	$ -	$ 90,000,000
Terminal 4/TBIT Connector Building		157,378,000	37,000,000	-	35,000,000	-	-	-	85,378,000	-	-
	[a1]	$ 407,378,000	$ 37,000,000	$ -	$ 95,000,000	$ -	$ -	$ -	$ 185,378,000	$ -	$ 90,000,000
Series 2013 Subordinate Bonds Projects											
Runway 7L-25R and Taxiway B East End Rehabilitation	[a2]	$ 73,206,000	$ -	$ -	$ 7,321,000	$ -	$ -	$ -	$ 65,885,000	$ -	$ -
Total Series 2013 Projects	**[A]=[a1]+[a2]**	**$ 480,584,000**	**$ 37,000,000**	**$ -**	**$ 102,321,000**	**$ -**	**$ -**	**$ -**	**$ 251,263,000**	**$ -**	**$ 90,000,000**
OTHER INCORPORATED PROJECTS 6/											
Terminal Projects											
Terminal Improvement Projects 7/		$ 1,319,555,000	$ 99,900,000	$ -	$ 256,580,000	$ 51,103,000	$ -	$ -	$ -	$ -	$ 911,972,000
Midfield Satellite Concourse - Phase 1		525,000,000	-	-	255,000,000	-	-		-	-	270,000,000
Terminal 5 Improvement Project 8/		325,640,000	25,000,000	-	40,121,000	11,823,000	-	137,249,000	-	-	111,447,000
Other Terminal Related Improvements 9/		266,873,000	-	-	263,498,000	-	-	-	-	-	3,375,000
	[b1]	$ 2,437,068,000	$ 124,900,000	$ -	$ 815,199,000	$ 62,926,000	$ -	$ 137,249,000	$ -	$ -	$ 1,296,794,000
Airfield and Apron Projects											
Runway Safety Area Improvements		$ 182,347,000	$ -	$ 31,000,000	$ 108,235,000	$ -	$ -	$ 7,913,000	$ -	$ 35,199,000	$ -
Midfield Satellite Concourse - Phase 1 Aprons		175,000,000	-	-	-	-	-	-	-	175,000,000	-
Noise Mitigation and Soundproofing		229,573,000	-	-	52,030,000	-	177,543,000	-	-	-	-
West Maintenance Facility Pad and Infrastructure		109,000,000	-	-	9,461,000	-	-	-	-	99,539,000	-
Other Airfield and Apron Projects 10/		136,728,000	-	-	40,507,000	-	-	1,752,000	-	94,469,000	-
	[b2]	$ 832,648,000	$ -	$ 31,000,000	$ 210,233,000	$ -	$ 177,543,000	$ 9,665,000	$ -	$ 404,207,000	$ -
Landside, Infrastructure, and IT Projects											
Landside Projects (Parking and Roadway Improvements)		$ 327,504,000	$ -	$ -	$ 208,504,000	$ -	$ -	$ -	$ -	$ -	$ 119,000,000
Infrastructure Projects		116,756,000	-	-	116,756,000	-	-	-	-	-	-
Information Technology (IT) Projects		67,210,000	13,473,000	-	11,857,000	-	41,880,000	-	-	-	-
	[b3]	$ 511,470,000	$ 13,473,000	$ -	$ 337,117,000	$ -	$ 41,880,000	$ -	$ -	$ -	$ 119,000,000
Total Other Incorporated Projects	**[B]=[b1]+[b2]+[b3]**	**$ 3,781,186,000**	**$ 138,373,000**	**$ 31,000,000**	**$ 1,362,549,000**	**$ 62,926,000**	**$ 219,423,000**	**$ 146,914,000**	**$ -**	**$ 404,207,000**	**$ 1,415,794,000**
ONGOING PROJECTS 11/											
Terminal Projects											
Bradley West Terminal Project		$ 1,671,425,000	$ -	$ -	$ 288,614,000	$ -	$ 235,000,000	$ 1,147,811,000	$ -	$ -	$ -
Central Utility Plant		423,835,000	-	-	12,314,000	39,721,000	115,000,000	256,800,000	-	-	-
Terminal 6 Improvement Project 12/		244,997,000	21,905,000	-	63,234,000	14,858,000	-	145,000,000	-	-	-
Elevators and Escalators Replacements		240,036,000	-	-	64,836,000	-	130,000,000	45,200,000	-	-	-
Fire Life Safety System Upgrades - Terminals 1 & 2		4,256,000	-	-	4,256,000	-	-	-	-	-	-
	[c1]	$ 2,584,549,000	$ 21,905,000	$ -	$ 433,254,000	$ 54,579,000	$ 480,000,000	$ 1,594,811,000	$ -	$ -	$ -
Airfield and Apron Projects											
Taxilane S		$ 162,041,000	$ -	$ 48,468,000	$ 28,851,000	$ -	$ -	$ 84,722,000	$ -	$ -	$ -
Taxilane T		156,284,000	-	105,000,000	1,752,000	-	-	49,532,000	-	-	-
Bradley West Aprons		122,300,000	-	-	16,202,000	-	-	106,098,000	-	-	-
	[c2]	$ 440,625,000	$ -	$ 153,468,000	$ 46,805,000	$ -	$ -	$ 240,352,000	$ -	$ -	$ -
Total Ongoing Projects	**[C]=[c1]+[c2]**	**$ 3,025,174,000**	**$ 21,905,000**	**$ 153,468,000**	**$ 480,059,000**	**$ 54,579,000**	**$ 480,000,000**	**$ 1,835,163,000**	**$ -**	**$ -**	**$ -**
TOTAL SERIES 2013 PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING PROJECTS	**= [A+B+C]**	**$ 7,286,944,000**	**$ 197,278,000**	**$ 184,468,000**	**$ 1,944,929,000**	**$ 117,505,000**	**$ 699,423,000**	**$ 1,982,077,000**	**$ 251,263,000**	**$ 404,207,000**	**$ 1,505,794,000**

NOTES:
1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
2/ Includes funds from the Terminal Renewal and Improvement Fund.
3/ Other Funds include grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/3rd party funding.
4/ Prior bond proceeds for Terminal 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 the projection period--see Table 7. Future bond proceeds used for Airfield and Apron Projects are assumed as future Subordinate Bonds and all other future bonds are asumed as future Senior Bonds.
6/ Other Incorporated Projects are future projects that are anticipated to be completed during the Projection Period. The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the report (with the impacts reflected in the Projection Period).
7/ Includes the renovation and modernization of terminal facilities, as well as improvements to baggage screening systems, concessions, bathrooms, and other facilities with various terminals.
8/ The Terminal 5 Improvement Project is $51.4 million higher than previously shown in the Series 2012 Report because the project now includes certain improvements that were included under "Terminal Improvement Projects" (under Other Incorporated Projects) in the Series 2012 Report.
9/ Includes a concessions enabling project, buyout of a First Class lounge, improvements to the Commuter Terminal, relocation of a passenger boarding bridge, and a project to provide aircraft ground power.
10/ Includes runway, taxiway, and apron pavement rehabilitation, Taxilane D-10 reconstruction, Airport Operation Areas (AOA) perimeter fence enhancements, and other airfield and apron improvements.
11/ Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds. The financial impacts, if any, associated with Ongoing Projects are incorporated in the report (with the impacts reflected in the Projection Period).
12/ The Terminal 6 Improvement Project has been completed, but is shown here for reference.

SOURCE: City of Los Angeles, Department of Airports, September 2013.
PREPARED BY: Ricondo & Associates, Inc., October 2013.

Funding for the Series 2013 Senior Bonds Projects is expected to include approximately $37.0 million of TSA Funds, approximately $95.0 million of Department funds, approximately $185.4 million of proceeds from the proposed Series 2013 Senior Bonds, and approximately $90.0 million of proceeds from future senior bonds.

Funding for the Series 2013 Subordinate Bonds Projects is expected to include approximately $7.3 million of Department funds, and approximately $65.9 million of proceeds from the Series 2013 Subordinate Bonds. Following the issuance of the Series 2013 Subordinate Bonds, future bond proceeds are not assumed to be required for the Series 2013 Subordinate Bonds Projects.

This Letter Report incorporates estimated future debt service requirements for the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds, as well as all future Senior Bonds and Subordinate Bonds currently anticipated by the Department to be issued during the Projection Period.

Table 6 presents a listing of estimated sources and uses of funds for the proposed Series 2013 Senior Bonds and the proposed Series 2013 Subordinate Bonds. Debt service estimates for the proposed Series 2013 Senior Bonds are based on the following assumptions:

- Approximately $234.6 million of Series 2013 Senior Bonds will be issued to fund a portion of the costs of the Series 2013 Senior Bonds Projects as well as capitalized interest, a senior reserve fund deposit, and costs of issuance.
- The Series 2013 Senior Bonds are issued with a 30-year term and a 5.72 percent interest rate, with level debt service.
- Interest on the Series 2013 Senior Bonds is capitalized through estimated project completion dates.
- A portion of the proceeds of the Series 2013 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 Bonds participating in the Senior Reserve Fund less any applicable original issue discount amounts, (b) Maximum Annual Debt Service for all Senior Bonds participating in the Senior Reserve Fund, or (c) 125 percent of Average Annual Debt Service for all Senior Bonds participating in the Senior Reserve Fund.

Table 6 Estimated Sources and Uses of Funds -- Series 2013 Bonds

	SERIES 2013 SENIOR BONDS	SERIES 2013 SUBORDINATE BONDS	TOTAL
Sources:			
Par Amount of Bonds	$ 234,595,000	$ 75,225,000	$ 309,820,000
Original Issue Premium / (Discount)	9,180,000	5,575,000	14,755,000
Total Sources	**$ 243,775,000**	**$ 80,800,000**	**$ 324,575,000**
Uses:			
Project costs funded with Bond proceeds	$ 185,378,000	$ 65,885,000	$ 251,263,000
Capitalized interest	37,173,000	7,011,000	44,184,000
Senior Debt Service Reserve Fund	17,701,000	-	17,701,000
Subordinate Debt Service Reserve Fund	-	6,772,000	6,772,000
Costs of issuance	3,523,000	1,132,000	4,655,000
Total Uses	**$ 243,775,000**	**$ 80,800,000**	**$ 324,575,000**

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, August 2013.
PREPARED BY: Ricondo & Associates, Inc., October 2013.

Debt service estimates for the proposed Series 2013 Subordinate Bonds are based on the following assumptions:

- Approximately $75.2 million of Series 2013 Subordinate Bonds will be issued to fund a portion of the costs of the Series 2013 Subordinate Bonds Projects as well as capitalized interest, a subordinate reserve fund deposit, and costs of issuance.
- The Series 2013 Subordinate Bonds are issued with a 20-year term and a 5.00 interest rate, with level debt service.
- Interest on the Series 2013 Subordinate Bonds is capitalized through estimated project completion dates.
- A portion of the proceeds of the Series 2013 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 participating in the Subordinate Reserve Fund less any applicable original issue discount amounts, (b) Maximum Annual Debt Service for all Subordinate Bonds participating in the Subordinate Reserve Fund, or (c) 125 percent of Average Annual Debt Service for all Subordinate Bonds participating in the Subordinate Reserve Fund.

Table 7 reflects future bond issues expected to be issued during the Projection Period (subsequent to the issuance of the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds). Table 7 reflects both future bond principal (broken into Senior Bonds and Subordinate Bonds) and the use of bond proceeds 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 2012 Report to account for changes in the 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.

Table 7 Expected Future Bond Issues (After Issuance of Series 2013 Bonds) 1/

	FUTURE 2014 BONDS	FUTURE 2015 BONDS	FUTURE 2016 BONDS	FUTURE BONDS AFTER 2016	TOTAL FUTURE BONDS
Bond Principal					
Senior Bonds	$ 460,445,000	$ 343,640,000	$ 505,255,000	$ 421,455,000	$ 1,730,795,000
Subordinate Bonds	19,155,000	90,795,000	150,010,000	218,620,000	478,580,000
Total Expected Future Bond Principal	$ 479,600,000	$ 434,435,000	$ 655,265,000	$ 640,075,000	$ 2,209,375,000
Bond Proceeds Used to Pay Project Costs					
Senior Bond Proceeds	$ 395,749,000	$ 296,291,000	$ 441,527,000	$ 372,226,000	$ 1,505,793,000
Subordinate Bond Proceeds	14,152,000	73,426,000	126,237,000	190,392,000	404,207,000
Total Expected Bond Proceeds Used to Pay Project Costs	$ 409,901,000	$ 369,717,000	$ 567,764,000	$ 562,618,000	$ 1,910,000,000

	FUTURE 2014 BONDS	FUTURE 2015 BONDS	FUTURE 2016 BONDS	FUTURE BONDS AFTER 2016
Key Projects Funded with Expected Future Bonds				
Funded from Senior Bond Proceeds:				
Terminal Improvement Projects	•	•	•	•
Terminals 6,7,8 Renovation Project		•	•	•
Terminal 5 Improvement Project	•	•	•	
Midfield Satellite Concourse - Phase 1	•	•	•	•
Funded from Subordinate Bond Proceeds:				
Runway Safety Area Improvements	•	•	•	•
Midfield Satellite Concourse - Phase 1 Aprons	•	•	•	•
West Maintenance Facility Pad and Infrastructure	•	•	•	

NOTE:

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, August 2013.
PREPARED BY: Ricondo & Associates, Inc., October 2013.

- 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 future Senior Bonds or the future Subordinate Bonds are funded with bond proceeds.
- Interest on future bonds is capitalized through the estimated project completion dates.

Table 8 presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2013 Senior Bonds, and future additional Senior Bonds (as reflected on Table 7) for FY 2011 through FY 2019. 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 existing debt service associated with the TBIT Interior Improvements Project and the Bradley West Terminal Project, and a portion of debt service associated with certain future terminal projects. The use of PFC revenues to pay portions of debt service associated with the TBIT Interior Improvements Project and the Bradley West Terminal Project 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 $60.1 million in FY 2011 to approximately $156.5 million in FY 2019. Senior Aggregate Annual Debt Service reflects the use of PFC revenues (including certain amounts irrevocably committed by the Department through FY 2014) to pay Senior Bond debt service in certain Fiscal Years. PFC Revenues reflected in this table are based on the assumption that amounts used to pay debt service increase (1) as certain new terminal facilities open and (2) to manage increases in airline payments. 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 2013 Subordinate Bonds, and future additional Subordinate Bonds (as reflected on Table 7) for FY 2011 through FY 2019. Subordinate Aggregate Annual Debt Service is estimated to increase from $40.6 million in FY 2011 to approximately $101.1 million in FY 2019. 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.

Table 8 (1 of 2) Debt Service

Net of Capitalized Interest
Fiscal Years Ending June 30

		ACTUAL	ACTUAL	BUDGET	BUDGET	PROJECTED				
		FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Existing Senior Bond Debt Service										
Series 2002A [1/]		$ 1,624,633	$ 1,624,633	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Series 2003B [2/]		16,184,100	16,181,350	6,762,044	-	-	-	-	-	-
Series 2008A		40,421,025	40,420,275	40,423,075	40,364,325	39,903,400	39,701,900	40,434,263	40,500,688	31,671,363
Series 2008B		1,435,500	1,434,250	1,435,250	1,433,250	1,433,250	-	-	-	-
Series 2009A		17,807,766	18,482,875	20,972,875	21,028,275	21,487,275	21,693,275	20,959,525	20,896,025	29,719,775
Series 2010A		-	-	-	43,522,537	63,846,000	61,883,250	61,893,400	61,891,200	58,651,200
Series 2010D		1,622,156	7,609,250	9,359,523	32,515,011	52,202,525	51,589,025	51,725,225	51,877,125	52,043,725
Series 2012A		-	-	2,031,193	9,919,350	11,111,000	11,719,600	11,583,800	11,427,000	11,260,500
Series 2012B		-	-	3,702,196	9,072,450	9,074,250	9,072,800	9,071,000	9,074,800	9,073,800
Series 2012C		-	-	492,981	1,207,300	1,617,300	6,900,000	6,896,800	6,894,600	10,143,000
Subtotal - Existing Senior Bond Debt Service	**[A]**	**$ 79,095,180**	**$ 85,752,633**	**$ 85,179,137**	**$ 159,062,498**	**$ 200,675,000**	**$ 202,559,850**	**$ 202,564,013**	**$ 202,561,438**	**$ 202,563,363**
Future Senior Bond Debt Service										
Proposed Series 2013 Senior Bonds		$ -	$ -	$ -	$ -	$ -	$ -	$ 15,972,687	$ 17,700,757	$ 17,700,757
Future 2014 Bonds		-	-	-	-	23,750,687	26,448,089	33,320,954	34,068,431	35,537,115
Future 2015 Bonds		-	-	-	-	-	16,572,028	24,722,033	25,382,281	27,561,213
Future 2016 Bonds		-	-	-	-	-	-	29,666,958	33,016,595	38,924,223
Other Future Bonds		-	-	-	-	-	-	-	12,860,346	30,213,313
Subtotal - Future Senior Bond Debt Service	**[B]**	$ -	$ -	$ -	$ -	$ 23,750,687	$ 43,020,117	$ 103,682,632	$ 123,028,411	$ 149,936,622
Total Senior Lien Debt Service	**[C]=[A]+[B]**	**$ 79,095,180**	**$ 85,752,633**	**$ 85,179,137**	**$ 159,062,498**	**$ 224,425,687**	**$ 245,579,967**	**$ 306,246,644**	**$ 325,589,848**	**$ 352,499,984**
Less: PFC Revenues used to pay Debt Service [3/]	**[D]**	$ (19,000,000)	$ (25,176,000)	$ (34,364,156)	$ (99,154,810)	$ (92,983,046)	$ (125,392,176)	$ (154,271,030)	$ (163,962,699)	$ (195,992,625)
SENIOR AGGREGATE ANNUAL DEBT SERVICE [3/]	**[E]=[C]+[D]**	**$ 60,095,180**	**$ 60,576,633**	**$ 50,814,981**	**$ 59,907,688**	**$ 131,442,641**	**$ 120,187,790**	**$ 151,975,614**	**$ 161,627,149**	**$ 156,507,359**
Allocation to Direct Cost Centers										
Terminal		$ 47,357,281	$ 47,844,386	$ 42,329,762	$ 53,105,418	$ 119,831,549	$ 105,061,998	$ 132,124,045	$ 141,339,212	$ 133,779,295
Apron		428,082	424,127	171,158	112,465	167,797	524,113	969,796	1,010,727	1,240,697
Airfield		2,429,905	2,438,983	1,098,874	575,575	810,977	1,912,470	3,493,219	3,638,776	4,454,702
Aviation		1,931,444	1,926,826	764,617	378,530	542,449	2,005,984	3,776,836	3,938,925	4,852,296
Commercial		7,221,258	7,215,356	6,035,888	5,545,556	9,899,726	10,683,226	11,611,718	11,699,509	12,180,368
Subtotal - Total LAX Debt Service		$ 59,367,969	$ 59,849,679	$ 50,400,299	$ 59,717,544	$ 131,252,498	$ 120,187,790	$ 151,975,614	$ 161,627,149	$ 156,507,359
Exclusions		-	-	-	-	-	-	-	-	-
Other Airports		727,211	726,954	414,682	190,143	190,143	-	-	-	-
Senior Aggregate Annual Debt Service	**=[E]**	$ 60,095,180	$ 60,576,633	$ 50,814,981	$ 59,907,688	$ 131,442,641	$ 120,187,790	$ 151,975,614	$ 161,627,149	$ 156,507,359

Table 8 (2 of 2) Debt Service

Net of Capitalized Interest
Fiscal Years Ending June 30

		ACTUAL FY 2011	ACTUAL FY 2012	BUDGET FY 2013	BUDGET FY 2014	PROJECTED FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Existing Subordinate Bond Debt Service										
Series 2008C		15,983,399	15,982,305	15,980,768	15,978,368	15,983,368	15,980,199	15,983,199	15,978,386	15,982,106
Series 2009C		13,843,429	17,154,748	18,983,322	19,606,380	19,606,380	27,911,380	27,766,597	27,617,064	27,445,610
Series 2009D		4,829,831	5,857,586	8,357,750	8,356,750	8,352,750	-	-	-	-
Series 2009E		4,796,175	4,791,225	4,792,300	4,792,500	4,792,300	4,791,500	4,790,950	4,792,750	4,795,750
Series 2010B		-	-	715,250	1,430,500	6,071,063	6,734,000	6,734,000	6,734,000	6,734,000
Series 2010C		777,440	1,465,331	2,047,393	4,186,661	4,186,661	4,186,661	4,186,661	4,186,661	4,186,661
Commercial Paper [4/]		418,809	256,832	9,574,717	16,424,430	2,126,575	-	-	-	-
Subtotal - Existing Subordinate Bond Debt Service	[F]	$ 40,649,082	$ 45,508,028	$ 60,451,500	$ 70,775,589	$ 61,119,096	$ 59,603,740	$ 59,461,406	$ 59,308,861	$ 59,144,127
Future Subordinate Bond Debt Service										
Proposed Series 2013 Subordinate Bonds		$ -	$ -	$ -	$ -	$ -	$ 6,253,196	$ 6,772,100	$ 6,772,100	$ 6,772,100
Future 2014 Bonds		-	-	-	-	355,695	376,477	978,317	1,059,619	1,676,660
Future 2015 Bonds		-	-	-	-	-	-	4,248,761	5,605,199	6,938,346
Future 2016 Bonds		-	-	-	-	-	-	4,880,698	6,947,522	11,226,310
Other Future Bonds		-	-	-	-	-	-	-	1,405,365	15,323,580
Subtotal - Future Subordinate Bond Debt Service	[G]	$ -	$ -	$ -	$ -	$ 355,695	$ 6,629,673	$ 16,879,878	$ 21,789,806	$ 41,936,998
SUBORDINATE AGGREGATE ANNUAL DEBT SERVICE	**[H]=[F]+[G]**	**$ 40,649,082**	**$ 45,508,028**	**$ 60,451,500**	**$ 70,775,589**	**$ 61,474,791**	**$ 66,233,413**	**$ 76,341,284**	**$ 81,098,667**	**$ 101,081,125**
Allocation to Direct Cost Centers										
Terminal		$ 5,214,984	$ 5,048,057	$ 10,917,911	$ 15,300,348	$ 6,663,280	$ 5,374,885	$ 5,374,335	$ 5,376,135	$ 5,379,135
Apron		37,350	37,350	956,296	1,829,269	5,705,129	6,302,532	13,869,577	16,950,800	30,902,267
Airfield		35,396,748	40,422,621	46,371,437	49,862,056	48,616,455	54,555,996	57,097,372	58,771,732	64,799,723
Aviation		-	-	859,835	1,474,958	190,972	-	-	-	-
Commercial		-	-	1,028,461	1,764,218	228,424	-	-	-	-
Subtotal - Total LAX Debt Service		$ 40,649,082	$ 45,508,028	$ 60,133,940	$ 70,230,849	$ 61,404,260	$ 66,233,413	$ 76,341,284	$ 81,098,667	$ 101,081,125
Exclusions		-	-	-	-	-	-	-	-	-
Other Airports		-	-	317,559	544,740	70,531	-	-	-	-
Subordinate Aggregate Annual Debt Service	=[H]	$ 40,649,082	$ 45,508,028	$ 60,451,500	$ 70,775,589	$ 61,474,791	$ 66,233,413	$ 76,341,284	$ 81,098,667	$ 101,081,125
TOTAL DEBT SERVICE	**=[E]+[H]**	**$ 100,744,262**	**$ 106,084,660**	**$ 111,266,481**	**$ 130,683,276**	**$ 192,917,432**	**$ 186,421,203**	**$ 228,316,898**	**$ 242,725,816**	**$ 257,588,484**

NOTES:

1/ The Department defeased the Series 2002A Senior Bonds with commercial paper on October 25, 2012. For purposes of this report, the defeasance has not been reflected.

2/ The Department defeased the Series 2003B Senior Bonds with commercial paper on October 25, 2012. See Commercial Paper debt service in Existing Subordinate Bond Debt Service section of this table.

3/ 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. The actual amount of PFC Revenues that the Department will ultimately use to pay debt service may vary from year to year. PFC Revenues reflected in this table are based on the assumption that amounts used to pay debt service increase (1) as certain new terminal facilities open and (2) to manage increases in airline payments.

4/ Commercial paper outstanding as of September 1, 2013 was approximately $67.7 million. The Department's current commercial paper authorization is $500 million, however, as of the date of this Letter Report, the Department has decided to limit its Commercial Paper issuances to the total credit support provided by various letter of credit banks ($350 million). Commercial paper debt service reflected in this table includes debt service associated with the defeasance of the Series 2003B Senior Bonds.

SOURCES: City of Los Angeles, Department of Airports for existing Debt Service, and Public Resources Advisory Group for Future Debt Service, August 2013.

PREPARED BY: Ricondo & Associates, Inc., October 2013.

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 4-4 in Chapter 4 (Financial Analysis) of the Series 2012 Report primarily as a result of:

(1) the incorporation of actual Series 2012 debt service (the Series 2012 Report reflected estimates),

(2) refinements to estimated bond funding for certain projects

(3) refinements to the timing and structure of debt service associated with the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds and future bonds, and

(4) adjustments to PFC revenues expected to be used by the Department to pay debt service related to certain terminal projects.

Senior Aggregate Annual Debt Service projected for FY 2019 is approximately $19.7 million higher compared to FY 2018 in the Series 2012 Report. Subordinate Aggregate Annual Debt Service projected for FY 2019 is approximately $1.3 million higher compared to FY 2018 in the Series 2012 Report.

Table 9 presents historical and projected LAX M&O Expenses for actual FY 2011 through projected FY 2019. Budgeted FY 2014 LAX M&O Expenses (equal to approximately $638.8 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.

Budgeted FY 2013 LAX M&O Expenses are shown in this Letter Report for informational purposes only, as Budgeted FY 2014 LAX M&O Expenses serve as the basis for LAX M&O Expense projections. LAX M&O Expenses presented in the Official Statement for the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds are derived from unaudited financial statements.

The Department expects that the Series 2013 Senior Bonds Projects, the Other Incorporated Projects, and the Ongoing Projects, specifically the completion of the Bradley West Terminal Project, the T4/TBIT Connector Building, and the Midfield Satellite Concourse – Phase 1, will result in additional increases (relative to the base expense growth discussed above) in Terminal LAX M&O Expenses in FY 2015, FY 2017, and FY 2019 (as incorporated in Table 9), respectively. Estimated LAX M&O Expenses associated with these terminal projects were developed based on preliminary estimates of increased total terminal square footage and current LAX M&O Expenses associated with terminal facilities. The higher efficiency of new space in newer facilities (e.g., lower utility costs) were also considered in the analysis of additional M&O Expenses.

Table 9 LAX Maintenance and Operation Expenses [1/]

Fiscal Years Ending June 30

	ACTUAL	ACTUAL	BUDGET	BUDGET	PROJECTED				
	FY 2011	FY 2012	FY 2013 [2/]	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
BY TYPE OF EXPENSE									
Salaries and Benefits	$ 323,522,117	$ 339,550,911	$ 338,074,465	$ 359,462,999	$ 381,281,149	$ 400,344,957	$ 424,207,355	$ 445,417,522	$ 470,434,998
Contractual Services	143,683,968	162,070,857	176,737,392	179,365,982	190,252,281	199,764,995	211,672,545	222,255,472	234,739,496
Administrative Services	3,196,984	5,894,968	3,869,400	3,979,100	4,221,055	4,431,958	4,695,306	4,930,621	5,207,452
Materials and Supplies	32,697,860	35,986,303	44,066,200	52,302,257	55,476,370	58,250,239	61,722,401	64,808,721	68,448,407
Utilities	29,605,830	30,663,788	34,294,699	34,414,974	36,503,723	38,329,509	40,613,635	42,644,616	45,039,197
Advertising and Public Relations	6,219,419	3,186,401	4,000,484	4,324,484	4,586,708	4,816,744	5,103,131	5,358,437	5,659,259
Other Operating Expenses	10,604,664	10,802,084	15,528,253	14,774,166	15,670,874	16,454,518	17,434,944	18,307,091	19,334,996
LAX M&O EXPENSES BEFORE ADJUSTMENTS	$ 549,530,841	$ 588,155,312	$ 616,570,892	$ 648,623,963	$ 687,992,161	$ 722,392,919	$ 765,449,315	$ 803,722,481	$ 848,863,805
ADJUSTMENTS [3/]	(9,996,729)	(10,056,275)	(10,831,912)	(9,854,894)	(10,347,639)	(10,865,021)	(11,408,272)	(11,978,685)	(12,577,620)
LAX M&O EXPENSES	**$ 539,534,112**	**$ 578,099,037**	**$ 605,738,980**	**$ 638,769,069**	**$ 677,644,523**	**$ 711,527,899**	**$ 754,041,044**	**$ 791,743,796**	**$ 836,286,186**
Annual % change		7.1%	4.8%	5.5%	6.1%	5.0%	6.0%	5.0%	5.6%
Compound annual growth rate FY 2012 to FY 2019									5.4%
Equipment and Vehicles	2,180,060	1,206,484	6,336,058	5,835,000	6,188,750	6,499,088	6,885,742	7,230,479	7,636,103
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	$ 541,714,172	$ 579,305,521	$ 612,075,038	$ 644,604,069	$ 683,833,273	$ 718,026,986	$ 760,926,786	$ 798,974,275	$ 843,922,289
SUMMARY BY COST CENTER									
Terminal	$ 262,086,670	$ 274,336,120	$ 300,939,382	$ 319,454,601	$ 346,086,341	$ 363,390,659	$ 388,560,691	$ 407,987,826	$ 433,388,567
Apron	28,199,496	25,837,450	26,753,030	30,528,474	33,412,345	35,082,962	36,837,110	38,678,965	40,612,914
Airfield	115,686,094	125,625,179	135,179,984	137,581,651	148,655,590	156,088,369	163,892,788	172,087,427	180,691,799
Aviation	44,865,436	44,860,755	49,539,126	49,570,201	54,536,638	57,263,470	60,126,643	63,132,975	66,289,624
Commercial	74,113,961	75,663,826	80,356,971	91,923,233	87,664,697	92,046,932	96,651,328	101,482,845	106,556,987
Exclusions / Other	16,762,515	32,982,191	19,306,544	15,545,909	13,479,662	14,153,595	14,860,225	15,603,236	16,383,398
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	$ 541,714,172	$ 579,305,521	$ 612,075,038	$ 644,604,069	$ 683,835,273	$ 718,025,986	$ 760,928,786	$ 798,973,275	$ 843,923,289

NOTES:

1/ Pursuant to the Senior Indenture.

2/ Budgeted FY 2013 LAX M&O Expenses are shown in this Letter Report for information purposes. FY 2013 LAX M&O Expenses reflected in the Official Statement for the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds are derived from unaudited financial statements. Budgeted FY 2014 LAX M&O Expenses serve as the base for LAX M&O Expense projections.

3/ Includes administrative costs allocated to other airports that are not defined as LAX M&O expenses.

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., August 2013.

PREPARED BY: Ricondo & Associates, Inc., October 2013.

As shown in Table 9, LAX M&O Expenses are projected to increase from $578.1 million in FY 2012 to $836.3 million in FY 2019, representing a CAGR of 5.4 percent.

LAX M&O Expenses projected in Table 9 for FY 2014 through FY 2018 are lower relative to amounts reflected for FY 2014 through FY 2018 in the Series 2012 Report by roughly $27.0 million to $46.5 million (or 3.8 to 5.5 percent lower) as a result of incorporating FY 2014 Budgeted LAX M&O Expenses and refinements to assumptions and timing related to incremental expenses associated with capital projects. LAX M&O Expenses projected in Table 9 for FY 2019 are approximately $1.6 million lower relative to the FY 2018 projection reflected in the Series 2012 Report.

Table 10 presents Airport revenues other than airline terminal, landing, and apron fees (referred to as nonairline revenues) for actual FY 2011 through projected FY 2019. Changes to nonairline revenues since the Series 2012 Report were primarily related to the incorporation of budgeted FY 2014 amounts as the projection base (vs. budgeted FY 2013 in the Series 2012 Report).

Budgeted FY 2013 nonairline revenues are shown in this Letter Report for informational purposes only, as Budgeted FY 2014 nonairline revenues serve as the basis for nonairline revenue projections. Audited FY 2013 nonairline revenues were not available at the time that the projections for this Letter Report were prepared. Audited FY 2013 nonairline revenues are presented in the Official Statement for the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds.

In general, projections of nonairline revenues (for both the Series 2012 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.

Between FY 2007 and FY 2012, nonairline revenues grew at a CAGR of 5.7 percent. As shown in Table 10, nonairline revenues are projected to increase from $428.1 million in FY 2012 to $616.8 million in FY 2019, representing a CAGR of 5.4 percent.

Nonairline revenues projected in Table 10 for FY 2014 through FY 2018 are lower relative to amounts reflected for FY 2014 through FY 2018 in the Series 2012 Report by roughly $14.2 million to $19.7 million (or 2.5 to 3.4 percent lower) as a result of incorporating FY 2014 Budget nonairline revenues and refinements to assumptions and timing related to incremental nonairline revenues associated with capital projects. Nonairline revenues projected for FY 2019 are approximately $6.4 million higher relative to the FY 2018 projection reflected in the Series 2012 Report.

Table 10 Summary of Airport Revenues Other Than Airline Terminal Rentals, Landing Fees, and Apron Fees

Fiscal Years Ending June 30

	ACTUAL	ACTUAL	BUDGET	BUDGET	PROJECTED				
	FY 2011	FY 2012	FY 2013 1/	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Aviation Revenues 2/									
Building Rent - Other than Passenger Terminals 3/	$ 49,629,463	$ 51,232,295	$ 52,769,264	$ 54,624,649	$ 57,317,142	$ 60,863,485	$ 62,080,755	$ 64,122,370	$ 66,046,041
Land Rentals 4/	87,224,752	80,628,781	81,862,000	86,521,000	89,116,630	91,790,129	94,543,833	97,380,148	100,301,552
Plane Parking	630,920	870,608	846,000	871,000	913,905	958,001	1,002,203	1,047,675	1,094,866
Fuel Fees	146,903	163,959	159,000	214,000	224,541	235,376	246,236	257,408	269,003
Other Aviation Revenue 5/	5,022,803	4,737,380	7,100,000	8,336,000	8,746,624	9,168,655	9,591,692	10,026,891	10,478,531
TOTAL AVIATION REVENUES	$ 142,654,841	$ 137,633,023	$ 142,736,264	$ 150,566,649	$ 156,318,842	$ 163,015,646	$ 167,464,718	$ 172,834,493	$ 178,189,993
Annual % change		-3.5%	3.7%	5.5%	3.8%	4.3%	2.7%	3.2%	3.1%
Concession Revenues									
Auto Parking	$ 66,575,360	$ 69,945,316	$ 69,168,000	$ 78,549,000	$ 81,761,408	$ 85,115,460	$ 88,331,552	$ 91,606,436	$ 95,002,732
Car Rental	58,647,288	64,361,109	67,979,000	72,150,000	75,263,000	79,119,000	82,913,000	86,830,000	90,932,000
Bus, Limo & Taxi	15,450,684	18,270,030	17,657,000	18,585,000	19,534,726	20,535,461	21,520,330	22,537,000	23,601,699
Duty Free	36,742,790	45,434,269	43,706,000	61,524,000	73,231,000	78,292,000	82,473,000	87,311,000	91,523,000
Food & Beverage	36,578,800	32,955,613	34,151,000	40,053,000	42,917,249	44,896,828	46,821,656	48,795,591	53,333,365
Gifts & News	17,998,377	17,282,137	20,786,000	20,528,000	21,995,988	22,449,330	22,840,764	23,223,121	25,382,768
Terminal Advertising	17,419,166	17,432,841	20,132,000	22,162,000	22,826,860	23,511,666	24,217,016	24,943,526	25,691,832
Foreign Exchange	6,533,000	6,571,667	6,343,000	6,457,000	6,650,710	6,850,231	7,055,738	7,267,410	7,485,433
Telecommunications	1,713,800	975,441	1,315,000	778,000	778,000	778,000	778,000	778,000	778,000
Other Concession Revenue 6/	5,535,460	5,538,342	5,633,000	11,940,000	12,298,200	12,667,146	13,047,160	13,438,575	13,841,732
TOTAL CONCESSION REVENUES	$ 263,194,725	$ 278,766,765	$ 286,870,000	$ 332,726,000	$ 357,257,140	$ 374,215,123	$ 389,998,217	$ 406,730,660	$ 427,572,561
Annual % change		5.9%	2.9%	16.0%	7.4%	4.7%	4.2%	4.3%	5.1%
Airport Sales and Services									
Airfield Bus	$ 1,289,965	$ 1,534,409	$ 1,906,000	$ -	$ -	$ -	$ -	$ -	$ -
Accommodations	260,454	80,854	170,000	118,000	122,525	127,238	131,722	136,271	140,977
Other Sales & Services	365,878	575,136	375,000	473,000	481,278	489,700	498,270	506,989	515,862
TOTAL AIRPORT SALES & SERVICES	$ 1,916,297	$ 2,190,399	$ 2,451,000	$ 591,000	$ 603,802	$ 616,938	$ 629,992	$ 643,261	$ 656,839
Annual % change		14.3%	11.9%	-75.9%	2.2%	2.2%	2.1%	2.1%	2.1%
Miscellaneous Revenues									
Miscellaneous Revenues	$ 1,496,511	$ 1,224,424	$ 1,374,000	$ 1,950,000	$ 2,047,500	$ 2,149,875	$ 2,257,369	$ 2,370,237	$ 2,488,749
Build America Bond federal subsidy (Series 2009C) 7/	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,711,809	6,556,222	6,385,964
Build America Bond federal subsidy (Series 2010C) 7/	777,440	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331
TOTAL MISCELLANEOUS	$ 9,136,184	$ 9,551,988	$ 9,701,564	$ 10,277,564	$ 10,375,064	$ 10,477,439	$ 10,434,509	$ 10,391,791	$ 10,340,044
Annual % change		4.6%	1.6%	5.9%	0.9%	1.0%	-0.4%	-0.4%	-0.5%
TOTAL NONAIRLINE REVENUES	**$ 416,902,047**	**$ 428,142,176**	**$ 441,758,829**	**$ 494,161,214**	**$ 524,554,850**	**$ 548,325,147**	**$ 568,527,436**	**$ 590,600,204**	**$ 616,759,436**
Annual % change		2.7%	3.2%	11.9%	6.2%	4.5%	3.7%	3.9%	4.4%
Compound annual growth rate FY 2012 to FY 2019									5.4%

NOTES:

1/ Budgeted FY 2013 nonairline revenues are shown in this Letter Report for information purposes. The Official Statement for the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds reflects audited FY 2013 nonairline revenues. Budgeted FY 2014 nonairline revenues serve as the base for nonairline revenue projections.

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

3/ Revenues for building rent other than passenger terminals increased substantially in FY 2011 as a result of increased rates.

4/ Includes revenues associated with the Park One Property.

5/ Includes TSA revenue and other aviation fees.

6/ Includes luggage carts and ATM revenue.

7/ For purposes of this report, no reduction for Build America Bond credits has been assumed in connection with potential federal sequestration.

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., August 2013.

PREPARED BY: Ricondo & Associates, Inc., October 2013.

Table 11 presents a summary of projected airline terminal payments based on the methodology and assumptions described in detail in Sections 4.7.1 through 4.7.4 of the Series 2012 Report. As shown on Table 11, terminal rents are charged on a CY basis. At the bottom of Table 11, projected airline terminal rentals are also reflected on a FY basis for purposes of being incorporated into the overall Airport financial projections (which are completed on a FY basis).

Table 11 reflects the various types of terminal fees estimated to be paid by airlines. As shown on Table 10, total airline terminal payments are projected to increase from approximately $212.6 million in calendar year 2013 to approximately $557.0 million in calendar year 2019. On a FY basis, airline terminal payments are projected to increase from approximately $278.8 million in FY 2014 to approximately $553.2 million in FY 2019.

Table 12 presents the calculation of Landing Fee and Apron Fee requirements and rates for FY 2014 through FY 2019, 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 2012 Report include refinements to future Subordinate Bond debt service allocated to the Airfield and Apron Cost Centers and the incorporation of the FY 2014 Budget, none of which are material changes.

Because the Department establishes the Landing Fee as the sum of Airfield cost center requirements (i.e., Airfield cost center expenses, debt service, amortization of Department funds, and required fund deposits) divided by total airline landed weight, 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 FY 2014 through FY 2019. Projections of passenger airline CPE reflected on Table 13 have not changed significantly from projections reflected on Table 4-9 in Chapter 4 (Financial Analysis) of the Series 2012 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 $14.81 in FY 2014 to $23.62 in FY 2019. 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 2013 Senior Bonds Projects, Series 2013 Subordinate Bonds Projects, Other Incorporated Projects, and Ongoing Projects); assumed growth in base LAX M&O Expenses allocable to airline-related Cost Centers; and incremental LAX M&O Expenses associated with various terminal improvements.

Table 11 Summary of Airline Terminal Payments

Calendar Years (with Fiscal Year Total)

	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Demised Premises	$ 110,550,185	$ 185,657,000	$ 209,262,000	$ 231,573,807	$ 275,037,973	$ 291,674,000	$ 289,183,000
Common Use Holdroom Fees	11,650,000	40,125,000	45,316,000	49,149,000	59,296,000	66,047,000	65,483,000
Bag Claim Fees	3,966,000	8,475,000	9,571,000	10,381,000	12,524,000	13,950,000	13,831,000
Outbound Bag System Fees	8,756,000	17,187,000	19,410,000	21,052,000	25,398,000	28,290,000	28,048,000
Common Use Ticket Counter Fees	1,260,000	1,872,000	2,114,000	2,293,000	2,766,000	3,081,000	3,055,000
FIS Fees	62,313,000	71,735,000	81,270,000	96,014,000	104,912,000	114,409,000	124,359,000
Terminal Special Charges	14,058,000	19,931,000	20,761,000	23,886,000	24,961,000	31,885,000	33,071,000
TOTAL TERMINAL PAYMENTS 1/	**$ 212,553,185**	**$ 344,982,000**	**$ 387,704,000**	**$ 434,348,807**	**$ 504,894,973**	**$ 549,336,000**	**$ 557,030,000**
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Fiscal Year Basis	$ 206,277,000	$ 278,768,000	$ 366,343,000	$ 411,027,000	$ 469,622,000	$ 527,115,000	$ 553,183,000

NOTE:
1/ The payments reflected in this table are based on an assumption of the acquisition of certain terminal improvements

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., August 2013.

PREPARED BY: Ricondo & Associates, Inc., October 2013.

Table 12 Landing and Apron Fees

Fiscal Years Ending June 30

	BUDGET	PROJECTED				
	FY 2014 1/	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Landing Fee						
Operating Expense	$ 137,581,651	$ 148,655,590	$ 156,088,369	$ 163,892,788	$ 172,087,427	$ 180,691,799
Amortization Expense	11,660,662	13,986,473	14,967,775	14,905,693	14,489,777	23,036,524
Senior Lien Debt Service	575,575	810,977	1,912,470	3,493,219	3,638,776	4,454,702
Subordinate Lien Debt Service	49,862,056	48,616,455	54,555,996	57,097,372	58,771,732	64,799,723
Credit for Build America Bonds subsidy (Series 2009C)	(6,862,233)	(6,862,233)	(6,862,233)	(6,711,809)	(6,556,222)	(6,385,964)
Credit for Build America Bonds subsidy (Series 2010C)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)
Debt Service Coverage 2/	-	-	-	-	-	-
M&O Reserve	1,817,490	2,181,073	1,905,708	2,385,456	2,120,241	2,500,962
Van Nuys Reliever Net Costs	3,073,601	3,099,127	3,003,884	2,904,355	2,800,347	2,691,659
TOTAL AIRFIELD REQUIREMENT	$ 196,243,471	$ 209,022,130	$ 224,106,637	$ 236,501,743	$ 245,886,747	$ 270,324,075
Total Landed Weight (000's) 3/	52,358,673	53,137,886	54,079,446	54,926,836	55,746,608	56,560,773
Landing Fee Rate 4/	$ 3.78	$ 3.93	$ 4.14	$ 4.31	$ 4.41	$ 4.78
Apron Fee						
Operating Expense	$ 30,528,474	$ 33,412,345	$ 35,082,962	$ 36,837,110	$ 38,678,965	$ 40,612,914
Amortization Expense	2,643,034	2,392,002	2,585,708	3,862,634	4,235,091	3,793,050
Senior Lien Debt Service	112,465	167,797	524,113	969,796	1,010,727	1,240,697
Subordinate Lien Debt Service	1,829,269	5,705,129	6,302,532	13,869,577	16,950,800	30,902,267
Debt Service Coverage 2/	-	-	-	-	-	1,152,465
M&O Reserve	403,289	490,226	428,334	536,163	476,553	562,125
TOTAL APRON REQUIREMENT	$ 35,516,532	$ 42,167,498	$ 44,923,648	$ 56,075,280	$ 61,352,136	$ 78,263,517
Passenger Landed Weight (000's) 3/ 5/	45,377,519	46,067,716	46,908,967	47,661,144	48,387,013	49,107,330
Apron Fee Rate 6/	$ 0.82	$ 0.92	$ 0.96	$ 1.18	$ 1.27	$ 1.59
COMBINED RATE	**$ 4.60**	**$ 4.85**	**$ 5.10**	**$ 5.48**	**$ 5.68**	**$ 6.37**

NOTES:

1/ With the exception of certain Amortization and Debt Service in FY 2014, amounts reflected in this table are as reflected in FY 2014 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 2014 is budgeted amount; thereafter it is as projected in the Series 2012 Report.

4/ The budgeted FY 2014 Landing Fee Rate of $3.78 is reflected for FY 2014. The calculated rate for FY 2014 based on requirements reflected on this page would be approximately $0.03 (three cents) lower than the budgeted rate as result of minor adjustments to amortization and debt service since the time the budget was prepared.

5/ Excludes certain passenger airline landed weight treated as cargo airline landed weight for rates and charges purposes. Passenger airline landed weight here is lower than passenger airline landed weight reflected on Table 2-27 of the Series 2012 Report.

6/ The budgeted FY 2014 Apron Fee Rate of $0.82 is reflected for FY 2014. The calculated rate for FY 2014 based on requirements reflected on this page would be approximately $0.04 (four cents) lower than the budgeted rate as result of minor adjustments to amortization and debt service since the time the budget was prepared.

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., August 2013.
PREPARED BY: Ricondo & Associates, Inc., October 2013.

Table 13 Passenger Airline Cost Per Enplaned Passenger

Fiscal Years Ending June 30

	BUDGET	PROJECTED				
AIRLINE REVENUES	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
Airline Terminal Rentals	$ 278,768,000	$ 366,343,000	$ 411,027,000	$ 469,622,000	$ 527,115,000	$ 553,183,000
Signatory Airline Landing and Apron Fees	231,760,004	251,189,628	269,030,286	292,577,022	307,238,883	348,587,592
Tier Two Revenue Sharing credits	-	-	-	-	(15,951,000)	(18,270,000)
Airline Terminal Rentals and Signatory Airline Landing and Apron Fees	$ 510,528,004	$ 617,532,628	$ 680,057,286	$ 762,199,022	$ 818,402,883	$ 883,500,592
Non-Signatory landing fees	500,000	524,630	549,943	575,317	601,421	628,511
Airline Terminal Rentals, Landing Fees, and Apron Fees	$ 511,028,004	$ 618,057,257	$ 680,607,229	$ 762,774,340	$ 819,004,304	$ 884,129,102
Less: Landing Fees - Cargo	(22,054,817)	(23,465,195)	(25,052,663)	(26,362,710)	(27,343,199)	(29,993,945)
Total Passenger Airline Revenues	$ 488,973,187	$ 594,592,062	$ 655,554,566	$ 736,411,630	$ 791,661,105	$ 854,135,158
Enplaned Passengers	33,006,100	33,682,300	34,376,500	34,975,900	35,561,400	36,156,700
Passenger Airline Cost Per Enplaned Passenger	**$14.81**	**$17.65**	**$19.07**	**$21.05**	**$22.26**	**$23.62**

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., August 2013.

PREPARED BY: Ricondo & Associates, Inc., October 2013.

Table 14 presents projected cash flow and debt service coverage ratios for the Airport for FY 2014 through FY 2019. 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 2012 Report was prepared. Projected Senior Bond debt service coverage ratio exceeds the 1.25x coverage requirement in each year of the Projection Period. In addition, the Subordinate Bond debt service coverage ratio is projected to exceed the 1.15x coverage ratio requirements in each year of the Projection Period. No Transfers (as defined in Section 4.2.1 of the Series 2012 Report) were assumed for purposes of calculating debt service coverage ratios.

The Senior Bond, Subordinate Bond, and overall debt service coverage ratios vary from year to year relative to projections reflected on Table 4-10 in Chapter 4 (Financial Analysis) of the Series 2012 Report, as a result of the various refinements, adjustments, and updates to debt service, expenses, and revenues discussed in sections above, but are not significantly different.

CONFIRMATION OF SERIES 2012 REPORT FINDINGS

On the basis of the assumptions and analyses described in the Series 2012 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 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 2013 Senior Bonds Projects, the Series 2013 Subordinate Bonds Projects, and other capital improvements described in this Letter Report are expected (1) to be completed during the Projection Period, (2) to be funded in part with the Series 2013 Senior Bonds, the Series 2013 Subordinate 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.

Table 14 Airport Cash Flow and Debt Service Coverage

Fiscal Years Ending June 30

		BUDGET	PROJECTED				
		FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**
PLEDGED REVENUES							
Airline Terminal Rentals, Landing Fees, and Apron Fees	*Table 13*	$ 511,028,004	$ 618,057,257	$ 680,607,229	$ 762,774,340	$ 819,004,304	$ 884,129,102
Aviation Revenues	*Table 10*	150,566,649	156,318,842	163,015,646	167,464,718	172,834,493	178,189,993
Concession Revenues	*Table 10*	332,726,000	357,257,140	374,215,123	389,998,217	406,730,660	427,572,561
Airport Sales & Services	*Table 10*	591,000	603,802	616,938	629,992	643,261	656,839
Miscellaneous Revenues	*Table 10*	10,277,564	10,375,064	10,477,439	10,434,509	10,391,791	10,340,044
Investment Earnings		25,299,843	33,986,721	36,698,735	39,655,320	42,365,285	48,636,690
Total Pledged Revenues	[A]	$ 1,030,489,061	$ 1,176,598,828	$ 1,265,631,111	$ 1,370,957,096	$ 1,451,969,793	$ 1,549,525,228
LAX M&O EXPENSES	[B]	$ 638,769,069	$ 677,644,523	$ 711,527,899	$ 754,041,044	$ 791,743,796	$ 836,286,186
NET PLEDGED REVENUES	[C]=[A]-[B]	$ 391,719,992	$ 498,954,305	$ 554,103,212	$ 616,916,052	$ 660,225,997	$ 713,239,042
DEBT SERVICE							
Senior Debt Service		$ 159,062,498	$ 224,425,687	$ 245,579,967	$ 306,246,644	$ 325,589,848	$ 352,499,984
Less PFC Revenues Used to Pay Senior Debt Service		(99,154,810)	(92,983,046)	(125,392,176)	(154,271,030)	(163,962,699)	(195,992,625)
Senior Aggregate Annual Debt Service 1/	[D]	$ 59,907,688	$ 131,442,641	$ 120,187,790	$ 151,975,614	$ 161,627,149	$ 156,507,359
Subordinate Aggregate Annual Debt Service	[E]	70,775,589	61,474,791	66,233,413	76,341,284	81,098,667	101,081,125
Senior and Subordinate Aggregate Annual Debt Service	[F]=[D]+[E]	$ 130,683,276	$ 192,917,432	$ 186,421,203	$ 228,316,898	$ 242,725,816	$ 257,588,484
M&O Reserve	[G]	8,310,022	9,732,746	8,503,967	10,644,779	9,461,293	11,160,209
NET FUNDS REMAINING	[H]=[C]-[F]-[G]	252,726,693	296,304,128	359,178,042	377,954,375	408,038,888	444,490,350
DEBT SERVICE COVERAGE							
Senior Bond Debt Service Coverage 2/	**= [C] / [D]**	**6.54**	**3.80**	**4.61**	**4.06**	**4.08**	**4.56**
SUBORDINATE PLEDGED REVENUES	[I]=[C]-[D]	$ 331,812,304	$ 367,511,664	$ 433,915,421	$ 464,940,438	$ 498,598,848	$ 556,731,684
Subordinate Bond Debt Service Coverage 2/	**= [I] / [E]**	**4.69**	**5.98**	**6.55**	**6.09**	**6.15**	**5.51**
Total Debt Service Coverage 2/	**= [C] / [F]**	**3.00**	**2.59**	**2.97**	**2.70**	**2.72**	**2.77**

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., September 2013.

PREPARED BY: Ricondo & Associates, Inc., October 2013.

- Airport operating and capital costs, including increased costs related to the Series 2013 Senior Bonds Projects, the Series 2013 Subordinate 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 enplaned passenger (future dollars) at the Airport is projected to increase from approximately $14.81 in FY 2014 to approximately $23.62 in FY 2019. As stated in the Series 2012 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 2013 Senior Bonds Projects, the Series 2013 Subordinate 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 of LAX M&O Expenses.
- Airline rates and charges, together with other Pledged Revenues, are projected to be sufficient to ensure that all LAX M&O Expenses, debt service, and fund deposit requirements are satisfied in each year of the Projection Period (through FY 2019).
- Senior Bond debt service coverage is projected to range from a low of 3.80x to a high of 6.54x between FY 2014 and FY 2019. 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 a low of 4.69x to a high of 6.55x between FY 2014 and FY 2019. In each year of the Projection Period, Subordinate Bond debt service coverage exceeds the 1.15x Subordinate Bond rate covenant requirement.
- Debt service coverage for combined senior and subordinate debt is projected to range from a low of 2.59x to a high of 3.00x between FY 2014 and FY 2019.

The techniques used in the Series 2012 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 2012 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 2012 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.

RICONDO & ASSOCIATES, INC.

2012 REPORT OF THE AIRPORT CONSULTANT

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Appendix A

Report of the Airport Consultant

Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2012 Series A and B

PREPARED BY:

RICONDO & ASSOCIATES, INC.
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RICONDO & ASSOCIATES

NOVEMBER 28, 2012

Ricondo & Associates, Inc. (R&A) prepared this document for the stated purposes as expressly set forth herein and for the sole use of the Department of Airports of the City of Los Angeles, California and its intended recipients. The techniques and methodologies used in preparing this document are consistent with industry practices at the time of preparation.

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RICONDO
& ASSOCIATES

November 28, 2012

Mr. Michael A. Lawson, 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, 2012 Series A and B
Appendix A: Report of the Airport Consultant

Dear Mr. Lawson:

Ricondo & Associates, Inc. (R&A) is pleased to present this Report of the Airport Consultant (Report) for inclusion as Appendix A in the Official Statement for the Department of Airports of the City of Los Angeles, California (the Department), Los Angeles International Airport (the Airport), Senior Revenue Bonds, 2012 Series A (the Series 2012A Bonds), and Senior Revenue Bonds, 2012 Series B (the Series 2012B Bonds). The Series 2012A Bonds and the Series 2012B Bonds are referred to collectively in the Report as the Series 2012 Bonds. The Series 2012 Bonds will be issued pursuant to the Department's Master Trust Indenture, as amended and supplemented, and the Thirteenth Supplemental Trust Indenture (referred to collectively as the Senior Indenture).

The Department recently refunded and defeased all of its outstanding Senior Revenue Bonds, 2002 Series A and 2003 Series B, with the proceeds from an issuance of commercial paper. The Department plans to refund the portion of the commercial paper associated with the defeasance of the Series 2002A Bonds through either a private placement of bonds or the issuance of senior refunding revenue bonds. This defeasance and refunding of the Series 2002A Bonds is expected to produce debt service savings to the Department. The commercial paper issued to defease the Series 2003B Bonds will remain outstanding and will be amortized in a manner consistent with the original amortization of the Series 2003B Bonds. The defeasance of the Series 2003B Bonds is reflected in the Report by shifting the related debt service from Senior Revenue Bonds to subordinate commercial paper as of the date of the defeasance with debt service amounts unchanged. Neither the refunding and defeasance of the Series 2002A Bonds, nor the refunding of the commercial paper issued for such refunding and defeasance and the associated debt service savings, are incorporated in the Report. Actual debt service related to the refunding of the commercial paper issued to refund and defease the Series 2002A Bonds is expected to be lower relative to what is reflected in the Report for Series 2002A Bond debt service, and there would not be a material impact on projected debt service coverage ratios or passenger airline payments per enplaned passenger.

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Senior Bonds are secured by a pledge of Net Pledged Revenues (as defined in the Senior Indenture). Proceeds of the Series 2012 Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain terminal improvement projects at the Airport (collectively referred to in the Report as the Series 2012 Projects), as more fully described in Section 3.3 of the Report; (2) refund outstanding commercial paper notes issued previously by the Department to fund a portion of the Series 2012 Projects; (3) fund capitalized interest; (4) fund the required deposit to the senior debt service reserve fund; and (5) pay the costs of issuance of the Series 2012 Bonds.

The Report presents the analysis undertaken by R&A to demonstrate the ability of the Department to comply with certain requirements of the Senior Indenture, including the senior rate covenant as set forth in Section 5.04 of the Senior Indenture (the Senior Rate Covenant), on a pro forma basis for the Department's fiscal years (FY) ending June 30, 2013 through FY 2018 (the Projection Period). The analysis was based on assumptions regarding the planned issuance of the Series 2012 Bonds, the completion of Series 2012 Projects, estimated Series 2012 Bond and future bond debt service requirements, the timing and completion of other capital projects at the Airport during the Projection Period, as well as various other air traffic and financial assumptions discussed in the Report. The information and assumptions incorporated in the Report regarding the Airport were provided by, or reviewed and agreed to by, the Department. Accordingly, the projections in the Report reflect the Department's current plans for 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.

The Report is organized as follows:

- Executive Summary
- Chapter 1: Economic Base for Air Transportation
- Chapter 2: Air Traffic
- Chapter 3: Airport Facilities and Capital Program
- Chapter 4: Financial Analysis

On the basis of the analysis put forth in this Report, R&A is of the opinion that the Net Pledged Revenues generated by the Airport in each year of the Projection Period will be sufficient to comply with the Senior Rate Covenant. R&A is also of the opinion that the Airport's airline rates and charges, incorporating estimated increases in operating and capital costs related to capital projects expected to be completed during the Projection Period (and assuming the PFC level at the Airport remains at $4.50 throughout the Projection Period) will remain reasonable through the Projection Period.

Founded in 1989, R&A is a full-service aviation consulting firm providing airport physical and financial planning services to airport owners and operators, airlines, and federal and state agencies. R&A has prepared Reports of the Airport Consultant in support of over $20.6 billion of airport related revenue bonds from 1996 through 2011. Based on the definition of "Municipal Advisor" put forth in the Securities and Exchange Commission's (SEC) proposed rule implementing Section 975 of Title IX of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which cites firms providing feasibility studies for inclusion in an official statement for a municipal bond transaction, R&A has registered with both the SEC and the Municipal Securities Rulemaking Board as a Municipal Advisor.

The techniques and methodologies used by R&A in the preparation of this Report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While R&A believes that the approach and assumptions used in the Report are reasonable, some assumptions regarding future trends and events detailed in the Report may not materialize. Therefore, actual performance will likely differ from the projections put forth in the Report and the variations may be material.

In developing its analysis, R&A has utilized information from various sources including the Department, its financial advisors, the senior managing underwriter, federal and local governmental agencies, and independent private providers of economic and aviation industry data which are identified in the notes accompanying the related tables and exhibits in the Report. R&A believes these sources to be reliable, but has not audited this data and does not warrant their accuracy. The analysis presented is based on conditions known as of the date of the Report. R&A has no responsibility to update the Report for events or circumstances occurring after the date of the Report.

Sincerely,

Ricondo & Associates, Inc.

RICONDO & ASSOCIATES, INC.

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Executive Summary

The Department commissioned Ricondo & Associates, Inc., (R&A) to prepare the Report to demonstrate the Airport's ability to generate Net Pledged Revenues sufficient to meet certain obligations under the Senior Indenture, including the Senior Rate Covenant, on a pro forma basis for the Department's fiscal years (FY) ending June 30, 2013 through FY 2018 (the Projection Period). In developing our analysis, R&A reviewed the terms of the Senior Indenture and related documents that govern the Airport's debt; the terms of the Series 2012 Bonds as provided by the Department's financing team; the Airport's outstanding financial obligations; the Airport's capital program and proposed funding sources including estimated additional borrowing beyond the Series 2012 Bonds; and the purpose, estimated cost, and schedule of the Series 2012 Projects and capital projects other than the Series 2012 Projects that are anticipated to be completed during the Projection Period.

To develop the pro forma analysis of the Airport's financial performance, R&A reviewed the agreements that establish the business arrangements between the Airport and its various tenants, including but not limited to the commercial airlines serving the Airport. The Airport generates the majority of its operating revenues from commercial airlines and private aircraft operators through airfield and apron usage fees and various rentals for terminal and other spaces; fees and rents assessed concessionaires providing various goods and services to passengers and other users of airport facilities; fees and rents assessed rental car operators serving the airport; and fees for public parking and commercial vehicle access to airport facilities. These revenues are in large measure driven by passenger demand for air service from the Airport, which is a function of national and local economic conditions, and the ability and willingness of the commercial airlines to supply service at a level commensurate with this demand. Thus, R&A reviewed the historical relationships between economic activity and demand for air service, the airlines' provision of air service, and the financial performance of the Airport. Based on this historical review, R&A developed assumptions regarding these factors and relationships through the Projection Period which provide the basis for the forecasts of Airport activity and financial performance presented in the Report.

Except as noted otherwise, capitalized terms in the Report shall have the meanings set forth in the Senior Indenture.

The following sections present a summary of key assumptions, findings, and projections that are detailed in the body of the Report, which should be read in its entirety.

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). The City, acting through the Department, currently operates and maintains the Airport, LA/Ontario International Airport (LA/ONT), and Van Nuys Airport (VNY). The Department also maintains property that is not currently used for airport purposes, known as LA/Palmdale Regional Airport (together with the Airport, LA/ONT, and VNY, the Airport System). Pledged Revenues and LAX Maintenance and Operation Expenses (LAX M&O Expenses) only include certain income, revenue, and expenses derived from the Airport, as defined in the Senior Indenture and as summarized in Chapter 4 (Financial Analysis) of the Report, and exclude income, revenue, and expenses received or incurred by the Department from the operation of the other airports in the Airport System. See the Official Statement for the Series 2012 Bonds for information related to the proposal the City of Ontario, California has submitted to the Department regarding the potential acquisition of LA/ONT.

The Airport

The Airport is one of the busiest airports in the world. As reflected in **Table ES-1**, the Airport ranked 1st in the nation in the number of total origin-destination (O&D) passengers for the 12 months ended March 30, 2012. In calendar year (CY) 2011, the Airport ranked 6th worldwide and 3rd nationwide in total passengers; 3rd worldwide and nationwide in total operations; and 13th worldwide and 5th nationwide in total cargo (based on data from the Airports Council International). The Airport is also one of the nation's premier international gateways and the busiest international gateway on the west coast. The Airport is one of five commercial service airports serving the Air Trade Area -- which is comprised of Los Angeles County, Orange County, Riverside County, San Bernardino County, and Ventura County, also known as the Los Angeles-Long Beach-Riverside Combined Statistical Area (CSA). 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 2011, the Airport served approximately 99.6 percent of total Air Trade Area international enplaned passengers and approximately 75.1 percent of total Air Trade Area enplaned passengers. 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. See Section 2.5.7.2 of the Report (Constraints at Other Area Airports) for further information.

Table ES-1 Summary of Key Air Traffic Information

Note: Timeframes Vary By Data Source.

	FY 2008	12 MONTHS ENDING 3/31/12
U.S. Ranking for Total O&D Enplaned Passengers (U.S. DOT O&D Survey)	2nd	1st
Airports Council International (ACI) Total Passenger Ranking:	**CY 2008**	**CY 2011**
Worldwide	6th	6th
U.S.	3rd	3rd
O&D Percentage of Domestic Enplaned Passengers:	69.3%	69.2%
O&D Percentage of Total Enplaned Passengers:	75.0%	75.0%
	FY 2008	**FY 2012**
Largest Carrier, Enplaned Passenger Share:	United, 17.7%	United, 16.3%
Top 3 Carriers Combined Market Share of Enplaned Passengers:	44.9%	42.1%
Largest Alliance Market Share (Star Alliance):	29.9%	29.0%
International Enplaned Passengers as Percentage of Total:	28.0%	27.0%
Average Load Factor (total):	77.1%	78.7%
	JUNE 2008	**AUGUST 2012**
Number of Scheduled Domestic Carriers:	20	20
Number of Scheduled Foreign Flag Carriers:	43	42
Number of All-Cargo Carriers:	15	22
Non-Stop Domestic Markets:	83	91
Weekly Domestic Flights:	3,970	4,757
Non-Stop International Markets:	53	57
Weekly International Flights:	823	921
LAX Share of Air Trade Area Activity 1/:	**CY 2008**	**CY 2011**
Domestic Enplaned Passengers (CY 2011: LAX=22.6 mil of 32.8 mil)	64.9%	68.8%
International Enplaned Passengers (CY 2011: LAX=8.3 mil of 8.4 mil)	99.6%	99.6%
Total Enplaned Passengers (CY 2011: LAX= 30.9 mil of 41.2 mil)	71.8%	75.1%
Cargo Activity (CY 2011: LAX=1.9 mil tons of 2.5 mil tons)	74.0%	76.8%

Historical and Projected Enplaned Passengers:

	FISCAL YEAR	ENPLANED PASSENGERS	ANNUAL % CHANGE
Actual:	2002	28,131,661	
	2003	27,710,328	(1.5%)
	2004	29,079,847	4.9%
	2005	30,548,251	5.0%
	2006	30,655,146	0.3%
	2007	30,803,470	0.5%
	2008	31,142,339	1.1%
	2009	28,329,019	(9.0%)
	2010	29,003,142	2.4%
	2011	30,280,571	4.4%
	2012	31,519,124	4.1%
Projected:	2013	32,298,200	2.5%
	2014	33,006,100	2.2%
	2015	33,682,300	2.0%
	2016	34,376,500	2.1%
	2017	34,975,900	1.7%
	2018	35,561,400	1.7%
CAGRs:	FY 2002-2008:	1.7%	
	FY 2002-2012:	1.1%	
	FY 2009-2012:	3.6%	
	FY 2012-2018:	2.0%	

FAA Forecasts (Federal Fiscal Year Ending Sept 30):

Terminal Area Forecast for the Airport, CAGR FFY 2012-2018:	3.0%
FAA Forecast for the U.S., CAGR FFY 2012-2018:	2.8%

NOTES:
1/ LAX share of activity for the following airports in the Air Trade Area: BUR, LGB, SNA, and LA/ONT.

SOURCES: City of Los Angeles, Department of Airports; Official Airline Guide, Inc.; US DOT Origin & Destination Survey of Airline Passenger Traffic; Ricondo & Associates, Inc.; and Airports Council International (ACI), October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

The Airport is served by a large number of airlines, including 20 scheduled domestic carriers, 42 scheduled foreign flag airlines, and 22 all-cargo carriers. The Airport's largest carrier, United Airlines, accounted for only 16.3 percent of the Airport's total enplaned passengers in FY 2012. The combined passenger market share for the top three air carriers at the Airport is currently approximately 42.0 percent, indicative of the diverse mix of airlines at the Airport. No airline alliance comprised more than 29.0 percent of passenger market share at the Airport in FY 2012.[1]

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. 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. Table ES-1 presents the projection of enplaned passengers at the Airport described below under the heading Air Traffic.

The Series 2012 Bonds and the Series 2012 Projects

The Series 2012 Bonds will be issued pursuant to the Department's Master Trust Indenture, as amended and supplemented, and the Thirteenth Supplemental Trust Indenture (referred to collectively as the Senior Indenture). Proceeds of the Series 2012 Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain terminal improvement projects at the Airport reflected on **Table ES-2** as the Series 2012 Projects; (2) refund outstanding commercial paper notes issued previously by the Department to fund a portion of the costs of the Series 2012 Projects; (3) fund capitalized interest; (4) fund the required deposit to the senior debt service reserve fund; and (5) pay the costs of issuance of the Series 2012 Bonds. **Table ES-3** presents a listing of estimated sources and uses of funds for the proposed Series 2012 Bonds. The assumptions, estimated sources and uses of funds, and associated debt service for the proposed Series 2012 Bonds were provided by the Department and its financial advisors, using information regarding the estimated cost and timing of the Series 2012 Projects and the estimated receipt of other funding reflected on Table ES-2. As reflected in Table ES-2, the Department estimates that future bond proceeds (subsequent to the Series 2012 Bonds) will be required for the Series 2012 Projects. See Section 3.2 of the Report for more information regarding the Series 2012 Projects.

Key Assumptions:

- The Series 2012 Bonds are structured with maturities 2013 through 2037 so that overall debt service is approximately level. The overall interest rate is assumed to be 4.00 percent.
- A portion of the proceeds of the Series 2012 Bonds will fund the required deposit to the Senior Reserve Fund.

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1 An airline alliance is an agreement between two or more airlines to cooperate on a substantial level and provide a network of connectivity and convenience for international passengers and international packages.

Table ES-2 Summary of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects -- Costs and Funding (Based on $4.50 PFC Level Throughout Projection Period)

			ESTIMATED SOURCES OF FUNDS								
		ESTIMATED PROJECT COSTS 1/	TSA FUNDS	AIP FUNDS	DEPARTMENT FUNDS 2/	OTHER FUNDS 3/	PFC PAY-AS-YOU-GO FUNDS	PRIOR BOND PROCEEDS 4/	SERIES 2012 SENIOR BOND PROCEEDS	FUTURE BOND PROCEEDS 5/ SUBORDINATE	FUTURE BOND PROCEEDS 5/ SENIOR
SERIES 2012 PROJECTS											
Terminal 6 Improvement Project		$ 244,997,000	$ 22,417,000	$ -	$ 77,722,000	$ 14,858,000	$ -	$ -	$ 130,000,000	$ -	$ -
Terminal 5 Improvement Project		274,242,000	25,000,000	-	75,220,000	11,823,000	-	-	122,199,000	-	40,000,000
Total Series 2012 Projects	**[A]**	**$ 519,239,000**	**$ 47,417,000**	**$ -**	**$ 152,942,000**	**$ 26,681,000**	**$ -**	**$ -**	**$ 252,199,000**	**$ -**	**$ 40,000,000**
OTHER INCORPORATED PROJECTS 6/											
Terminal Projects											
Terminal Improvement Projects 7/		$ 1,440,675,000	$ 99,900,000	$ -	$ 349,363,000	$ 51,103,000	$ -	$ -	$ -	$ -	$ 940,309,000
Midfield Satellite Concourse - Phase 1		638,000,000	-	-	25,000,000	-	-	-	-	-	613,000,000
Terminal 4/TBIT Connector Building		175,000,000	37,000,000	-	15,500,000	-	-	-	-	-	122,500,000
Other Terminal Related Improvements 8/		50,445,000	-	-	35,045,000	-	-	-	-	-	15,400,000
	[b1]	$ 2,304,120,000	$ 136,900,000	$ -	$ 424,908,000	$ 51,103,000	$ -	$ -	$ -	$ -	$ 1,691,209,000
Airfield and Apron Projects											
Noise Mitigation and Soundproofing		$ 405,000,000	$ -	$ -	$ 295,000,000	$ -	$ 110,000,000	$ -	$ -	$ -	$ -
West Maintenance Facility Pad and Infrastructure		195,000,000	-	-	-	30,000,000	-	-	-	165,000,000	$ -
Runway Safety Area Improvements		93,237,000	-	3,500,000	737,000	-	-	-	-	89,000,000	-
Runway 25R, Taxiway B&C		73,206,000	-	5,000,000	2,206,000	-	-	-	-	66,000,000	-
Midfield Satellite Concourse - Phase 1 Aprons		60,500,000	-	-	6,050,000	-	-	-	-	54,450,000	-
Other Airfield and Apron Projects 9/		200,068,000	-	33,500,000	20,068,000	-	-	-	-	146,500,000	-
	[b2]	$ 1,027,011,000	$ -	$ 42,000,000	$ 324,061,000	$ 30,000,000	$ 110,000,000	$ -	$ -	$ 520,950,000	$ -
Landside, IT, and Infrastructure Projects											
Landside Projects (Parking and Roadway Improvements)		$ 358,481,000	$ -	$ -	$ 358,481,000	$ -	$ -	$ -	$ -	$ -	$ -
Information Technology (IT) Projects		76,822,000	10,000,000	-	16,215,000	-	50,607,000	-	-	-	-
Infrastructure Projects		26,000,000	-	-	16,000,000	-	-	-	-	-	10,000,000
	[b3]	$ 461,303,000	$ 10,000,000	$ -	$ 390,696,000	$ -	$ 50,607,000	$ -	$ -	$ -	$ 10,000,000
Total Other Incorporated Projects	**[B]=[b1]+[b2]+[b3]**	**$ 3,792,434,000**	**$ 146,900,000**	**$ 42,000,000**	**$ 1,139,665,000**	**$ 81,103,000**	**$ 160,607,000**	**$ -**	**$ -**	**$ 520,950,000**	**$ 1,701,209,000**
ONGOING PROJECTS 10/											
Terminal Projects											
Bradley West Terminal Project		$ 1,538,888,000	$ -	$ -	$ 79,829,000	$ -	$ 235,000,000	$ 1,224,059,000	$ -	$ -	$ -
Central Utility Plant		423,835,000	-	-	12,314,000	39,721,000	115,000,000	256,800,000	-	-	-
Elevators and Escalators Replacements		240,035,000	-	-	64,835,000	-	130,000,000	45,200,000	-	-	-
Fire Life Safety System Upgrades - Terminals 1 & 2		4,256,000	-	-	4,256,000	-	-	-	-	-	-
	[c1]	$ 2,207,014,000	$ -	$ -	$ 161,234,000	$ 39,721,000	$ 480,000,000	$ 1,526,059,000	$ -	$ -	$ -
Airfield and Apron Projects											
Taxilane S		140,532,000	-	48,468,000	-	-	-	92,064,000	-	-	-
Taxilane T		156,284,000	-	105,000,000	1,922,000	-	-	49,362,000	-	-	-
Bradley West Aprons		126,109,000	-	-	6,005,000	-	-	120,104,000	-	-	-
Construction Support Facilities		9,475,000	-	-	9,475,000	-	-	-	-	-	-
	[c2]	$ 432,400,000	$ -	$ 153,468,000	$ 17,402,000	$ -	$ -	$ 261,530,000	$ -	$ -	$ -
Total Ongoing Projects	**[C]=[c1]+[c2]**	**$ 2,639,414,000**	**$ -**	**$ 153,468,000**	**$ 178,636,000**	**$ 39,721,000**	**$ 480,000,000**	**$ 1,787,589,000**	**$ -**	**$ -**	**$ -**
TOTAL SERIES 2012 PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING PROJECTS	**= [A+B+C]**	**$ 6,951,087,000**	**$ 194,317,000**	**$ 195,468,000**	**$ 1,471,243,000**	**$ 147,505,000**	**$ 640,607,000**	**$ 1,787,589,000**	**$ 252,199,000**	**$ 520,950,000**	**$ 1,741,209,000**

NOTES:
1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
2/ Includes funds from the Terminal Renewal and Improvement Fund.
3/ Other Funds include grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/3rd party funding.
4/ Prior bond proceeds for Terminal 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 2017--see Table 4-3. Future bond proceeds used for Airfield and Apron Projects are assumed as future Subordinate Bonds and all other future bonds are asumed as future Senior Bonds.
6/ Other Incorporated Projects are future projects that are anticipated to be completed during the Projection Period. The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the report (with the impacts reflected in the Projection Period).
7/ Includes the renovation and modernization of terminal facilities, as well as improvements to baggage screening systems, concessions, bathrooms, and other facilities with various terminals.
8/ Includes a concessions enabling project, buyout of a First Class lounge, improvements to the Commuter Terminal, relocation of a passenger boarding bridge, and a project to provide aircraft ground power.
9/ Includes rehabilitation of Runways 24R and 25L, Taxilane D-10 reconstruction, Airport Operation Areas (AOA) perimeter fence enhancements, and other airfield and apron improvements.
10/ Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds. The financial impacts, if any, associated with Ongoing Projects are incorporated in the report (with the impacts reflected in the Projection Period).

SOURCE: City of Los Angeles, Department of Airports, October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

Table ES-3 Estimated Sources and Uses of Funds -- Series 2012 Bonds

		SERIES 2012 BONDS
Sources:		
Par Amount of Bonds	$	237,320,000
Original Issue Premium / (Discount)		25,789,000
Total Sources	**$**	**263,109,000**
Uses:		
Project costs funded with Bond proceeds [1/]	$	252,199,000
Senior Debt Service Reserve Fund		9,222,000
Costs of issuance		1,688,000
Total Uses	**$**	**263,109,000**

NOTE:
1/ Includes refunding of Subordinate Commercial Paper Notes.

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

Potential Refunding Bonds

The Department recently refunded and defeased all of its outstanding Senior Revenue Bonds, 2002 Series A and 2003 Series B, with proceeds from an issuance of commercial paper. The Department plans to refund the portion of the commercial paper associated with the defeasance of the Series 2002A Bonds through either a private placement of bonds or the issuance of senior refunding revenue bonds. This defeasance and refunding of the Series 2002A Bonds is expected to produce debt service savings to the Department. The commercial paper issued to defease the Series 2003B Bonds will remain outstanding and will be amortized in a manner consistent with the original amortization of the Series 2003B Bonds. The defeasance of Series 2003B Bonds is reflected in the Report by shifting the related debt service from Senior Revenue Bonds to subordinate commercial paper as of the date of the defeasance with debt service amounts unchanged. Neither the refunding and defeasance of the Series 2002A Bonds, nor the refunding of the commercial paper issued for such refunding and defeasance and the associated debt service savings, are incorporated in the Report. Actual debt service related to the refunding of the commercial paper issued to refund and defease the Series 2002A Bonds is expected to be lower relative to what is reflected in the Report for Series 2002A Bond debt service, and there would not be a material impact on projected debt service coverage ratios or passenger airline payments per enplaned passenger.

Capital Program

As reflected on Table ES-2 and discussed in Chapter 3 (Airport Facilities and Capital Program) of the Report, the Department's Capital Program is organized for the purposes of the Report into the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects. The Series 2012 Projects reflect those projects to be funded, in part, with Series 2012 Bond proceeds. Other Incorporated Projects include future projects other than the Series 2012 Projects that the Department expects to be completed during the Projection Period. Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds. Financial analyses summarized later in this Executive Summary and presented in more detail in Chapter 4 of the Report incorporate the financial impacts of the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects.

Key Assumptions:

- The estimated use of Department funds is based on an internal Department requirement that unrestricted cash plus the balance in the M&O Reserve Fund must be greater than or equal to annual LAX M&O Expenses.
- The Department will receive funds from Transportation Security Administration (TSA) grants, Airport Improvement Program (AIP) grants, and other funds, as indicated on Table ES-2. For purposes of the Report, it is assumed that grant amounts reflected on Table ES-2 will not be impacted by the Federal Budget Control Act of 2011.

Future Bonds

As reflected on Table ES-2 and described in more detail in Table 4-3 in Chapter 4 (Financial Analysis) of the Report, subsequent to the issuance of the Series 2012 Bonds, the Department anticipates issuing Additional Senior Bonds and bonds pursuant to the Department's Master Subordinate Trust Indenture, as amended and supplemented (referred to as the Subordinate Indenture) to help finance the Terminal 5 Improvement Project and certain Other Incorporated Projects. The debt service structure and mix of future Additional Senior Bonds and Additional Subordinate Bonds may vary from what is reflected in the Report depending on decisions by the Department regarding optimal debt service structure and mix of Senior Bonds and Subordinate Bonds. Table ES-2 also reflects Ongoing Projects. The Department does not expect to issue any additional bonds to fund Ongoing Projects.

As described in more detail in the "CAPITAL PLANNING" section of the Official Statement for the Series 2012 Bonds, in July 2012, the Department released a Preliminary LAX Specific Plan Amendment Study Report (LAX SPAS Report) and a draft environmental impact report (LAX SPAS Draft EIR), copies of which are available on the Department's website. The LAX SPAS Draft EIR identified and evaluated nine alternatives for the Yellow Light Projects, the environmental impacts of each and mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan Program EIR along with other required components of an environmental impact report pursuant to CEQA. As described in the LAX SPAS Report, the nine SPAS alternatives were formulated at a programmatic level of conceptual planning, and no design or engineering plans, or construction phasing plans or schedules, were prepared in conjunction with any of the alternatives. The LAX SPAS Report generally assumed that improvements proposed under each alternative would be completed by 2025, but there is no specific requirement that any such improvements be completed by 2025. For the purposes of the Report, it was assumed that construction of any improvements ultimately proposed by the Department under a preferred alternative would not be started until after the Projection Period.

Key Assumptions:

- Future bonds issued to help finance Airfield or Apron projects were assumed to be Subordinate Bonds. All other future bonds were assumed to be Senior Bonds.
- Future bonds (subsequent to the Series 2012 Bonds) were assumed to be issued with 25-year to 30-year final maturities and an overall interest rate of 6.00 percent. Future bonds are assumed to be issued with approximately level debt service.
- Interest on future bonds is capitalized through the various estimated project completion dates.
- A portion of the proceeds of future bonds will fund any required deposit to the Senior Reserve Fund and/or Subordinate Reserve Fund.

Senior Indenture and Debt per Enplaned Passenger

Senior Bonds are secured by a pledge of Net Pledged Revenues and by certain funds and accounts held by the Senior trustee (as described in the Senior Indenture). The Senior Indenture requires, among other things, that (1) certain financial tests be met before additional Senior Bonds can be issued and (2) 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 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.

As of November 1, 2012, $2.661 billion of aggregate principal amount of Senior Bonds and $782.6 million of aggregate principal amount of Subordinate Bonds were outstanding. Total outstanding Senior and Subordinate principal as of November 1, 2012 (not including commercial paper) was equal to approximately $109 per enplaned passenger (using actual FY 2012 enplaned passengers). With the issuance of the Series 2012 Bonds, debt per enplaned passenger is expected to increase to approximately $114 in FY 2013 (using projected FY 2013 enplaned passengers).

Use of PFC Revenues

As discussed in Chapter 4 (Financial Analysis) of the Report, the Department expects to use certain available PFC revenues to pay a portion of the debt service associated with (1) 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); (2) the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and the Series 2010D Senior Bonds); and (3) certain future terminal projects. The use of PFC revenues to pay portions of debt service associated with the TBIT and Bradley West projects has already been approved by the Federal Aviation Administration (FAA), and the Department expects to submit future PFC applications for future terminal projects. 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, the principal of and/or interest on Senior Bonds paid with PFC revenues is excluded from the calculation of Senior Aggregate Annual Debt Service. 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. The estimated capital project funding sources, projected airline payments, and other key financial results reflected in the Report are based on the assumption that the current $4.50 PFC level at the Airport is not increased throughout the Projection Period. 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 the Report.

Key Assumptions:

- PFC Revenues will be used to pay certain eligible terminal debt service (including already-approved amounts for TBIT and Bradley West and amounts for future terminal projects subject to future FAA approvals).
- The PFC level at the Airport stays at $4.50 throughout the Projection period.

Economic Base for Air Transportation

The demand for air transportation is, to a large degree, dependent upon the demographic and economic characteristics of the Air Trade Area (as defined above in the section titled "Airport"). Factors and current conditions in the Air Trade Area's regional economy that affect demand for air travel include population growth, population diversity, gross domestic product, gross regional product, per capita income, and employment. The following is a summary of data that indicate that the Air Trade Area has an economic base capable of supporting increased demand for air travel during the projection period. **Table ES-4** provides an overview of key economic indicators. Please see Chapter 1 (Economic Base for Air Transportation) of the Report for detailed information and data sources.

Population. The Air Trade Area has a substantial population base with approximately 18.1 million residents in 2011. It is ranked as the second largest metropolitan area in the United States. Between 2011 and 2018, population in the Air Trade Area is projected to increase at a rate of 1.1 percent per year, a rate that is higher than the forecasted compound annual growth rate (CAGR) for California and the U.S. (both 1.0 percent).

Income. In 2011, the per capita personal income in the Air Trade Area ($43,651) was 5.3 percent lower than that of California ($46,098) and 2.2 percent higher than that of the U.S. ($42,702). Projections show that per capita personal income in the Air Trade Area will continue to exceed that of the U.S. while lagging that of California. In 2018, the Air Trade Area's per capita personal income is estimated at $46,575, reflecting a CAGR of 0.9 percent between 2011 and 2018. Approximately 37.6 percent (approximately 2.2 million) of the Air Trade Area's households earned more than $75,000 in 2011, the income category that generates the most expenditures on airline fares. 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. Income projections show continued growth in the number of the Air Trade Area's households with income greater than $75,000 between 2011 and 2016.

Per Capita Gross Domestic/Regional Product. Per capita gross domestic product (U.S.-level data) and per capita gross regional product (state- and county-level data) are strong indicators of the economic health of a particular area and, consequently, of the area's potential demand for air travel services. In 2011, the Air Trade Area's per capita gross regional product was estimated at $47,804. It is projected to increase to $52,389 by 2018 reflecting a CAGR of 1.3 percent between 2011 and 2018.

Employment. Non-agricultural employment in the Air Trade Area increased from approximately 9.1 million workers in 2001 to approximately 9.3 million workers in 2011. This increase represents a CAGR of 0.2 percent during the 2001-2011 period, compared with 0.1 percent for the State of California and 0.5 percent for United States between 2001 and 2011. The distribution of employment in major industry sectors (services, trade, manufacturing, transportation, utilities, etc.) in the Air Trade Area is generally consistent with that of California and the U.S., and indicates that the Air Trade Area has a diversified employment base. In August 2012 (latest data available), the non-seasonally adjusted unemployment rate in the Air Trade Area was 10.7 percent. This is above the rate in California and the U.S., where the non-seasonally adjusted unemployment rate was 10.4 percent and 8.2 percent, respectively, in August 2012.

Table ES-4 Summary of Demographic and Economic Characteristics

POPULATION	HISTORICAL 2011	PROJECTED 2018	CAGR [1/] 2011-2018
Air Trade Area	18,115,184	19,562,510	1.1%
California	37,711,879	40,431,851	1.0%
United States	312,308,189	334,525,142	1.0%

PER CAPITA GDP/GRP (in 2011 dollars)	HISTORICAL 2011	PROJECTED 2018	CAGR 2011-2018
Air Trade Area	$47,804	$52,389	1.3%
California	$50,238	$55,019	1.3%
United States	$46,114	$50,447	1.3%

PER CAPITA PERSONAL INCOME (in 2011 dollars)	HISTORICAL 2011	PROJECTED 2018	CAGR 2011-2018
Air Trade Area	$43,651	$46,575	0.9%
California	$46,098	$48,985	0.9%
United States	$42,702	$45,612	0.9%

EMPLOYMENT	HISTORICAL 2001	HISTORICAL 2011	CAGR 2001-2011
Air Trade Area	9,090,595	9,286,777	0.2%
California	19,095,280	19,294,055	0.1%
United States	160,379,182	168,907,995	0.5%

UNEMPLOYMENT RATE	AIR TRADE AREA	UNITED STATES	VARIANCE
2001	5.3%	4.7%	0.6%
2011	11.8%	8.9%	2.9%
August 2012 [2/]	10.7%	8.2%	2.5%

OTHER DEMOGRAPHC CHARACTERISTICS	AIR TRADE AREA	CALIFORNIA	UNITED STATES
2011 Popuation 35 - 54 years [3/]	28.1%	27.8%	27.7%
2011 Households with Income of $75,000 and Above [4/]	37.6%	39.3%	31.9%

NOTES:

1/ CAGR = compound annual growth rate.

2/ August 2012 unemployment rates are not seasonally adjusted. Seasonally adjusted monthly unemployment data are not available for the Air Trade Area. In August 2012, the seasonally adjusted unemployment rate for the U.S. was 8.1%.

3/ Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics indicate that people in this age group account for the largest percentage of airline fares expenditures compared to other age groups.

4/ Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics indicate that people in this income group account for the largest percentage of airline fares expenditures compared to other income groups.

SOURCES: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012 (Population, Per Capita GDP/GRP, Per Capita Personal Income); U.S. Department of Labor, Bureau of Labor Statistics, July 2012 (U.S. Unemployment); State of California Employment Development Department, Labor Market Information, July 2012 (Air Trade Area Unemployment); ESRI Demographic and Income Profile June 2012 (Age, Households with Income of $75,000 and Above).

PREPARED BY: Partners for Economic Solutions, October 2012.

Extensive Business Network. In 2012, 21 companies headquartered in the Air Trade Area were listed among the top 500 U.S. companies by *Fortune* magazine when ranked by 2011 annual revenue. The Air Trade Area has the fifth highest number of Fortune 500 headquarters in the U.S.. Major companies that are headquartered in the Air Trade Area include Walt Disney, Northrop Grumman, Amgen, and Mattel. In addition, data indicate that an estimated 1,250 foreign firms are located within 50 miles of LAX with approximately 2,300 branches, subsidiaries, or affiliates in the U.S.

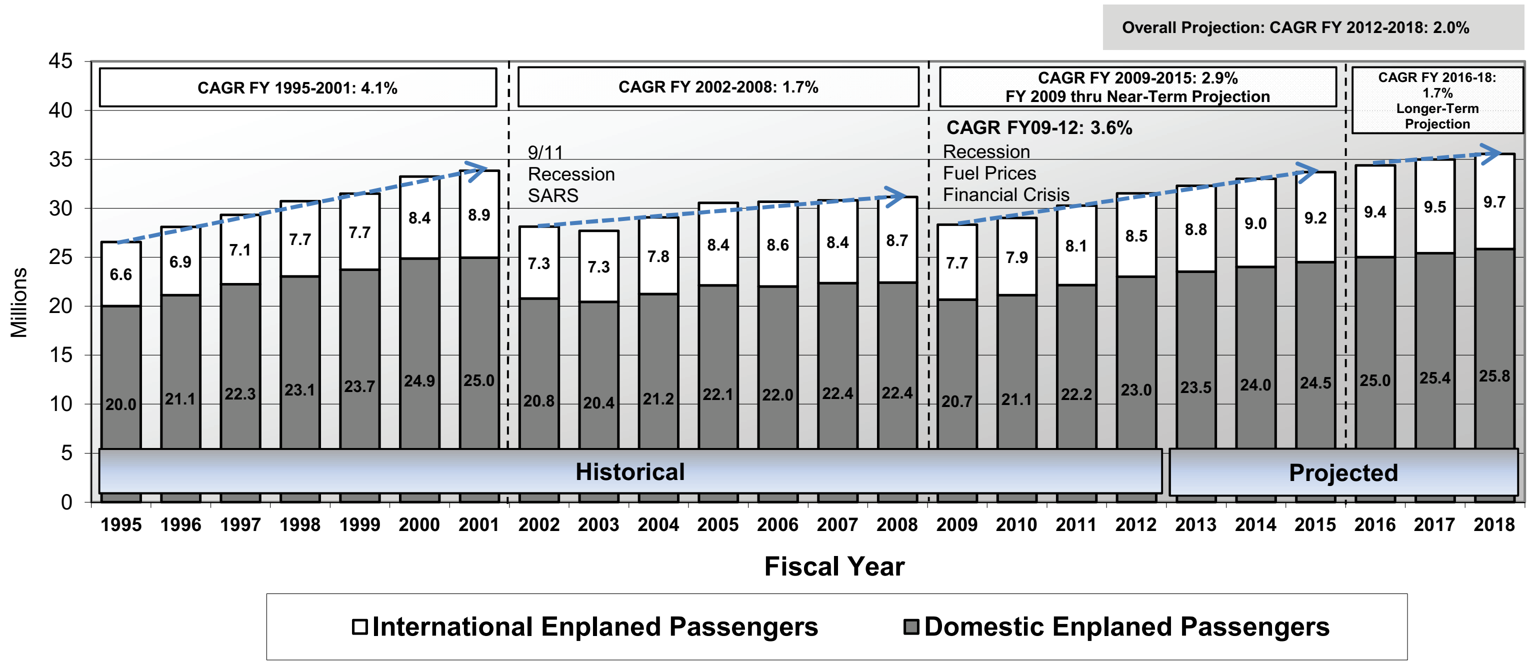
Significant Tourism Stimulates Demand for Leisure Travel. The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. The Air Trade Area hosted a record high 26.9 million overnight visitors in 2011, a 4.2 percent increase over the number of visitors in 2010. These visitors generated a record high $15.2 billion in direct spending, a 7.8 percent increase over 2010. Tourism-related industries are a leading employer in the Air Trade Area with 964,620 workers employed in this sector in 2011.

Economic Outlook. 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. In the wake of the December 2007-June 2009 recession, the U.S. economy is experiencing weaknesses in housing construction, consumer spending, and business investment, as well as relatively high unemployment and low GDP growth. The most recently published forecast by business economists from the National Association for Business Economics (NABE) indicates consensus for modest GDP growth in 2012 and for the U.S. unemployment rate to remain above 8.0 percent. The NABE forecast estimates an annual U.S. unemployment rate of 8.1 percent in 2012. In terms of real GDP growth, the NABE forecast estimates that the U.S. economy will grow at an annual rate of 2.3 percent in 2012. Similar to the NABE forecast, a recent report from the Los Angeles County Economic Development Corporation indicates that although the Air Trade Area economy is recovering and unemployment is gradually diminishing, progress is expected to be slow.

Air Traffic

Exhibit ES-1 reflects historical enplaned passengers at the Airport for FY 1995 through FY 2012, as well as projections through FY 2018 presented in Chapter 2 (Air Traffic) of the Report.

In FY 2008, total enplaned passengers at the Airport increased 1.1 percent from FY 2007, reaching 31.1 million enplaned passengers in FY 2008. International enplaned passengers at the Airport in FY 2008 (at 8.7 million) had nearly reached the previous peak of 8.9 million at the Airport in FY 2001.



Fiscal Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
International	6.6	6.9	7.1	7.7	7.7	8.4	8.9	7.3	7.3	7.8	8.4	8.6	8.4	8.7	7.7	7.9	8.1	8.5	8.8	9.0	9.2	9.4	9.5	9.7
Domestic	20.0	21.1	22.3	23.1	23.7	24.9	25.0	20.8	20.4	21.2	22.1	22.0	22.4	22.4	20.7	21.1	22.2	23.0	23.5	24.0	24.5	25.0	25.4	25.8

SOURCES: City of Los Angeles, Department of Airports (Historical), August 2012; Ricondo & Associates, Inc. (Projected), September 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

Exhibit ES-1

Historical and Projected Enplaned Passengers

In FY 2009, as a result of the global economic downturn and capacity reductions by U.S. and foreign flag carriers, domestic enplaned passengers at the Airport decreased 7.9 percent from FY 2008, and international enplaned passengers at the Airport decreased by 12.0 percent from FY 2008.[2] Total enplaned passengers at the Airport decreased 9.0 percent in FY 2009, to 28.3 million. Following the global recession and the subsequent rebound in traffic starting in FY 2010, the Airport experienced a recovery, recording increasing passenger activity in each year from FY 2010 to FY 2012. Total enplaned passengers at the Airport increased at a CAGR of 3.6 percent between FY 2009 and FY 2012, reaching 31.5 million enplaned passengers in FY 2012--growth during this period was nearly identical for domestic and international activity at the Airport (with CAGRs of 3.7 percent and 3.5 percent, respectively). The overall 3.6 percent growth rate from 2009 to 2012 outpaced overall U.S. enplaned passenger activity, which increased at a CAGR of only 1.0 percent during this same period. International enplaned passengers in FY 2012 (8.5 million) were below the previous peak of 8.9 million at the Airport in FY 2001 (as periods of positive growth since FY 2001 have not offset the 17.2 percent decrease in FY 2002 and the 12.0 percent decrease in FY 2009). See Section 2.5 (Historical Airport Activity) for further information.

Projections of aviation demand at the Airport (discussed in Sections 2.6.1, 2.6.2, and 2.6.3) were developed after analyzing several different projection methodologies for both the Near-Term (FY 2013 through FY 2015) and the Longer-Term (FY 2016 through FY 2018)—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 the 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 discussed in Section 2.6 that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A.

Enplaned passengers at the Airport are projected to increase 2.5 percent in FY 2013, relative to FY 2012 enplaned passengers. With expectations of continued recovery from the recent recession, enplaned passengers are projected to increase further in FY 2014 and FY 2015 at annual growth rates of 2.2 percent and 2.0 percent, respectively. In the longer term, it is expected that 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. Longer-term growth in total enplaned passengers is expected through the remainder of the Projection Period at rates generally lower than in the Near-Term. Total enplaned passengers at the Airport are projected to increase at a CAGR of 2.0 percent between FY 2012 and FY 2018. It is expected that certain legacy carriers will continue to re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international enplaned passengers are projected to grow at a CAGR of 2.3 percent between FY 2012 and FY 2018, while domestic enplaned passengers will experience a slower growth at a projected CAGR of 1.9 percent during this same period.

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2 This 7.9 percent decrease in domestic enplaned passengers at the Airport in FY 2009 was similar to the 7.3 percent decrease in domestic enplaned passengers nationwide for federal FY ending September 2009.

Financial Analysis

Chapter 4 of the Report presents the financial analysis undertaken by R&A to demonstrate the ability of the Department to comply with certain requirements of the Senior Indenture, including the senior rate covenant as set forth in Section 5.04 of the Senior Indenture (the Senior Rate Covenant), on a pro forma basis for the Projection Period. **Table ES-5** presents a summary of key financial metrics including projected debt service coverage ratios and passenger airline cost per enplaned passenger (CPE). In preparing the financial projections, R&A reviewed, among other things, the terms of the Senior Indenture; the terms of the Series 2012 Bonds as provided by the Department's financing team; the Airport's outstanding financial obligations; the Airport's capital program and proposed funding sources including estimated additional borrowing beyond the Series 2012 Bonds; and governing documents related to airline rates and charges at the Airport (including the Air Carrier Operating Permit, the LAX Passenger Terminal Tariff (the Airport Terminal Tariff), the Rate Agreement, and existing terminal leases). On the basis of the assumptions and analyses described in the 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, and that 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. R&A is also of the opinion that projected passenger airline CPE for the Airport will remain reasonable as compared to other large-hub U.S. airports through the Projection Period.

Key Assumptions:

- LAX M&O Expenses: Projections based on FY 2013 Budget. Base expense growth equal to 5.0 percent assumed for all categories of expenses, plus additional expenses incorporated for future facilities (including Bradley West Project, T4/TBIT Connector Building, and Midfield Satellite Concourse—Phase 1).
- Nonairline Revenues: Projections based on FY 2013 Budget and on historical trends; current rate schedules; contract provisions; estimated impacts related to Other Incorporated Projects and Ongoing Projects; and projected growth in Airport activity.
- Terminal Rentals: Projections of terminal rentals assume: (1) all airlines will pay terminal rentals subject to their existing leases or the Airport Terminal Tariff rate methodology through December 2012 (before changes recently adopted for the Airport Terminal Tariff become effective on January 1, 2013); (2) American Airlines will continue to pay rents pursuant to its prior lease (throughout the Projection Period); (3) beginning January 1, 2013, all other airlines will pay rents for certain space based on the Rate Agreement (at rates lower than those to be charged under the Airport Terminal Tariff); (4) Air Canada and Hawaiian Airlines will also continue to pay certain fixed rent amounts through June 2013 for certain terminal space pursuant to prior leases; and (5) United Airlines and Delta Air Lines will also continue to pay for certain terminal space pursuant to prior leases expiring in 2017. It should be noted that after January 1, 2013, certain airlines are assumed to pay for certain amounts of space under prior terminal leases and certain amounts of space under the Rate Agreement.
- Transfers: No Transfers, as defined in the Senior Indenture, were assumed in the Report for the purposes of calculating debt service coverage ratios.

Table ES-5 Summary of Key Financial Metrics

Fiscal Years Ending June 30

		PROJECTED FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
PLEDGED REVENUES							
Airline Terminal Rentals, Landing Fees, and Apron Fees		$ 439,988,691	$ 518,231,805	$ 605,254,406	$ 687,944,107	$ 744,409,542	$ 841,433,470
Aviation Revenues		142,736,264	149,321,588	156,898,928	163,341,822	167,576,923	172,725,634
Concession Revenues		291,324,000	349,682,642	369,346,559	386,618,251	402,695,971	424,936,420
Airport Sales & Services		2,451,000	2,540,190	2,629,641	2,722,664	2,811,606	2,901,853
Miscellaneous Revenues		9,701,564	9,770,264	9,842,399	9,918,141	9,847,246	9,775,165
Investment Earnings		16,349,731	25,307,258	34,021,314	37,092,127	40,806,721	47,902,039
Total Pledged Revenues	[A]	$ 902,551,251	$ 1,054,853,748	$ 1,177,993,247	$ 1,287,637,113	$ 1,368,148,008	$ 1,499,674,581
LAX M&O EXPENSES	[B]	$ 605,738,980	$ 669,920,929	$ 703,417,226	$ 745,516,587	$ 782,792,516	$ 836,779,492
NET PLEDGED REVENUES	[C]=[A]-[B]	$ 296,812,271	$ 384,932,819	$ 474,576,022	$ 542,120,526	$ 585,355,492	$ 662,895,088
DEBT SERVICE							
Senior Debt Service		$ 86,715,449	$ 160,503,650	$ 216,244,496	$ 265,337,347	$ 283,787,771	$ 337,043,425
Less PFC Revenues Used to Pay Senior Debt Service		(34,403,945)	(99,970,135)	(89,891,630)	(134,881,612)	(166,561,737)	(199,562,814)
Senior Aggregate Annual Debt Service 1/	[D]	$ 52,311,504	$ 60,533,515	$ 126,352,866	$ 130,455,735	$ 117,226,034	$ 137,480,610
Subordinate Aggregate Annual Debt Service	[E]	61,074,558	71,445,415	62,987,437	83,420,012	88,036,596	99,792,719
Senior and Subordinate Aggregate Annual Debt Service	[F]=[D]+[E]	$ 113,386,062	$ 131,978,930	$ 189,340,303	$ 213,875,747	$ 205,262,630	$ 237,273,330
M&O Reserve	[G]	6,795,697	15,960,263	8,399,879	10,528,825	9,346,524	13,475,300
NET FUNDS REMAINING	[H]=[C]-[F]-[G]	176,630,512	236,993,625	276,835,839	317,715,953	370,746,338	412,146,459
DEBT SERVICE COVERAGE							
Senior Bond Debt Service Coverage 2/	**= [C] / [D]**	**5.67**	**6.36**	**3.76**	**4.16**	**4.99**	**4.82**
SUBORDINATE PLEDGED REVENUES	[I]=[C]-[D]	$ 244,500,767	$ 324,399,304	$ 348,223,156	$ 411,664,790	$ 468,129,458	$ 525,414,478
Subordinate Bond Debt Service Coverage 2/	**= [I] / [E]**	**4.00**	**4.54**	**5.53**	**4.93**	**5.32**	**5.27**
Total Debt Service Coverage 2/	**= [C] / [F]**	**2.62**	**2.92**	**2.51**	**2.53**	**2.85**	**2.79**
PASSENGER AIRLINE COST PER ENPLANED PASSENGER							
Airline Terminal Rentals, Landing Fees, and Apron Fees		$ 439,988,691	$ 518,231,805	$ 605,254,406	$ 687,944,107	$ 744,409,542	$ 841,433,470
Less: Cargo Airline Landing Fees		(21,873,564)	(23,100,313)	(23,606,472)	(25,567,693)	(27,872,520)	(30,423,907)
Passenger Airline Revenues		$ 418,115,127	$ 495,131,492	$ 581,647,934	$ 662,376,414	$ 716,537,022	$ 811,009,563
Enplaned Passengers		32,298,200	33,006,100	33,682,300	34,376,500	34,975,900	35,561,400
Passenger Airline Cost Per Enplaned Passenger		**$ 12.95**	**$ 15.00**	**$ 17.27**	**$ 19.27**	**$ 20.49**	**$ 22.81**

NOTES:

1/ Senior Aggregate Annual Debt Service is net of PFC Revenues expected to be used 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, October 2012; Ricondo & Associates, Inc., October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

1. Economic Base for Air Transportation

The demand for air transportation activity depends, to a large degree, 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 2011.

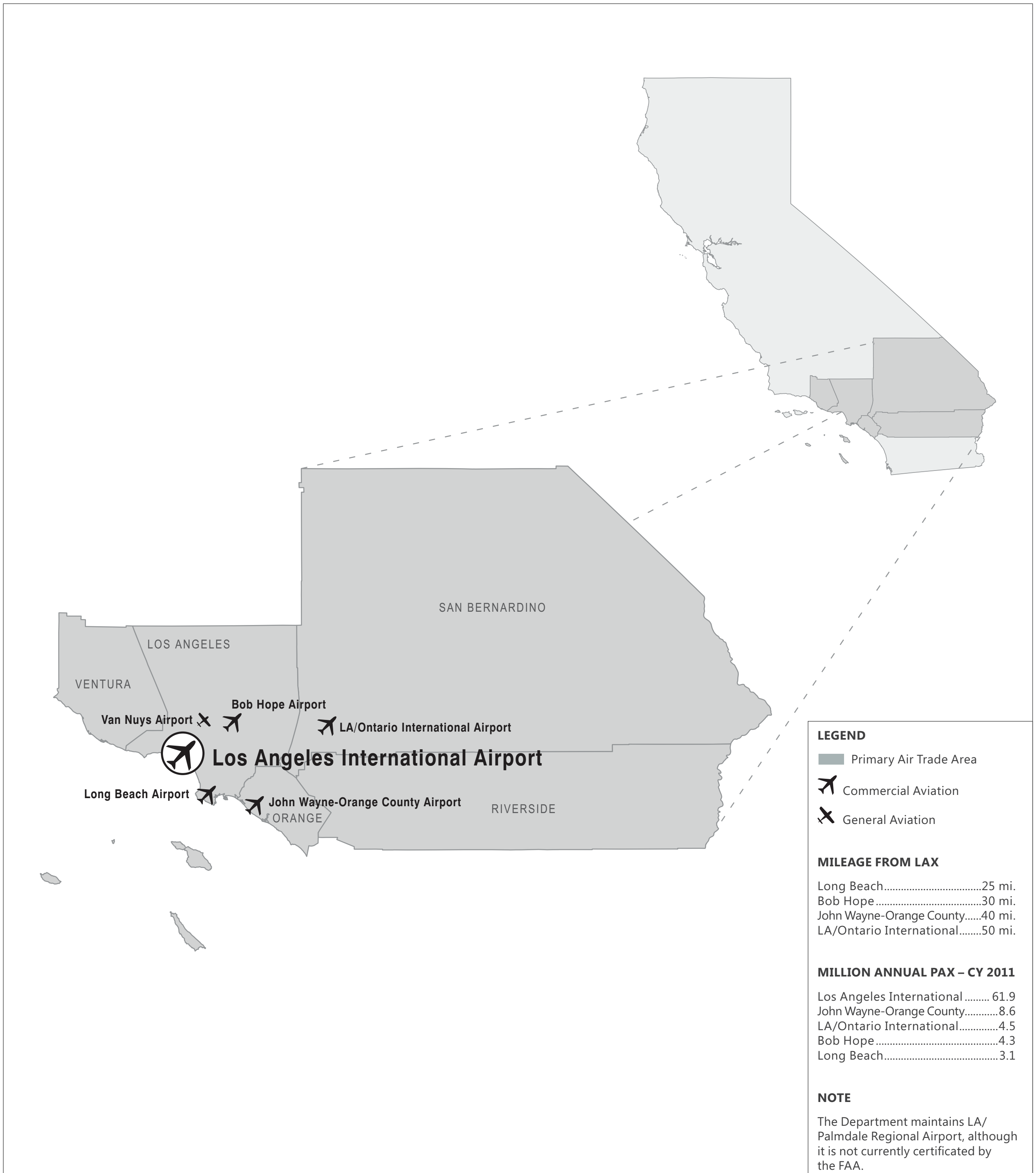
This chapter profiles the Los Angeles regional economy, including current conditions and trends.[1] It presents data that indicate that the Airport's air trade area has an economic base capable of supporting increased demand for air travel and freight services at the Airport during the projection period.

For purposes of this report, the Airport's "Air Trade Area" is comprised of Los Angeles County, Orange County, Riverside County, San Bernardino County, and Ventura County, also known as the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA). The Air Trade Area is presented in **Exhibit 1-1**.

1.1 Demographic Analysis

Data for population, age distribution, population diversity, and educational attainment for the Air Trade Area are discussed below and are presented in Tables 1-1 through 1-5. 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 This chapter has been prepared by Partners for Economic Solutions, a consulting firm based in Washington, D.C. that specializes in regional economic analysis.



SOURCE: Map Resources 2007.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

EXHIBIT 1-1

0 Not to Scale

LAX Air Trade Area

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1.1.1 POPULATION

The Air Trade Area, with just over 18.1 million people in 2011, is the second-largest of the 126 Combined Statistical Areas (CSA) in the United States, as measured by population.[2] Only the New York-New Jersey-Bridgeport CSA, with approximately 22.2 million people, provides a larger market for air transportation. Further, the Air Trade Area has approximately 8.6 million more people than the third-largest consolidated market in the United States (the Chicago-Naperville-Michigan City CSA). (See **Table 1-1**.)

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 16.4 million, and by 2011 it had increased to more than 18.1 million. (See **Table 1-2**). The Air Trade Area added approximately 1,689,000 persons to its population between 2000 and 2011 (over 153,000 per year), and its 0.9 percent compound annual growth rate (CAGR) over the 11-year period was similar to that of both California and the U.S. In 2011 the Air Trade Area accounted for 48.0 percent of California's population, and 5.8 percent of the U.S. population.

The Air Trade Area population forecast for the period 2011 to 2018 reflects a CAGR of 1.1 percent, and is slightly higher than the forecasted CAGR for California and the U.S. (1.0 percent). It is expected that an increase in new residents in the Air Trade Area (approximately 1,447,000 between 2011 and 2018) will generate additional demand for air service at the Airport.

1.1.2 AGE DISTRIBUTION

Table 1-3 shows that the median age in the Air Trade Area in 2011 (34.7 years) was lower than in both California (35.2 years) and the U.S. (37.2 years). This reflects a higher than average percentage of residents aged 19 years and below and a lower percentage of residents aged 55 years and above.

Demand for air travel varies by age group. According to Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics, in the U.S. persons between the ages of 35 and 54 account for 48 percent of expenditures on airline fares while persons between 25 and 34 years account for 13 percent. Persons 55 years and over account for 37 percent of airline fare expenditures.[3]

In 2011, Air Trade Area residents aged 35 to 54 made up 28.1 percent of the population, compared with 27.8 percent of the population in California and 27.7 percent in the U.S. This is the age group that generates the most expenditures on airline fares and it is represented in the Air Trade Area on a level commensurate with the population in both California and the U.S.

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2 Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012. Woods & Poole Economics Inc. is a data vendor located in Washington, D.C. that specializes in long-term economic and demographic projections for the U.S., 50 states, 3,091 counties and the District of Columbia. Its database contains approximately 900 variables for every county in the United States including population, age, race, ethnicity, income, and employment by industry. Its demographic projections are revised annually to reflect both new computational techniques and new data sources. Woods & Poole's clients include the U.S. Department of Defense, the National Institute of Health, the U.S. Census Bureau, and numerous counties and municipalities.

3 *Who's Buying for Travel*, 7th Edition, 2010, New Strategist Publications. Data in *Who's Buying for Travel* are based on the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey, an ongoing nationwide survey of household spending.

Table 1-1 Ten Largest Metropolitan Regions (2011)

RANK	METROPOLITAN REGION [1/]	ESTIMATED POPULATION
1	New York-Newark-Bridgeport CSA	22,205,476
2	**Air Trade Area**	**18,115,184**
3	Chicago-Naperville-Joliet CSA	9,519,408
4	Washington-Baltimore-Northern Virginia CSA	8,740,088
5	Boston-Worcester-Manchester CSA	7,607,375
6	San Jose-San Francisco-Oakland CSA	7,527,696
7	Dallas-Fort Worth CSA	6,912,127
8	Philadelphia-Camden-Vineland CSA	6,558,859
9	Houston-Baytown-Huntsville CSA	6,202,972
10	Atlanta-Sandy Springs-Gainesville CSA	5,741,130

NOTE:
1/ CSA = Combined Statistical Area

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-2 Historical & Projected Population

	HISTORICAL			PROJECTED	COMPOUND ANNUAL GROWTH RATE		
AREA	**1990**	**2000**	**2011**	**2018**	**1990-2000**	**2000-2011**	**2011-2018**
Air Trade Area	14,597,731	16,426,232	18,115,184	19,562,510	1.2%	0.9%	1.1%
California	29,959,515	33,987,977	37,711,879	40,431,851	1.3%	0.9%	1.0%
United States	249,622,814	282,162,411	312,308,189	334,525,142	1.2%	0.9%	1.0%

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-3 Age Distribution (2011)

	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Total Population	18,115,184	37,711,879	312,308,189
By Age Group			
19 and Under	28.6%	27.9%	26.8%
20 to 24 years	7.5%	7.5%	7.0%
25 to 34 years	14.4%	14.3%	13.4%
35 to 44 years	14.2%	13.8%	13.2%
45 to 54 years	13.9%	14.0%	14.5%
55 to 64	10.4%	11.0%	12.0%
65 and Above	11.1%	11.6%	13.2%
Total	100.0%	100.0%	100.0%
Median Age	34.7 years	35.2 years	37.2 years

SOURCES: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Sources (CEDDS)*, January 2012; ESRI Demographic and Income Profile, June 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

1.1.3 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 an advantage since employees with cultural and linguistic ties to international markets can assist businesses in establishing trade and investment opportunities.[4] A culturally diverse population also engenders business, family, and cultural ties that create demand for air travel services to and from homeland countries. Consumer segmentation data from ESRI[5] and data from the Consumer Expenditure Survey from the U.S. Bureau of Labor Statistics indicate that membership in ethnically and racially diverse social groups can be correlated with higher than average household spending on air travel compared to total U.S. households.[6]

As shown in **Table 1-4**, 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 1-4 show that the percentage of white residents in the Air Trade Area in 2011 (54.9 percent) was somewhat lower than that of California (57.5 percent), and significantly lower than the percentage in the U.S. overall (72.4 percent). Asians constituted a much larger share (12.5 percent) of the Air Trade Area's population compared with the U.S. (4.9 percent), but constituted a smaller percentage when compared with California (13.4 percent). Black or African Americans represented 6.9 percent of Air Trade Area residents, compared with 6.1 percent of California's population and 12.6 percent of the U.S. population.

The percentage of Hispanics in the Air Trade Area is significantly higher than in California or the U.S. overall. As shown in Table 1-4, in 2011 45.3 percent of Air Trade Area were Hispanic, compared with 38.0 percent statewide and 16.6 percent nationally.

1.1.4 EDUCATION

The Air Trade Area is home to a large number of educated adults. According to data shown in **Table 1-5**, more than 3.9 million people, or more than 34 percent of the Air Trade Area's 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 where 36.6 percent of the population over the age of 25 has a post-secondary degree. According to Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics, persons with a college degree generate a high percentage of expenditures on air travel. Data indicate that 63 percent of airline fares are purchased by college graduates, while 23 percent of airline fares are purchased by consumers who have had some college. Fourteen percent of airline fares are purchased by consumers who never attended college.[7]

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4 Frederic Docquier, "Skilled Migration and Business Networks," October 2008, *Open Economies Review*.

5 ESRI, headquartered in Redlands, CA, is a leading demographic data vendor that provides current-year estimates and five-year projections of more than 2,000 data variables including population, race, ethnicity, education and income. ESRI's clients include the United States Army Corps of Engineers, the National Oceanic and Atmosphere Administration (NOAA), the U.S. Department of Homeland Security, and other public agencies at the national, state, and local level.

6 *Who's Buying for Travel*, 7th Edition, 2010, New Strategist Publications; *Tapestry Segmentation Reference Guide*, 2012, ESRI.

7 *Who's Buying for Travel*, 7th Edition, 2010, New Strategist Publications.

Table 1-4 Population by Race and Ethnicity (2011)

	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Total Population	18,115,184	37,711,879	312,308,189
Race			
White	54.9%	57.5%	72.4%
Black or African American	6.9%	6.1%	12.6%
American Indian and Alaska Native	0.8%	1.0%	0.9%
Asian or Pacific Islander	12.5%	13.4%	4.9%
Other Race	20.3%	17.1%	6.3%
More than One Race	4.5%	4.9%	2.9%
Total	100.0%	100.0%	100.0%
Persons of Hispanic Origin [1/]	45.3%	38.0%	16.6%

NOTE:
1/ Race data are based on self-identification according to U.S. Census defined race categories. Hispanic Origin is a description of ethnic origin; it is not a race category. Hispanics are included in all of the U.S. Census defined race categories.

SOURCES: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012; ESRI Demographic and Income Profile, June 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-5 Educational Attainment

	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Population 25 years and over	11,582,667	24,389,026	206,723,036
Less than 9th Grade	12.3%	10.5%	6.3%
9th - 12th Grade, No Diploma	9.8%	8.7%	8.5%
High School Graduate	23.2%	22.9%	29.6%
Some College, No Degree	19.6%	20.3%	19.9%
Post-Secondary Degree	35.2%	37.6%	35.8%
Associate Degree	*7.3%*	*7.7%*	*7.7%*
Bachelor's Degree	*18.3%*	*19.2%*	*17.7%*
Master's Degree or Doctorate	*9.6%*	*10.8%*	*10.4%*
Total	100.0%	100.0%	100.0%

SOURCES: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)* , January 2012; ESRI Market Profile, June 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

1.2 Economic Analysis

Data presented in this section provide a general description of the Air Trade Area's economy and its characteristics. As shown in the following sections, the Air Trade Area is home to numerous Fortune 500 companies and other large employers. The Air Trade Area also has a large percentage of households in high income categories ($75,000 and above).

1.2.1 PER CAPITA GROSS DOMESTIC / REGIONAL PRODUCT

Per capita gross domestic product (U.S.-level data) and per capita gross regional product (state- and county-level data) are measures of the market value of all final goods and services produced within a defined geography, divided by the total population. These indicators are broad measures of the economic health of a particular area and, consequently, of the area's potential demand for air travel services.

Table 1-6 presents historical per capita gross regional product data for the Air Trade Area and California, and per capita gross domestic product data for the U.S. from 2001 to 2011. Data in Table 1-6 show that the Air Trade Area's per capita gross regional product increased from $44,814 in 2001 to $47,804 in 2011. [8] Table 1-6 also indicates that per capita gross regional product for the Air Trade Area increased at a compound annual growth rate of 0.6 percent between 2001 and 2011, compared to a 0.4 percent CAGR for both California and the U.S. during this same period.

Projections for 2018 in Table 1-6 show that per capita gross regional product for the Air Trade Area is projected to increase from $47,804 in 2011 to $52,389 in 2018. This increase represents a CAGR of 1.3 percent for the Air Trade Area and is equal to the CAGR for the California and the U.S. between 2011 and 2018.

1.2.2 PER CAPITA PERSONAL INCOME

Another key indicator of a region's demand for air travel is personal income, or the sum of wages and salaries, other labor income, proprietors' income, rental income of persons, dividend income, personal interest income, and transfer payments less personal contributions for government social insurance. Per capita personal income indicates the relative affluence of a region's residents as well as their ability to afford air travel.

Table 1-7 presents historical per capita personal income between 2001 and 2011 for the Air Trade Area, California, and the United States. From 2001 and 2011, per capita personal income in the Air Trade Area was below that of California by an average of five percent. During the same 10-year period, per capita personal income in the Air Trade Area was above that of the U.S. by an average of two percent. Per capita personal income for the Air Trade Area increased at a CAGR of 1.1 percent between 2001 and 2011, compared with a 0.9 percent CAGR for California and a CAGR of 1.0 percent for the United States during this same period.

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[8] All GDP and GRP figures in this analysis are shown in 2011 dollars.

Table 1-6 Per Capita Gross Domestic / Regional Product

YEAR	PER CAPITA GROSS DOMESTIC / REGIONAL PRODUCT (2011 DOLLARS)		
	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Historical			
2001	$44,814	$48,179	$44,515
2002	$46,031	$48,671	$45,020
2003	$47,293	$49,704	$45,777
2004	$49,151	$51,652	$47,086
2005	$51,102	$53,639	$48,253
2006	$52,853	$55,276	$49,326
2007	$52,893	$55,680	$49,927
2008	$51,698	$54,451	$48,926
2009	$49,225	$51,912	$47,028
2010	$48,108	$50,701	$46,424
2011	$47,804	$50,238	$46,114
Projected			
2018	$52,389	$55,019	$50,447
Compound Annual Growth Rate			
2001-2011	0.6%	0.4%	0.4%
2011-2018	1.3%	1.3%	1.3%

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-7 Per Capita Personal Income

YEAR	PER CAPITA PERSONAL INCOME (2011 DOLLARS) AIR TRADE AREA	CALIFORNIA	UNITED STATES
Historical			
2001	$39,196	$42,082	$38,681
2002	$39,344	$41,702	$38,557
2003	$39,814	$41,967	$38,751
2004	$40,662	$43,138	$39,656
2005	$41,677	$43,991	$40,267
2006	$43,642	$45,907	$41,713
2007	$43,938	$46,521	$42,533
2008	$43,223	$45,690	$42,445
2009	$41,655	$44,109	$41,268
2010	$42,178	$44,612	$41,684
2011	$43,651	$46,098	$42,702
Projected			
2018	$46,575	$48,985	$45,612
Compound Annual Growth Rate			
2001-2011	1.1%	0.9%	1.0%
2011-2018	0.9%	0.9%	0.9%

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)* , January 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Data in Table 1-7 show that per capita personal income in the Air Trade Area is projected to increase at a CAGR of 0.9 percent, from $43,651 in 2011 to $46,575 in 2018.[9] Per capita personal income in California and the U.S. are also projected to have a CAGR of 0.9 percent between 2011 and 2018.

1.2.3 MEDIAN HOUSEHOLD INCOME

The Air Trade Area's estimated 2011 median household income was lower than that of California and above that of the U.S. Data in **Table 1-8** show that in 2011, the Air Trade Area's median household income of $55,500 was 3.6 percent below California's ($57,587) and 10.5 percent higher than that of the U.S. ($50,227). Forecasts for 2016 show that this trend is expected to continue as the Air Trade Area is forecasted to reach a median household income level of $65,317, compared to $68,019 in California and $57,536 in the U.S.[10] The 2016 median household income forecast indicates a CAGR of 3.3 percent for the Air Trade Area, 3.4 percent for California, and 2.8 percent for the U.S.

1.2.3.1 Households with Income of $75,000 and Above

The percentage of higher income households (defined as those earning $75,000 or more annually) within the Air Trade Area is another key indicator of potential demand for air travel services. 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 (see **Table 1-9**). In 2011, approximately 2.2 million Air Trade Area households had an income of $75,000 or more. This is equal to approximately 38 percent of all Air Trade Area households. According to Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics, 65 percent of airline fares expenditures are made by households with annual income of $75,000 or more.[11] Data in **Table 1-10** show that between 2011 and 2016, the number of households with income greater than $75,000 in the Air Trade Area is projected to increase by approximately 493,000.

1.2.4 LABOR FORCE TRENDS AND UNEMPLOYMENT RATES

Table 1-11 shows that between 2001 and 2011, the Air Trade Area labor force grew at a CAGR of 0.74 percent — slightly higher than the labor force CAGR in both California (0.70 percent), and the U.S. (0.67 percent). In absolute terms, the labor force in the Air Trade Area increased by approximately 624,000 workers between 2001 and 2011.

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9 All per capita income figures in this analysis are shown in 2011 dollars.

10 Median household income figures in this analysis are shown in current dollars, i.e., 2011 data are shown in 2011 dollars and 2016 data are shown in 2016 dollars.

11 *Who's Buying for Travel*, 7th Edition, 2010, New Strategist Publications.

Table 1-8 Household Income Distribution

	PERCENTAGE OF HOUSEHOLDS IN INCOME CATEGORIES		
INCOME CATEGORY [1/] (CURRENT DOLLARS)	**AIR TRADE AREA**	**CALIFORNIA**	**UNITED STATES**
2011 Median Household Income	$55,500	$57,587	$50,227
2011 Household Income			
Less than $24,999	22.0%	20.7%	24.7%
$25,000 to $49,999	22.8%	22.4%	25.1%
$50,000 - $74,999	17.5%	17.6%	18.4%
$75,000 - $99,999	12.4%	12.7%	12.0%
$100,000 - $199,999	19.7%	20.7%	15.9%
$200,000 or More	5.5%	5.9%	3.9%
Total	100.0%	100.0%	100.0%
2016 Median Household Income	$65,317	$68,019	$57,536
2016 Household Income			
Less than $24,999	19.1%	17.8%	21.2%
$25,000 to $49,999	19.2%	18.7%	20.9%
$50,000 - $74,999	17.0%	17.1%	20.1%
$75,000 - $99,999	15.4%	15.6%	14.9%
$100,000 - $199,999	23.2%	24.2%	18.6%
$200,000 or More	6.1%	6.6%	4.3%
Total	100.0%	100.0%	100.0%
CAGR Median Household Income 2011-2016	3.3%	3.4%	2.8%

NOTE:
1/ Amounts are shown in current dollars, i.e., 2011 data are shown in 2011 dollars and 2016 data are shown in 2016 dollars.

SOURCE: ESRI Demographic and Income Profile, June 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-9 Five Wealthiest Metropolitan Regions (2011)

RANK	METROPOLITAN REGION [1/]	ESTIMATED HOUSEHOLDS WITH INCOMES OF $75,000 OR MORE
1	New York-Newark-Bridgeport CSA	3,478,409
2	**Air Trade Area**	**2,194,994**
3	Washington-Baltimore-Northern Virginia CSA	1,651,806
4	San Jose-San Francisco-Oakland CSA	1,394,301
5	Chicago-Naperville-Joliet CSA	1,350,327
6	Boston-Worcester-Manchester CSA	1,263,399
7	Dallas-Fort Worth CSA	886,430
8	Philadelphia-Camden-Vineland CSA	913,225
9	Houston-Baytown-Huntsville CSA	743,680
10	Atlanta-Sandy Springs-Gainesville CSA	733,489

NOTE:
1/ CSA = Combined Statistical Area

SOURCE: ESRI Demographic and Income Profile, June 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-10 Households with Income of $75,000 and Above

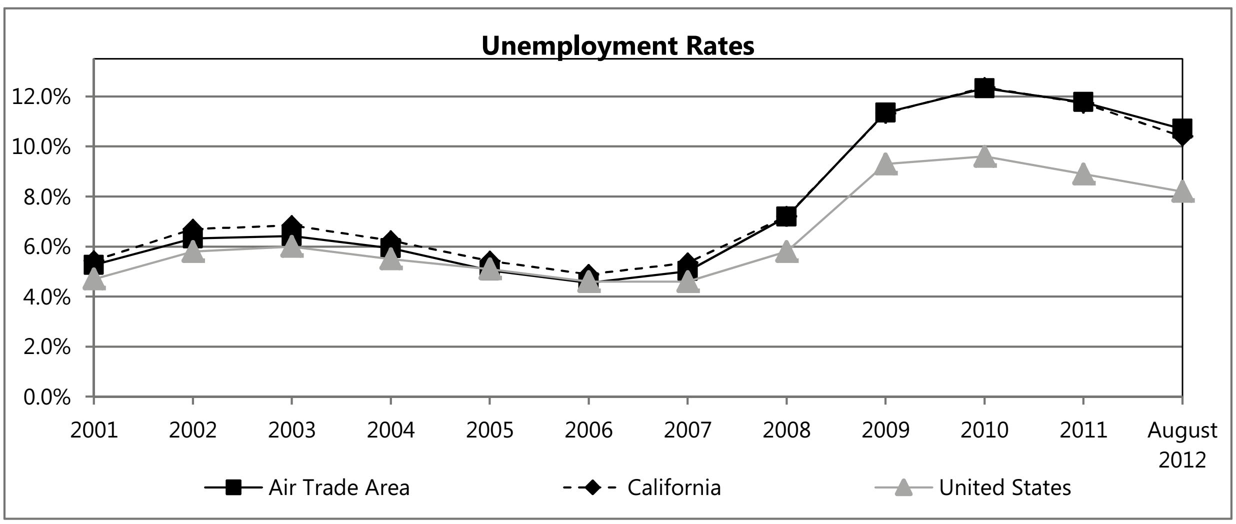
	AIR TRADE AREA	CALIFORNIA	UNITED STATES
Total Households			
2011 Estimate	5,830,213	12,648,236	117,457,661
2016 Forecast	5,996,924	13,052,248	121,712,803
CAGR [1/] 2011-2016	0.6%	0.6%	0.7%
Households with Income of $75,000 [2/] and Above			
2011 Estimate	2,194,994	4,965,533	37,471,560
2016 Forecast	2,687,720	6,051,575	46,051,062
Increase in Households with Income of $75,000 and Above	492,726	1,086,042	8,579,502
CAGR 2011-2016	4.1%	4.0%	4.2%
% of Households with Income of $75,000 [2/] and Above			
2011 Estimate	37.6%	39.3%	31.9%
2016 Forecast	44.8%	46.4%	37.8%
CAGR 2011-2016			
Total Households	0.6%	0.6%	0.7%
Number of Households with Income of $75,000 and Above	4.1%	4.0%	4.2%

NOTE:
1/ CAGR = compound annual growth rate.
2/ In current dollars.

SOURCE: ESRI Demographic and Income Profile, June 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-11 Civilian Labor Force and Unemployment Rates (2001-2012)

CIVILIAN LABOR FORCE				UNEMPLOYMENT RATES			
YEAR	AIR TRADE AREA	CALIFORNIA	UNITED STATES	YEAR	AIR TRADE AREA	CALIFORNIA	UNITED STATES
2001	8,141,701	17,152,100	143,734,000	2001	5.3%	5.4%	4.7%
2002	8,254,602	17,343,600	144,863,000	2002	6.3%	6.7%	5.8%
2003	8,320,703	17,390,700	146,510,000	2003	6.4%	6.8%	6.0%
2004	8,408,904	17,444,400	147,401,000	2004	5.9%	6.2%	5.5%
2005	8,486,405	17,544,800	149,320,000	2005	5.0%	5.4%	5.1%
2006	8,578,606	17,686,700	151,428,000	2006	4.5%	4.9%	4.6%
2007	8,673,707	17,921,000	153,124,000	2007	5.0%	5.4%	4.6%
2008	8,760,308	18,203,100	154,287,000	2008	7.2%	7.2%	5.8%
2009	8,700,209	18,208,300	154,142,000	2009	11.4%	11.3%	9.3%
2010	8,736,510	18,316,400	153,889,000	2010	12.3%	12.4%	9.6%
2011	8,766,111	18,384,900	153,617,000	2011	11.8%	11.7%	8.9%
August 2012 1/	8,666,800	18,406,000	155,255,000	August 2012 1/	10.7%	10.4%	8.2%
Compound Annual Growth Rate							
2001 - 2011	0.74%	0.70%	0.67%				



NOTE:

1/ August 2012 data are not seasonally adjusted. In August 2012, the seasonally adjusted unemployment rate was 10.6% in California and 8.1% in the U.S. Seasonally adjusted monthly unemployment data are not available for the Air Trade Area.

SOURCES: State of California Employment Development Department, Labor Market Information; U.S. Dept. of Labor, Bureau of Labor Statistics, September 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Although the seasonally adjusted annual unemployment rate in the Air Trade Area exceeded that of the U.S. from 2001 through 2004, it was lower than the national unemployment rate in 2005 and 2006, and was higher again from 2007 through 2011. The Air Trade Area's unemployment rate was lower than the State's from 2001 through 2007 and was generally equal to the State's from 2008 through 2011.

In August 2012 (latest data available), the unemployment rate in the Air Trade Area was 10.7 percent (non-seasonally adjusted)[12]; this is higher than the non-seasonally adjusted rate in California (10.4 percent). The non-seasonally adjusted unemployment rate in the U.S. was 8.2 percent in August 2012.[13]

1.2.5 MAJOR CORPORATE HEADQUARTERS / EMPLOYERS IN THE AIR TRADE AREA

As shown in **Table 1-12**, major private sector employers in the Air Trade Area include internationally dominant aerospace companies (Boeing, Northrop Grumman, Raytheon), pharmaceutical and biotechnology companies (Allergan, Amgen, Abbott Laboratories), Walt Disney, a regional grocery chain, restaurant chains, 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 21 companies on the list of Fortune 500 firms ranked by annual revenue (see **Table 1-13**). These companies operate throughout the U.S., Asia, Europe, and other international locations and their activities extend to a network of more than 1,292 overseas offices, manufacturing plants, and other facilities.[14] In addition, an estimated 1,250 foreign firms are located within 50 miles of LAX and they have approximately 2,300 branches, subsidiaries, or affiliates in the U.S.[15]

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.

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12 Seasonally adjusted monthly unemployment data are not available for the Air Trade Area.

13 In August 2012, the seasonally adjusted unemployment rate was 10.6 percent in California and 8.1 percent in the U.S.

14 Uniworld Online, American Firms Operating in Foreign Countries, www.uniworldbp.com, accessed August 2012.

15 Uniworld Online, Foreign Firms Operating in the United States, www.uniworldbp.com, accessed August 2012.

Table 1-12 Major Private Sector Employers [1/]

COMPANY	INDUSTRY	LOCATION
99 Cents Only Stores	Discount Retailer	City of Commerce
Abbott Laboratories	Pharmaceuticals	Monrovia, Temecula
ABM Industries	Facility Services	City of Commerce
ACCO Engineered Systems	HVAC Systems	Glendale
Activision / Blizzard	Entertainment	Irvine, Santa Monica
AECOM	Engineering Consulting	Los Angeles
Allergan	Pharmaceuticals	Irvine
American Apparel	Apparel	Los Angeles
American Honda Motor Corp.	Automobile Manufacturing	Torrance
Amgen	Pharmaceuticals	Thousand Oaks
Aramark	Uniform Apparel	Burbank
AT&T	Telecommunications	Anaheim, Cerritos, Los Angeles
Avery Dennison	Paper Products	Pasadena
Bank of America	Financial Services	Glendale, Los Angeles, Newport Beach
Beckman Coulter	Laboratory Equipment	Irvine
Big 5 Sporting Goods	Retail	El Segundo
Boeing	Aerospace/Defense	El Segundo, Long Beach, Palmdale, Seal Beach
Broadcom	Semiconductors	Irvine
California Pizza Kitchen	Restaurant	Los Angeles
CB Richard Ellis Group	Real Estate	Los Angeles
Chase Bank	Financial Services	Irvine
Cheesecake Factory	Restaurant	Calabasas Hills
Citibank	Financial Services	Glendale
Del Taco LLC	Quick Service Restaurant	Lake Forest
Dine Equity	Restaurant	Glendale
DirecTV	Telecommunications	El Segundo
Dole Food	Food Products	Westlake Village
Edison International	Utility	Rosemead
Edwards Lifesciences Inc.	Medical Device Manufacturer	Irvine
Farmers Insurance Group	Insurance	Los Angeles
FedEx Corp.	Transportation/Freight	Los Angeles
First American Financial Corp.	Title Insurance	Santa Ana
FX Networks	Entertainment	Los Angeles
Golden State Foods Corp.	Food Products	Irvine
Guess	Apparel	Los Angeles
Health Net	Health Care	Woodland Hills
Hot Topic	Retail	City of Industry
IBM	Computer Products	Glendale
Ingram Micro.	Technology Product Distributor	Santa Ana
Integrated Healthcare Holdings Inc.	Health Care	Santa Ana

COMPANY	INDUSTRY	LOCATION
Irvine Company	Real Estate	Newport Beach
Jacobs Engineering Group	Engineering Consulting	Pasadena
JPMorgan Chase	Financial Services	Chatsworth
Live Nation Entertainment	Entertainment	Los Angeles
Mattel	Toy Manufacturing	El Segundo
Medtronic	Medical Device Manufacturer	Northridge
Mercury General	Insurance	Los Angeles
Morongo Casino, Resort & Spa	Gaming	Cabazon
Nestle USA	Food Products	Glendale
Northgate Gonzalez Market	Grocery Retailer	Anaheim
Northrop Grumman	Aerospace	Redondo Beach
Oakley Inc.	Sporting Goods	Foothill Ranch
Occidental Petroleum	Energy	Woodland Hills
Pacific Mutual Holding Co.	Insurance	Newport Beach
Panda Restaurant Group	Quick Service Restaurant	Rosemead
Parsons Brinckerhoff	Construction	Pasadena
Pechanga Resort & Casino	Gaming	Temecula
Pratt & Whitney	Aerospace	Canoga Park
Public Storage	Self Storage Facilities	Glendale
Ralph's Grocery	Grocery Retailer	Compton
Raytheon	Aerospace/Defense	El Segundo
Reliance Steel & Aluminum	Steel	Los Angeles
Spectrum Group International	Precious Metals Trading	Irvine
Stater Bros. Market	Grocery Retailer	San Bernardino
Teledyne Technologies	Electronic Equipment	Thousand Oaks
Tetra Tech	Engineering Consulting	Los Angeles
Time Warner Cable	Telecommunications	Anaheim
Toshiba Corp.	Consumer Electronics	Irvine
Toyota Motor Sales USA	Automobile	Torrance
Trader Joe's	Grocery Retailer	Monrovia
Tutor Perini Corporation	Construction	Sylmar
United Parcel Service	Transportation/Freight	Los Angeles, Ontario
Universal Studios	Entertainment	Universal City
VCA Antech	Animal Health	Los Angeles
Verizon	Telecommunications	Irvine, Thousand Oaks
Vons	Grocery Retailer	Arcadia
Walt Disney	Entertainment	Anaheim, Burbank
Wells Fargo	Financial Services	Irvine, Los Angeles
Yum Brands	Quick Service Restaurant	Irvine

NOTE:
1/ For profit businesses only.

SOURCES: *The Lists 2012*, Los Angeles Business Journal; *The Lists 2012*, San Fernando Valley Business Journal; *Book of Lists 2012*, Orange County Business Journal; "Inland Empire's Largest Employers," *Inland Empire Business Journal*, July 27, 2012; InfoUSA.com; Hoovers.com; August 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-13 Fortune 500 Company Headquarters in the Air Trade Area [1/]

	COMPANY	FORTUNE 500 RANK	2011 REVENUE ($ millions)	LOCATION	INDUSTRY
1	Walt Disney	66	$40,893.0	Burbank	Entertainment
2	Ingram Micro	81	$36,328.7	Santa Ana	Semiconductors
3	DirecTV	105	$27,226.0	El Segundo	Telecommunications
4	Occidental Petroleum	122	$24,216.0	Los Angeles	Energy
5	Amgen	168	$15,582.0	Thousand Oaks	Pharmaceuticals
6	Edison International	211	$12,760.0	Rosemead	Utility
7	Health Net	221	$11,901.0	Woodland Hills	Health Care
8	Jacobs Engineering Group	254	$10,381.7	Pasadena	Engineering Consulting
9	Western Digital	276	$9,526.0	Irvine	Disk Drives
10	Reliance Steel & Aluminum	315	$8,134.7	Los Angeles	Steel
11	AECOM Technology	322	$8,037.4	Los Angeles	Engineering Consulting
12	Broadcom	344	$7,389.0	Irvine	Semiconductors
13	Dole Food	349	$7,223.8	Westlake Village	Food Products
14	Spectrum Group International	352	$7,203.4	Irvine	Precious Metals Trading
15	Avery Dennison	367	$6,786.7	Pasadena	Paper Products
16	Mattel	388	$6,266.0	El Segundo	Toy Manufacturing
17	CBRE Group	416	$5,912.1	Los Angeles	Real Estate
18	Pacific Life	420	$5,879.0	Newport Beach	Insurance
19	Allergan	448	$5,419.1	Irvine	Pharmaceuticals
20	Live Nation Entertainment	450	$5,384.0	Beverly Hills	Entertainment
21	Molina Healthcare	500	$4,769.9	Long Beach	Health Care

NOTE:
1/ Based on 2011 revenues.

SOURCE: "2012 Fortune 500," *Fortune*, May 21, 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

1.2.6 EMPLOYMENT BY MAJOR INDUSTRIAL SECTOR

An analysis of nonagricultural employment trends by major industry divisions, presented in **Table 1-14**, 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 2001 and 2011. Non-agricultural employment in the Air Trade Area increased from approximately 9.1 million workers in 2001 to approximately 9.3 million workers in 2011. This increase represents a 0.2 percent CAGR during this period. The Air Trade Area had a relatively higher proportion of employment in services, wholesale/retail trade, finance/insurance/real estate, and manufacturing compared to California and the U.S. in 2011. (See bar chart in Table 1-14.) Construction and government jobs in the Air Trade Area made up a relatively lower percentage of employment in 2011 in comparison to California and the U.S. The percentage of transportation/utilities jobs was higher in the Air Trade than in California and equal to that of the U.S. in 2011.

Data in Table 1-14 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. Brief profiles of the Air Trade Area's major industries, in descending order of 2011 employment, are provided below.

Services

The services sector in the Air Trade Area employed approximately 4.5 million workers in 2011 and accounted for 48.0 percent of total non-agricultural employment.

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 2011, 21.7 percent of the Air Trade Area's service workers were employed in leisure and hospitality, 19.2 percent were employed in health care, and 17.6 percent were employed in professional, scientific and technical services. In 2011, other service sector categories included: administration and support services (14.5 percent of service workers); information technology (7.0 percent); education (4.8 percent); management of enterprises (2.1 percent); and other services (13.1 percent).[16]

1.2.6.1 Information

Information employment includes jobs in publishing, media, software, internet services, web search, motion picture and sound recording, movie theaters, broadcasting, telecommunications, and data processing. In 2011, approximately 312,000 workers in the Air Trade Area were employed in the information industry. This accounted for 3.4 percent of total nonagricultural employment and exceeded the level in both California and the U.S. where information accounted for 2.9 percent and 2.0 percent of nonagricultural employment, respectively.

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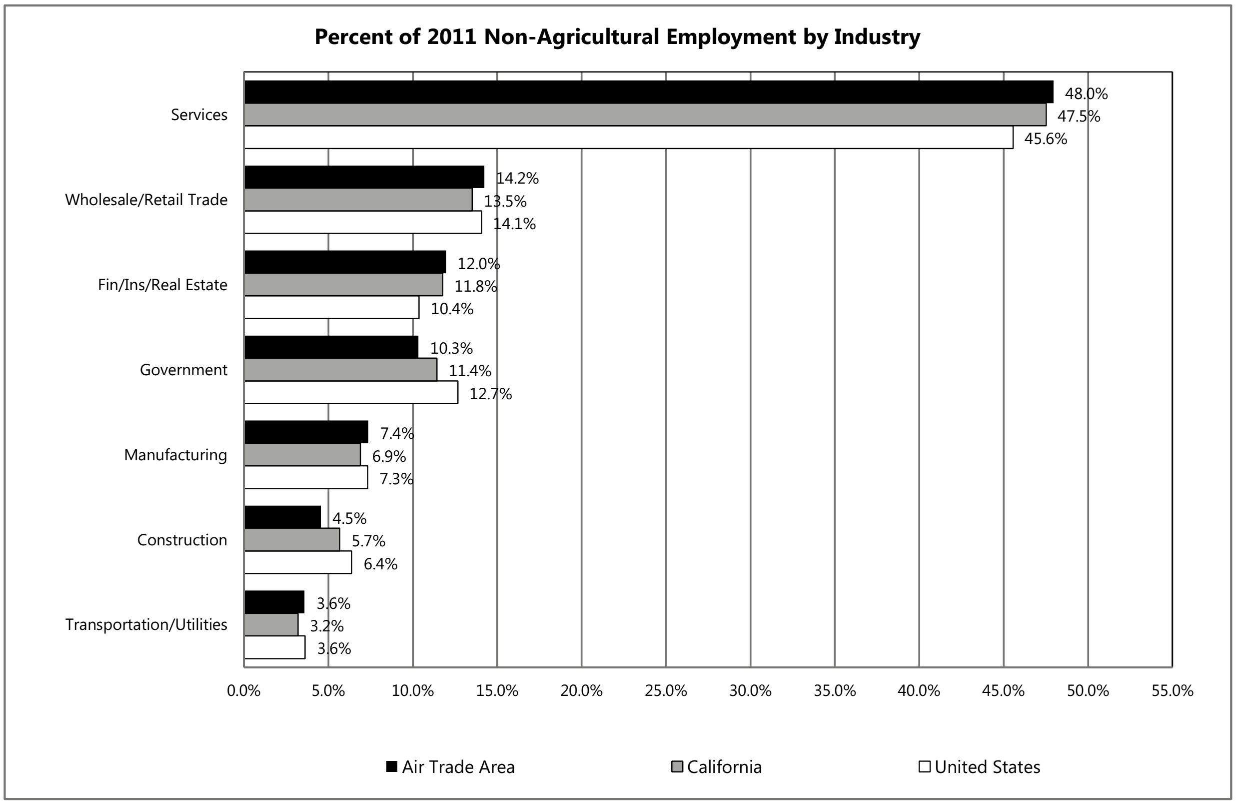
[16] Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

Table 1-14 Employment by Major Industry Division (2001-2011)

	AIR TRADE AREA			CALIFORNIA			UNITED STATES		
INDUSTRY [1/]	**2001**	**2011**	**CAGR** [2/]	**2001**	**2011**	**CAGR**	**2001**	**2011**	**CAGR**
Services	4,093,375	4,454,096	0.8%	8,491,452	9,167,926	0.8%	67,034,707	76,951,142	1.4%
Wholesale/Retail Trade	1,338,111	1,322,878	-0.1%	2,719,363	2,607,651	-0.4%	24,490,780	23,768,834	-0.3%
Fin/Ins/Real Estate	817,339	1,110,985	3.1%	1,668,208	2,205,374	2.8%	13,354,415	17,524,725	2.8%
Government	1,007,684	959,812	-0.5%	2,389,076	2,271,977	-0.5%	21,079,987	21,395,218	0.1%
Manufacturing	1,000,986	683,994	-3.7%	1,872,755	1,329,544	-3.4%	16,911,287	12,378,727	-3.1%
Construction [3/]	502,675	422,273	-1.7%	1,312,070	1,093,728	-1.8%	11,414,008	10,772,859	-0.6%
Transportation/Utilities	330,425	332,739	0.1%	642,356	617,855	-0.4%	6,093,998	6,116,490	0.04%
Total	9,090,595	9,286,777	0.2%	19,095,280	19,294,055	0.1%	160,379,182	168,907,995	0.5%

PROJECTED	**AIR TRADE AREA**	**CALIFORNIA**	**UNITED STATES**
2018 Employment	10,297,568	21,261,110	185,905,532
CAGR 2011-2018	1.5%	1.4%	1.4%



NOTES:
1/ Non-agricultural employment only.
2/ CAGR = compound annual growth rate.
3/ Includes mining and forestry employment.

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Prominent firms in the information industry that are located in the Air Trade Area include Walt Disney (Anaheim, Burbank), NBC/Universal (Burbank), Warner Bros. (Burbank), Dreamworks Animation (Glendale), Paramount (Hollywood), Nickelodeon (Burbank), the Comedy Channel (Glendale), FX Networks (Los Angeles), ValueClick (Westlake Village), THQ Inc. (Agoura Hills), Crown Media Holdings (Studio City), Sony Pictures (Culver City), Twentieth Century Fox (Los Angeles), MGM (Los Angeles), Universal Pictures (Universal City), Lions Gate Entertainment (Santa Monica), DIRECTV Group (El Segundo), AT&T (Anaheim), Verizon (Irvine), Sprint Nextel (Irvine), T-Mobile (Santa Ana), Cox Communications (Rancho Santa Margarita), Time Warner Cable (Anaheim), Los Angeles Times (Los Angeles), and Investor's Business Daily (Los Angeles).

With 125,000 jobs, motion picture and sound recording play a key role in the regional economy and account for approximately 40 percent of information industry jobs in the Air Trade Area.[17] The production of feature films, television programs, commercials, and sound recordings employs writers, actors, producers, directors, musicians, costume designers, special effects creators, and other technicians. Entertainment production also benefits workers in a wide variety of industries such as food service, security, transportation, and floral design. In addition, Hollywood's position as an internationally renowned entertainment capital draws millions of tourists to the Air Trade Area each year.[18]

1.2.6.2 Higher Education

Employment in the education subsector is an important source of jobs in the Air Trade Area.[19] In 2011, employment at educational institutions accounted for 4.8 percent of jobs in the services sector. Numerous public and private colleges and universities are located in the Air Trade Area. These institutions, among others, include: University of California campuses in Irvine, Los Angeles, and Riverside; California State University campuses in Camarillo, Dominguez Hills, Fullerton, Long Beach, Los Angeles, Pomona, Northridge, San Bernardino, and San Marcos; University of Southern California (Los Angeles); and Loyola Marymount University (Los Angeles). The 45 colleges and universities shown in **Table I-15** enroll approximately 792,000 students. These institutions, among others in the Air Trade Area, generate air travel demand through academic meetings and conferences, visiting professorships, study-abroad programs, and individual student and faculty travel.

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17 Trends in Major Industries, *2012-2013 Mid-Year Economic Forecast and Industry Outlook*, July 2012, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation.

18 Motion Picture/TV Production, *2012-2013 Mid-Year Economic Forecast and Industry Outlook*, July 2012, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation.

19 Public schools, including colleges and universities, are excluded from educational services employment. Employees of public schools and public colleges and universities are included in government employment.

Table 1-15 Air Trade Area College and University Enrollment (2011)

INSTITUTION	LOCATION	TOTAL ENROLLMENT
University of California, Los Angeles	Los Angeles	39,593
University of Southern California	Los Angeles	36,896
Mt. San Antonio College	Walnut	36,798
California State University Fullerton	Fullerton	36,200
California State University Northridge	Northridge	35,272
Santa Monica College	Santa Monica	35,232
East Los Angeles College	Monterey Park	35,152
California State University Long Beach	Long Beach	33,417
Pasadena City College	Pasadena	30,370
University of California, Irvine	Irvine	27,700
Long Beach City College	Long Beach	26,950
El Camino College	Torrance	24,775
Cerritos College	Norwalk	24,521
College of the Canyons	Santa Clarita	22,968
Los Angeles Pierce College	Woodland Hills	22,303
Glendale Community College	Glendale	21,583
Los Angeles Valley College	Valley Glen	21,356
California State University Polytechnic - Pomona	Pomona	21,190
Rio Hondo College	Whittier	20,671
California State University Los Angeles	Los Angeles	20,142
Los Angeles City College	Los Angeles	19,983
University of California, Riverside	Riverside	18,925
Moorpark College	Moorpark	16,600
California State University San Bernardino	San Bernardino	16,400
Antelope Valley College	Lancaster	15,700
California State University Dominguez Hills	Carson	13,854
Ventura College	Ventura	13,800
Citrus College	Glendora	11,200
Azusa Pacific University	Azusa	9,258
Loyola Marymount University	Los Angeles	9,223
University of La Verne	La Verne	8,328
Pepperdine University	Malibu	7,604
California State University San Marcos	San Marcos	7,502
Claremont Colleges	Claremont	7,456
Oxnard College	Oxnard	7,440
Biola University	La Mirada	6,123
Chapman University	Orange	4,910
University of Redlands	Redlands	4,317
California State University Channel Islands	Camarillo	4,200
Loma Linda University	Loma Linda	4,100
California Baptist University	Riverside	3,909
California Lutheran University	Thousand Oaks	2,550
California Institute of Technology	Pasadena	2,230
Occidental College	Los Angeles	2,120
Woodbury University	Burbank	1,500
Total		792,321

SOURCES *The Lists 2012*, Los Angeles Business Journal; "Top Colleges and Universities in the Inland Empire," *Inland Empire Business Journal*, December 23, 2011; institution web sites; August 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Trade

Wholesale and retail trade in the Air Trade Area employed approximately 1.3 million workers in 2011, equating to 14.2 percent of total non-agricultural employment. Approximately 68 percent of the Air Trade Area's trade employees, or 902,000 workers, were engaged in retail trade. In 2011, approximately 420,000 Air Trade Area workers were engaged in wholesale trade.[20]

The Air Trade Area economy has extensive links to the global economy and relies heavily on air passenger and air cargo service. In 2011, total trade activity (both imports and exports) between the Los Angeles Customs District[21] and the rest of the world was valued at $467.5 billion (see **Table 1-16**). 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.

Table I-16 shows that in 2011, $83.7 billion in trade (including imports and exports) through the Los Angeles Customs District was conveyed by air. Of this amount, 99.4 percent ($83.2 billion) was transported through LAX. Imports and exports that were transported through LAX represented 61.5 percent of California's total value of trade by air ($135.3 billion) in 2011. The level of imports and exports through LAX 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.

Finance / Insurance / Real Estate

The finance, insurance, and real estate industries (FIRE) employed more than 1.1 million workers in the Air Trade Area in 2011, accounting for 12.0 percent of total non-agricultural employment.

According to the *Los Angeles Business Journal*, major banks headquartered in the Air Trade Area are City National Bank ($22.1 billion in assets), East West Bank ($21.8 billion in assets), and Cathay Bank ($10.5 billion in assets).[22]

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20 Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

21 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. Census Bureau at 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.

22 *The Lists 2012*, January 1, 2012, Los Angeles Business Journal.

Table 1-16 Total Trade by Conveyance (2011)

	($ BILLIONS)		
CUSTOMS DISTRICT	**VALUE OF TOTAL TRADE [1/]**	**VALUE OF TOTAL TRADE BY AIR**	**PERCENT OF TOTAL TRADE BY AIR**
Los Angeles	$467.5	$83.7	17.9%
California [2/]	$641.1	$135.3	21.1%
United States	$3,687.6	$917.3	24.9%

NOTES:

1/ Total trade = total imports and exports.

2/ Data for the 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 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Government

Government employment accounted for approximately 960,000 workers in the Air Trade Area in 2011, representing 10.3 percent of total non-agricultural employment. The government sector in the Air Trade Area includes federal, state, county, and city employees. Federal employers within the Air Trade Area include the Internal Revenue Service, Social Security Administration, U.S. Department of Justice, Federal Aviation Administration, U.S. Postal Service, and many other entities. In 2011, the federal government employed approximately 85,000 civilian workers within the Air Trade Area across a variety of functions and agencies.[23] Other major governmental employers in the Air Trade Area include the State of California, the County of Los Angeles, the City of Los Angeles, and the City of Long Beach.[24]

Manufacturing

With approximately 684,000 manufacturing workers, the Air Trade Area has the highest number of jobs in this industry compared to any other region in the U.S.[25] 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 2011, manufacturing jobs made up 7.4 percent of nonagricultural employment in the Air Trade Area.

Construction

The construction industry employed more than 422,000 workers in the Air Trade Area in 2011, accounting for 4.5 percent of total nonagricultural employment. Tutor Perini Corporation (Sylmar), Ameron International (Pasadena), Valley Crest Landscape Co. (Calabasas), Webcor Builders (Los Angeles), J.F. Shea Co. (Walnut), Ryland Group (Calabasas), Lewis Homes (Upland), and KB Home (Los Angeles) are prominent construction-related firms that are headquartered in the Air Trade Area.[26]

Many large-scale development projects are providing support to the construction industry in the Air Trade Area. Examples of these projects include:

- **Farmers Field Stadium and Los Angeles Convention Center Upgrade.** Developer Anschutz Entertainment Group (AEG) has proposed demolishing the 40 year-old West Hall of the Los Angeles Convention Center (LACC) and replacing it with a 68,000-seat stadium with a retractable roof. AEG has proposed the stadium project in an effort to attract a National Football League team to Los Angeles. The proposed stadium could also host NCAA Final Four basketball games, World Cup soccer matches, and other sports events. AEG's planned upgrades to the LACC would result in a total of 1.7 million square feet, making the facility the fifth largest in the U.S. compared to its current ranking at fifteenth. In 2011, AEG reached a naming rights agreement for the proposed stadium with Farmers

23 Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

24 Major Employers for Counties, State of California Employment Development Department, http://www.labormarketinfo.edd.ca.gov/majorer/MajorER.asp; InfoUSA.com, accessed August 2012.

25 Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

26 *The Lists 2012*, January 1, 2012, Los Angeles Business Journal; InfoUSA.com; Hoovers.com; accessed August 2012.

Insurance. In September 2012, the Los Angeles City Council approved the environmental impact report and a development agreement with AEG for the $1.7 billion project. Parent company Anschutz Co. recently announced that it is seeking a buyer for AEG. Officials from AEG and the City of Los Angeles have stated that any new owner of AEG would be bound by the Farmers Field project's existing agreements.[27]

- **NBC/Universal Evolution Plan.** Located on a 391-acre parcel adjacent to Burbank in the San Fernando Valley, this $1.6 billion project will renovate and upgrade the site's existing studio facilities. The development program includes 1.45 million square feet of movie production space, a 327,000 square foot expansion of Universal Studios theme park, more shops and restaurants at CityWalk, and two 500-room hotels. The development approval process is ongoing and construction has not yet begun.[28]
- **Exposition Transit Corridor Phase 2.** Phase 1 of the Expo Line opened in April 2012 and runs 8.6 miles from Downtown Los Angeles to Culver City. The $1.5 billion, 6.6-mile Phase 2 project will include seven new stations at key destinations between Culver City and Santa Monica. When completed, the Expo Line will provide transit service between Downtown Los Angeles and Santa Monica, and it will improve regional mobility by connecting west Los Angeles County to the existing Metro Rail network. Construction of Phase 2 began in August 2012 and is expected to be completed in Late 2015. Phase 2 is expected to employ 250 workers during its construction phase.[29]
- **Antelope Valley Solar Ranch One.** Construction is underway for a $1.36 billion state-of-the-art photovoltaic power plant by First Solar in Lancaster (Los Angeles County). Financed by Exelon and by a $646 million loan from the U.S. Department of Energy, the 2,100-acre facility will have 3.8 million photovoltaic solar panels. AV Solar Ranch One, designed to produce 230 megawatts, will provide enough power to supply 75,000 homes. It is the largest and most expensive solar development in U.S. history and is expected to employ 400 workers during its construction phase. Full commercial operation is expected in late 2013.[30]

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[27] Our Plan, farmersfield.com, accessed September 2012; "AEG Completes Farmers Field EIR," April 5, 2012, *Los Angeles Downtown News*, http://www.ladowntownnews.com/news/aeg-completes-farmers-field-eir/article_a5ab0a42-7f5a-11e1-9c9e-001a4bcf887a.html; accessed September 2012; "Farmers to Sponsor AEG's Proposed NFL Stadium," February 1, 2011, *Los Angeles Business Journal*; "News of the Week," September 3, 2012, *Los Angeles Business Journal*; "Anschutz Says AEG is for Sale," September 18, 2012, *Los Angeles Business Journal*; "AEG Sale Prompts Reassurances," September 25, 2012, *Los Angeles Business Journal*; "Ceremony Marks Next Step for Farmers Field," October 3, 2012, *Los Angeles Times*.

[28] NBCUniversal Abandons Residential Development at Studio, July 16, 2012, *Los Angeles Business Journal*; The NBC/Universal Evolution Plan, http://nbcuniversalevolution.com/plan/, accessed August 2012.

[29] Construction Begins on Mass Transit Line to Santa Monica, September 23, 2011, http://www.buildexpo.org/ about/, accessed September 2012; Major Construction of Expo Phase 2 Now Underway, August 6, 2012, http://www.buildexpo.org/about/, accessed September 2012; Exposition Transit Corridor, Phase 2 to Santa Monica, http://www.metro.net/projects/expo-santa-monica/, accessed September 2012; Expo Executive Board Agendas-Presentations, Jobs Program Pres 2-05-09.pdf, February 2009, http://www.buildexpo.org/about/, accessed September 2012.

[30] "Cooling Off? Solar Ranch Nears Launch as Large Projects Lose Sizzle," August 27, 2012, *Los Angeles Business Journal*; About First Solar, http://www.firstsolar.com/About-First-Solar, accessed September 2012.

- **Korean Air Tower.** Korean Air has received approval to construct a $1.0 billion office, hotel, and residential development on the former Wilshire Grand Hotel site in downtown Los Angeles. Plans call for the construction of a 45-story tower with 650 hotel rooms and 100 condominiums. Phase Two of the project includes a 65-story tower with 1.5 million square feet of office space. Demolition of the Wilshire Grand Hotel began in June 2012 and Phase One of the project is expected to open in 2016. Korean Air's plans for the site may be modified if it chooses to scale back the project to a single 80-foot tower with 900 hotel rooms and a reduced office component.[31]
- **Haynes Generating Station Modernization.** Located in Long Beach and owned and operated by the City of Los Angeles Department of Water & Power, the Haynes Generating Station is a natural gas and steam power plant that was built in the mid-1960s. It currently has seven generating units with a combined capacity of 1,600 megawatts, providing power to approximately one million homes. Two of the plant's steam boiler units that date from 1965 are being replaced with six advanced technology gas turbines that are more energy efficient, create fewer emissions, and increase the reliability of the power grid. The project also includes a switchyard expansion for the new gas turbines, modification of steam piping, and the installation of an auxiliary boiler system. Project cost is estimated at $782 million and completion is scheduled for June 2013.[32]
- **Metro Gold Line Foothill Extension.** The existing Metro Gold Line light rail service currently runs for 20 miles from east Los Angeles to Pasadena. The Foothill Extension will be an 11.5-mile extension from Pasadena to Azusa with six new stations in Sierra Madre, Arcadia, Monrovia, Duarte, Irwindale, and Azusa. This $735 million project broke ground in 2011 and is scheduled for completion in 2015. The project is expected to employ 400 workers during its construction phase. When completed, the Gold Line Foothill Extension will offer a transportation option to congested roadways between Los Angeles and the San Gabriel Valley. It will provide riders with easy connections to Metrolink commuter rail lines, Metro Rail lines, Metro bus lines, other municipal bus lines, and other regional transportation services.[33]

Transportation / Utilities

Approximately 333,000 workers were employed in the transportation and utilities industries in the Air Trade Area in 2011. Employment in these two industries in 2011 accounted for 3.6 percent of nonagricultural employment in the Air Trade Area. The Airport's direct transportation employment is estimated at 27,910 jobs

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31 "Wilshire Grand Redevelopment Plan Approved," March 29, 2011, *Los Angeles Business Journal*; "Major Changes for Wilshire Grand Project: Two-Tower Effort Now Envisioned As One," March 14, 2012, *Los Angeles Downtown News*, http://www.ladowntownnews.com/news/major-changes-for-wilshire-grand-project-two-tower-effort-now/article_189af2ce-6e30-11e1-a5d1-0019bb2963f4.html, accessed September 2012.

32 Haynes Generating Station Repowering Project, September 2011, Los Angeles Department of Water & Power, http://www.ladwpnews.com /go/doctype/1475/19380/, accessed September 2012.

33 "Construction Projects," August 27, 2012, *Los Angeles Business Journal*; , Metro Gold Line Foothill Extension Fact Sheet, Foothill_Ext_Fact_sheet.pdf, http://www.metro.net/projects/foothill-extension/, accessed September 2012; Metro Gold Line Foothill Extension Phase 2A, Los Angeles County Economic Development Corporation, http://laedc.org/reports/consulting/index.html, accessed September 2012.

that are located on-airport or in adjacent aviation-related facilities.[34] Consequently, LAX itself is responsible for 8.4 percent of transportation and utilities employment in the Air Trade Area.

With approximately 6,400 acres of land and 68 miles of waterfront, the Port of Los Angeles (POLA) and the adjoining Port of Long Beach (POLB) make up the largest container port complex in the U.S.[35] In 2011, POLA and POLB processed a total of 14.0 million containers,[36] surpassing other U.S. container port facilities in New York (5.5 million TEUs), Savannah (2.9 million TEUs), and Oakland (2.3 million TEUs). Internationally, the combined POLA and POLB complex ranked eighth in total TEUs processed in 2011 after Shanghai, Singapore, Hong Kong, Shenzhen, Busan, Ningbo, and Guangzhou.[37]

1.2.7 TOURISM INDUSTRY

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.

Area Attractions

In addition to its mild climate and beaches, the Air Trade Area offers visitors numerous 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.

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[34] Transportation and utilities jobs located on-airport or within one mile of LAX, *Los Angeles International Airport in 2011*, Los Angeles County Economic Development Corporation, www.laedc.org/reports/consulting/ LAX_2011_FINAL.pdf, accessed August 2012.

[35] *International Trade Outlook: The Southern California Region 2012-13*, May 2012, Los Angeles Economic Development Corporation; About the Port, http://www.portoflosangeles.org/idx_about.asp, accessed October 2012; Facts at a Glance, http://www.polb.com/about/facts.asp, accessed October 2012.

[36] A twenty-foot equivalent unit (TEU) is the standard unit for counting containers of various capacities.

[37] *International Trade Outlook: The Southern California Region 2012-13*, May 2012, Los Angeles Economic Development Corporation.

The Air Trade Area offers travelers a scenic natural environment. With an annual average of 325 days of sunshine,[38] 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.

In terms of spectator sports, several professional teams are based in the Air Trade Area, and Los Angeles is regularly named among the best sports cities in the U.S.[39] An average of 2.7 million baseball fans watch the Dodgers play at Dodger Stadium each season.[40] The region's second Major League Baseball team, The Los Angeles Angels of Anaheim, play at Angel Stadium of Anaheim. Based at Home Depot Center in Carson, the Los Angeles Galaxy added the internationally renowned soccer player David Beckham to their team in 2007. Staples Center is home to the Los Angeles Kings ice hockey team as well as three basketball teams: Los Angeles Lakers, Los Angeles Clippers, and Los Angeles Sparks. Although the Air Trade Area currently lacks a professional football team, Los Angeles has two successful college football teams: the USC Trojans play at Memorial Coliseum, and the UCLA Bruins play at Pasadena's Rose Bowl.[41]

Tourism and Overseas Visitor Trends

The Los Angeles Tourism & Convention Board estimates that the Air Trade Area hosted a record high 26.9 million overnight visitors in 2011, a 4.2 percent increase over the number of visitors in 2010. These visitors generated a record high $15.2 billion in direct spending, a 7.8 percent increase over 2010.[42] Tourism-related industries are a leading employer in the Air Trade Area with 964,620 workers employed in this sector in 2011.[43]

In terms of U.S. citizens traveling abroad, survey data in **Table 1-17** from the U.S. Department of Commerce's Office of Tourism Industries show that 2,019,626 U.S. citizens departed from LAX to overseas destinations in 2011 (excluding Canada and Mexico). This represents 7.5 percent of total overseas departures by U.S. citizens in 2011. Following JFK (New York), MIA (Miami), ATL (Atlanta), and EWR (Newark), LAX is ranked as the fifth busiest airport for overseas departures by U.S. citizens, placing it ahead of other important international travel hubs such as ORD (Chicago), IAD (Washington, D.C.), SFO (San Francisco), IAH (Houston), and PHL (Philadelphia).

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38 Los Angeles Tourism & Convention Board, http://discoverlosangeles.com/guides/fun-facts/did-you-know.html, accessed August 2012.

39 #8 Best Sports City in the U.S. in 2011, #3 Best Sports City in the U.S. in 2010, #5 Best Sports City in the U.S. in 2009, *The Sporting News*, http://aol.sportingnews.com/sport/story/2011-10-04/best-sports-cities-the-list-from-1-to-271, accessed September 2012.

40 Dodger Stadium, http://discoverlosangeles.com/play/sports/lasports-venues/, accessed September 2012.

41 Los Angeles' Sports Scene Creates A Triumphant Getaway For Visitors, http://discoverlosangeles.com/play/sports/lasports-venues/, accessed September 2012.

42 Los Angeles Tourism & Convention Board, 2011 LA Tourism Quick Facts, http://discoverlosangeles.com/business-services/research-and-reports/, accessed August 2012.

43 Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

Table 1-17 Top U.S. Airports of Departure for U.S. Citizens to Overseas Countries (2011)

RANK	U.S. AIRPORT	U.S. CITIZEN DEPARTURES 1/	% OF ALL U.S. CITIZEN DEPARTURES
1	New York (JFK)	4,665,776	17.3%
2	Miami (MIA)	2,828,430	10.5%
3	Atlanta (ATL)	2,338,847	8.7%
4	Newark (EWR)	2,210,502	8.2%
5	**Los Angeles (LAX)**	**2,019,626**	**7.5%**
6	Chicago (ORD)	1,853,990	6.9%
7	Washington Dulles (IAD)	1,505,135	5.6%
8	San Francisco (SFO)	1,330,702	4.9%
9	Houston (IAH)	1,202,064	4.4%
10	Philadelphia (PHL)	920,917	3.4%
	Other Departure Airports	6,147,019	22.7%
Total		27,023,008	100.0%

NOTE:
1/ Excluding departures to Canada and Mexico.

SOURCE: U.S. Department of Commerce, ITA, Office of Tourism Industries, July 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

Based on a survey from the U.S. Department of Commerce's Office of Tourism Industries, data in **Table 1-18** show that 3,653,000 travelers from overseas (excluding Canada and Mexico) selected Los Angeles as their destination city in 2011. This represents a 9.1 percent increase over the figure for 2010 when 3,348,000 overseas travelers selected Los Angeles as their destination city. Following New York, Los Angeles was the second most popular U.S. destination for overseas travelers in 2011, ranking ahead of other major destinations such as Miami, San Francisco, Las Vegas, Orlando, and Washington, D.C.

Of the 26.4 million international visitors that traveled to California by air in 2011, 16.7 million (63 percent) arrived at LAX.[44] The California Travel and Tourism Commission projects that international air travelers to California will increase by 4.6 percent in 2013, 5.3 percent in 2014, and 5.5 percent in 2015.[45] The International Monetary Fund's (IMF) *World Economic Outlook* estimates that global real GDP growth will reach 3.6 percent in 2013 and 4.4 percent from 2014 through 2017. These IMF projections indicate that there will be a sufficient level of global economic growth to continue to support demand for passenger service to LAX by international travelers.[46]

1.3 Economic Outlook

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. In the wake of the December 2007-June 2009 recession, the U.S. economy is experiencing weaknesses in housing construction, consumer spending and business investment, as well as relatively high unemployment and low GDP growth.[47]

The most recently published forecast by business economists from the National Association for Business Economics (NABE) indicates consensus for modest GDP growth in 2012 and for the unemployment rate to remain above 8.0 percent. The NABE forecast estimates that the U.S. will have an average unemployment rate of 8.1 percent in 2012. In terms of real GDP growth, the NABE forecast estimates that the U.S. economy will grow at an annual rate of 2.3 percent in 2012.[48]

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44 Year-to-Date December 2011, California Airports Monthly Traffic Reports, http://industry.visitcalifornia.com/Research/California-Statistics-and-Trends/, accessed September 2012.

45 Research Presentations, California Tourism Outlook 2011-12, http://industry.visitcalifornia.com/Research/Reports-and-Presentations/, accessed September 2012.

46 *World Economic Outlook*, October 2012, International Monetary Fund.

47 Building Permits - States and Metro Areas, National Association of Homebuilders, http://www.nahb.org/reference_list.aspx?sectionID=130, accessed August 2012; Table 2.1. Personal Income and Its Disposition, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/TableView.asp, accessed August 2012; Table 5.3.2. Contributions to Percent Change in Real Private Fixed Investment by Type and Table 5.6.6B. Change in Real Private Inventories by Industry, Chained Dollars, Bureau of Economic Analysis, http://www.bea.gov/national/nipaweb/ TableView.asp, accessed August 2012; Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics, http://www.bls.gov/cps/, accessed August 2012; Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product, Bureau of Economic Analysis, http://www.bea.gov/national/ nipaweb/TableView.asp, accessed August 2012.

48 *NABE Outlook*, May 2012, National Association for Business Economics.

Table 1-18 Top Destination Cities for Overseas Visitors (2011)

RANK	DESTINATION CITY	OVERSEAS VISITORS 1/	% OF ALL OVERSEAS VISITORS
1	New York	9,285,000	23.8%
2	**Los Angeles**	**3,653,000**	**9.4%**
3	Miami	2,956,000	7.6%
4	San Francisco	2,872,000	7.4%
5	Las Vegas	2,788,000	7.1%
6	Orlando	2,788,000	7.1%
7	Washington, D.C.	1,812,000	4.6%
8	Houston	1,785,000	4.6%
9	Boston	1,311,000	3.4%
10	Detroit	1,199,000	3.1%
	Other Destination Cities	8,587,000	22.0%
Total		39,036,000	100.0%

NOTE:
1/ Excluding visitors from Canada and Mexico.

SOURCE: U.S. Department of Commerce, ITA, Office of Tourism Industries, May 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

A recent NABE industry survey cites concerns about the potential negative impact on business conditions caused by the European debt crisis, the possible expiration of Bush-era tax cuts in December 2012, and possible federal government spending cuts in January 2013. On the positive side, the NABE industry survey notes that inflationary pressures on the U.S. economy are expected to be muted throughout 2012.[49]

Similar to the NABE forecast, a recent report from the Los Angeles Economic Development Corporation (LAEDC)[50] indicates that although the Air Trade Area economy is recovering and unemployment is gradually diminishing, progress is expected to be slow. The LAEDC forecast estimates that Air Trade Area employment will not return to its pre-recession level within the next two years. However, in 2012 and 2013 LAEDC forecasts that employment in the Air Trade Area will improve in the professional and technical services, leisure and hospitality, wholesale and retail trade, and health care sectors.[51]

1.3.1 LONG-TERM ECONOMIC ASSUMPTIONS INCORPORATED IN PASSENGER DEMAND PROJECTIONS

As described in more detail in Section 5.7 of this report, the methodologies employed in developing the projections of passenger demand at the Airport include (among other methodologies) statistical linear regression modeling with local and national socioeconomic and demographic factors as independent variables and enplaned passengers as the dependent variable. Independent variables considered for this analysis include population, employment, income, gross regional product, and gross domestic product. For each of these socioeconomic and demographic factors, the regression modeling produces a coefficient that is applied to the projection of the corresponding socioeconomic or demographic factor to provide an estimate of enplaned passengers. **Table 1-19** presents the 2011 and 2018 figures utilized in the modeling as well as the compound annual growth rate for each independent variable between 2011 and 2018.

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49 *NABE Industry Survey*, July 2012, National Association for Business Economics.

50 Established by the Los Angeles County Board of Supervisors in 1981, the Los Angeles County Economic Development Corporation (LAEDC) is a private, non-profit organization that supports job growth and business attraction and retention in Los Angeles County. LAEDC's programs are focused on economic analysis, business development, trade expansion, and facilitating foreign investment. It also provides advisory services to address public policy issues that concern the region's economic vitality and quality of life.

51 *2012-2013 Mid-Year Economic Forecast and Industry Outlook*, July 2012, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation.

Table 1-19 Forecast of Economic Variables Used in Passenger Demand Projections

VARIABLE [1/ 2/]	2011	2018	CAGR 2011-2018
ATA Population	18,115,184	19,562,510	1.1%
US Population	312,308,189	334,525,142	1.0%
ATA Total Employment	9,286,777	10,297,568	1.5%
US Total Employment	168,907,995	185,905,532	1.4%
ATA Total Personal Income ($ billion)	$790.8	$911.1	2.0%
US Total Personal Income ($ billion)	$13,336.1	$15,258.3	1.9%
ATA Per Capita Personal Income	$43,651	$46,575	0.9%
US Per Capita Personal Income	$42,702	$45,612	0.9%
ATA Gross Regional Product ($ billion)	$866.0	$1,024.9	2.4%
US Gross Domestic Product ($ billion)	$14,401.8	$16,875.8	2.3%
ATA Per Capita GRP	$47,804	$52,389	1.3%
US Per Capita GDP	$46,114	$50,447	1.3%

NOTES:
1/ ATA = Air Trade Area
2/ All dollar amounts are in 2011 dollars.

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.
PREPARED BY: Partners for Economic Solutions, October 2012.

2. 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. This chapter discusses the role of the Airport (Section 2.1), the Airport's share of regional demand relative to other Southern California airports (Section 2.2), the airlines serving the Airport (Section 2.3), historical Airport activity (Section 2.4), factors affecting aviation demand and the airline industry (Section 2.5), and projected Airport activity (Section 2.6).

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 Role of the Airport

The Airport is one of the busiest airports in the world and is defined by the FAA as a large hub.[1] **Table 2-1** presents the Airport's worldwide ranking of activity in CY 2011. As shown, the Airport ranked 6th worldwide and 3rd nationwide in total passengers during this period with 61.9 million enplaned and deplaned passengers; 3rd worldwide and nationwide in total operations with 702,895 takeoffs and landings; and 13th worldwide and 5th nationwide in total cargo with 1.7 million enplaned and deplaned tons.[2]

The Airport serves one of the nation's largest domestic O&D passenger bases. As shown in **Table 2-2**, it was ranked first nationwide in domestic O&D passengers during the 12 months ending March 31, 2012, the latest 12 months currently available.

Table 2-3 presents domestic O&D passengers for the Airport and the nation between CY 2000 and CY 2011. As shown, domestic O&D activity at the Airport decreased from 33.5 million passengers in CY 2000 to 31.2 million in CY 2011. This change represents a compound annual decrease of 0.6 percent during this period, compared to a CAGR of 0.1 percent nationwide. A breakout of activity trends during this period is provided below:

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1 As defined by the FAA, a large hub has at least 1.0 percent of the nation's enplaned passengers in any calendar year (at least 7.2 million in CY 2011)..

2 *2011 World Traffic Report*, Airports Council International.

Table 2-1 Top 15 Worldwide Ranking of Activity - CY 2011

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)	92,389,023	1	1	Atlanta (ATL)	923,996	1		Hong Kong (HKG)	3,976,768
2		Beijing (PEK)	78,675,058	2	2	Chicago (ORD)	878,798	2	1	Memphis (MEM)	3,916,410
3		London (LHR)	69,433,565	**3**	**3**	**Los Angeles (LAX)**	**702,895**	3		Shanghai (PVG)	3,085,268
4	2	Chicago (ORD)	66,701,241	4	4	Dallas (DFW)	646,803	4	2	Anchorage (ANC)	2,543,105
5		Tokyo (HND)	62,584,826	5	5	Denver (DEN)	628,796	5		Incheon (ICN)	2,539,222
6	**3**	**Los Angeles (LAX)**	**61,862,052**	6	6	Charlotte (CLT)	539,842	6		Paris (CDG)	2,300,063
7		Paris (CDG)	60,970,551	7		Beijing(PEK)	533,257	7		Dubai (DXB)	2,269,768
8	4	Dallas (DFW)	57,803,439	8	7	Las Vegas (LAS)	531,538	8		Frankfurt (FRA)	2,214,939
9		Frankfurt (FRA)	56,436,255	9	8	Houston (IAH)	517,262	9	3	Louisville (SDF)	2,188,422
10		Hong Kong (HKG)	53,328,613	10		Paris (CDG)	514,059	10		Tokyo (NRT)	1,945,351
11	5	Denver (DEN)	52,849,132	11		Frankfurt (FRA)	487,162	11		Singapore (SIN)	1,898,850
12		Jakarta (CGK)	51,178,188	12		London (LHR)	480,931	12	4	Miami (MIA)	1,841,929
13		Dubai (DXB)	50,977,960	13	9	Phoenix (PHX)	461,989	**13**	**5**	**Los Angeles (LAX)**	**1,681,611**
14		Amsterdam (AMS)	49,755,252	14	10	Philadelphia (PHL)	448,129	14		Beijing (PEK)	1,640,247
15		Madrid (MAD)	49,644,680	15	11	Detroit (DTW)	443,028	15		Taipei (TPE)	1,627,463

SOURCE: *2011 World Traffic Report*, Airports Council International, September 2012.
PREPARED BY: Ricondo & Associates, Inc., September 2012.

Table 2-2 Top 20 Total Domestic O&D Airports - 12 Months Ended March 31, 2012

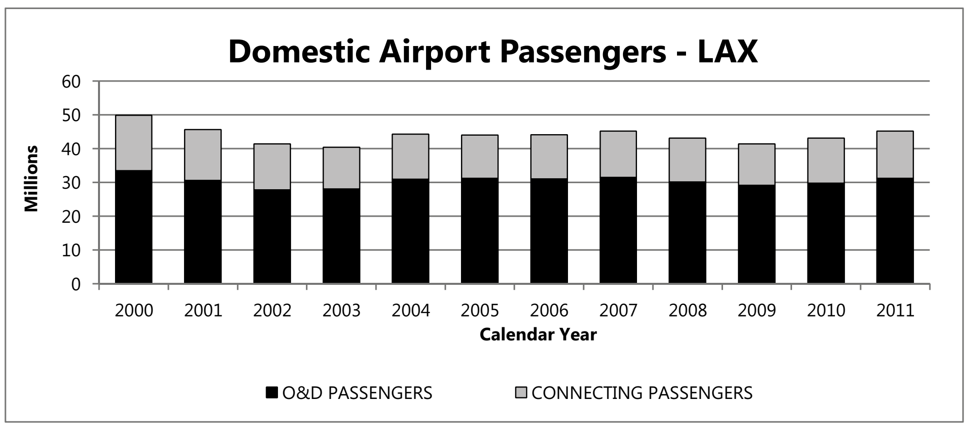
RANK	AIRPORT	TOTAL DOMESTIC O&D PASSENGERS
1	**Los Angeles International**	**31,726,590**
2	McCarran International	29,671,750
3	Orlando International	27,036,710
4	Chicago O'Hare International	25,720,410
5	Denver International	25,177,910
6	Hartsfield-Jackson Atlanta International	24,612,210
7	General Edward Lawrence Logan International	21,785,950
8	Phoenix Sky Harbor International	20,690,830
9	La Guardia	20,516,930
10	Seattle/Tacoma International	20,393,550
11	Dallas/Fort Worth International	20,289,160
12	Fort Lauderdale International	17,576,230
13	John F. Kennedy International	17,471,450
14	Newark Liberty International	15,864,820
15	Baltimore/Washington International Thurgood Marshal	15,536,100
16	Philadelphia International	15,025,230
17	San Diego International	14,918,980
18	Minneapolis/St. Paul International	14,790,100
19	Tampa International	13,916,700
20	Ronald Reagan Washington National	13,740,000

SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, September 2012.
PREPARED BY: Ricondo & Associates, Inc., September 2012.

Table 2-3 Historical Domestic O&D Passengers

Calendar Years

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
2000	33,451,660	-	864,670,260	-	3.9%	49,887,433	67.1%	16,435,773	32.9%
2001	30,601,330	(8.5%)	805,727,290	(6.8%)	3.8%	45,656,025	67.0%	15,054,695	33.0%
2002	27,785,620	(9.2%)	782,752,300	(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%	869,737,980	9.1%	3.6%	44,228,427	70.0%	13,272,997	30.0%
2005	31,200,070	0.8%	917,050,600	5.4%	3.4%	44,003,260	70.9%	12,803,190	29.1%
2006	31,031,850	(0.5%)	923,169,280	0.7%	3.4%	44,129,926	70.3%	13,098,076	29.7%
2007	31,453,060	1.4%	951,728,750	3.1%	3.3%	45,190,615	69.6%	13,737,555	30.4%
2008	30,099,320	(4.3%)	902,934,500	(5.1%)	3.3%	43,130,864	69.8%	13,031,544	30.2%
2009	29,115,070	(3.3%)	848,900,760	(6.0%)	3.4%	41,419,913	70.3%	12,304,843	29.7%
2010	29,729,290	2.1%	856,011,800	0.8%	3.5%	43,134,145	68.9%	13,404,855	31.1%
2011	31,233,290	5.1%	870,089,960	1.6%	3.6%	45,130,728	69.2%	13,897,438	30.8%
Compound Annual Growth Rate									
2000 - 2002	(8.9%)		(4.9%)			(8.9%)		(9.1%)	
2002 - 2007	0.5%		2.8%			(0.2%)		(1.5%)	
2007 - 2009	(3.8%)		(5.6%)			(4.3%)		(5.4%)	
2009 - 2011	3.6%		1.2%			4.4%		6.3%	
2000 - 2011	(0.6%)		0.1%			(0.9%)		(1.5%)	



SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

- Domestic O&D passengers at the Airport decreased at a compound annual rate of 8.9 percent between CY 2000 and CY 2002, while nationwide activity decreased 4.9 percent.
- Thereafter, domestic O&D passengers at the Airport increased at a CAGR of 0.5 percent through CY 2007 (reaching 31.5 million in CY 2007), compared to a CAGR of 2.8 percent nationwide.
- During the downturn in the economy resulting from the global recession in CY 2008, domestic O&D traffic at the Airport experienced a compound annual decrease of 3.8 percent between CY 2007 and CY 2009 (reaching 29.1 million in CY 2009), while the nation experienced a compound annual decrease of 5.6 percent during this same period.
- As the nation started to emerge from the recession, traffic at the Airport rebounded in CY 2010 and 2011, with the Airport growing at a CAGR of 3.6 percent between CY 2009 and CY 2011, resulting in total domestic O&D passengers reaching 31.2 million in CY 2011, compared with the domestic O&D passengers nationwide increasing at a CAGR of 1.2 percent during this same period.
- As also shown, the Airport's share of U.S. domestic O&D passengers decreased between CY 2000 and CY 2011, reaching a low of 3.3 percent in CY 2007 and CY 2008, before slightly increasing each year between CY 2009 and CY 2011.

Table 2-3 also presents the Airport's percentage of domestic O&D passengers to total domestic passengers. As shown, this percentage was relatively stable for the majority of the period shown at approximately 70 percent. The remaining 30 percent of domestic passengers represents connecting passenger traffic.[3] Although no airline dominates or provides hubbing activity at the Airport, 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.

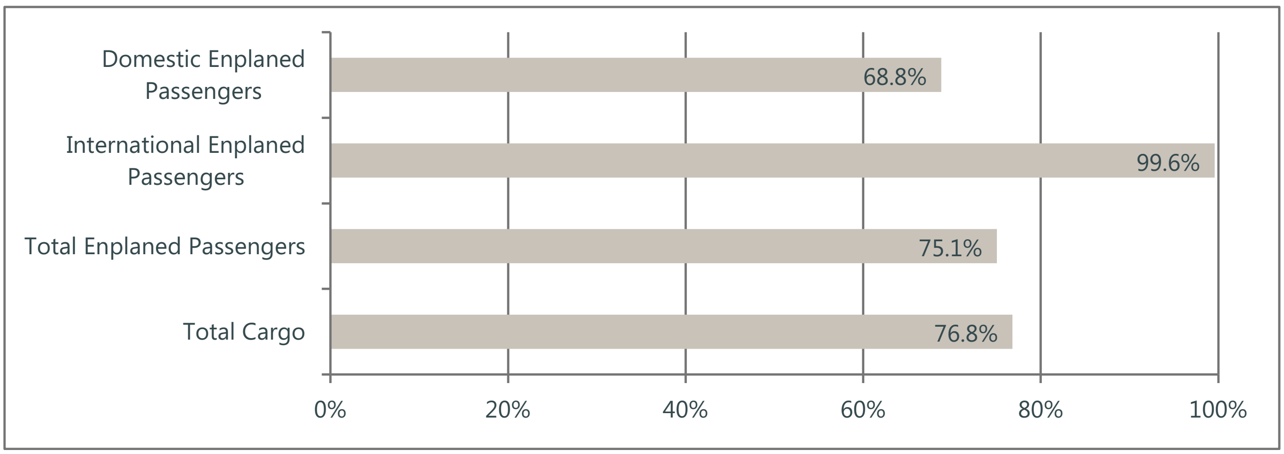
The Airport is the busiest international gateway on the west coast, and international activity at the Airport benefits from the high number of nonstop flights throughout the U.S. The Airport enplaned 8.4 million international passengers in CY 2011, compared to 4.5 million for San Francisco International Airport (SFO) and 3.0 million for Seattle International Airport (SEA). During the week of August 11, 2012, the Airport had 921 scheduled international passenger flights, compared to 527 for SFO and 317 for SEA. In addition, the Airport has scheduled passenger service provided by 42 foreign flag carriers, while SFO and SEA has 23 and 11 foreign flag carriers, respectively. The Airport also enplaned and deplaned 1.1 million tons of international cargo in CY 2011, compared to 243,063 tons by SFO and 82,061 tons for SEA.

[3] When international passengers are included, approximately 75 percent of total passengers at the Airport are O&D passengers.

2.2 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 2-1** shows the dominance of the Airport relative to the other four commercial service airports within the Air Trade Area.[4] The other four commercial service airports primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor.

Exhibit 2-1 LAX Share of Air Trade Area Activity - CY 2011



SOURCES: City of Los Angeles, Department of Airports (LAX and LA/ONT); Individual airports (BUR, LGB, SNA), August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

In addition to the Airport, the other four airports in the Air Trade Area include Bob Hope Airport (BUR), John Wayne Airport (SNA), Long Beach Airport (LGB), and LA/Ontario International Airport (LA/ONT). A brief discussion of these four airports is provided below:

- As shown previously on the map labeled Exhibit 1-1, BUR, defined by the FAA as a medium hub, is located 30 miles north of the Airport.[5] As of August 2012, nonstop service was provided to 11 domestic markets with a total of 72 daily domestic flights (compared to the Airport's nonstop service to 90 domestic markets, with an average of 680 daily flights; and nonstop service to 60 international markets, with an average of 130 daily flights in August 2012).

[4] Based on individual airport data.

[5] As defined by the FAA, a medium hub has between 0.25 percent and 0.999 percent of the nation's enplaned passengers in any calendar year (between 1.8 million and 7.2 million in CY 2011).

- SNA, also defined by the FAA as a medium hub, is located 40 miles southeast of the Airport. As of August 2012, nonstop service was provided to 16 domestic markets and four international markets with a total of 119 daily flights. There is a legal limit of 10.3 million annual passengers (MAP) currently in place at SNA. See Section 2.5.7.2 for more details regarding passenger caps at SNA.
- LGB, defined by the FAA as a small hub, is located 25 miles southeast of the Airport.[6] As of August 2012, nonstop service was provided to 13 domestic markets with a total of 43 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 2.5.7.2 for more details regarding passenger flight operations at LGB.
- LA/ONT, which is also owned by the City, operated by the Department, and defined by the FAA as a medium hub, is located 50 miles east of the Airport. As of August 2012, nonstop service was provided to 13 domestic markets with a total of 63 daily flights, as well as one flight to Guadalajara, Mexico.

Table 2-4 presents average one-way domestic fares for all five commercial service airports in the Air Trade Area for CY 2011. As shown, average one-way domestic fares at the Airport for short-haul and medium-haul markets are competitive with fares at the other four commercial service airports. Although average one-way domestic fares to long-haul markets from the Airport are higher than the other commercial service airports serving the Air Trade Area, the Airport's yield per coupon mile for the long-haul markets is competitive ($0.102 versus $0.084 to $0.099 for the other four airports).

Table 2-5 presents historical shares of total enplaned passengers for the five commercial service airports serving the Air Trade Area between CY 2000 and CY 2011. As shown, the Airport's share declined steadily between CY 2000 and CY 2003, had a brief recovery in CY 2004 to 71.1 percent before dropping again in 2005 to 70.7 percent, but then started to steadily increase from CY 2005 to CY 2011, resulting in a 75.1 percent share in CY 2011. As consolidation of the airline industry occurred following the global recession in 2008, and subsequent mergers and acquisitions between airlines streamlined activity, the Airport benefited from the centralized operation within the Air Trade Area, while LA/Ontario International Airport was hardest hit, with its regional share of enplaned passengers decreasing from 8.2 percent in CY 2007 to 5.5 percent in CY 2011. **Exhibit 2-2** below illustrates the CY 2011 shares of total enplaned passengers for the five commercial service airports serving the Air Trade Area.

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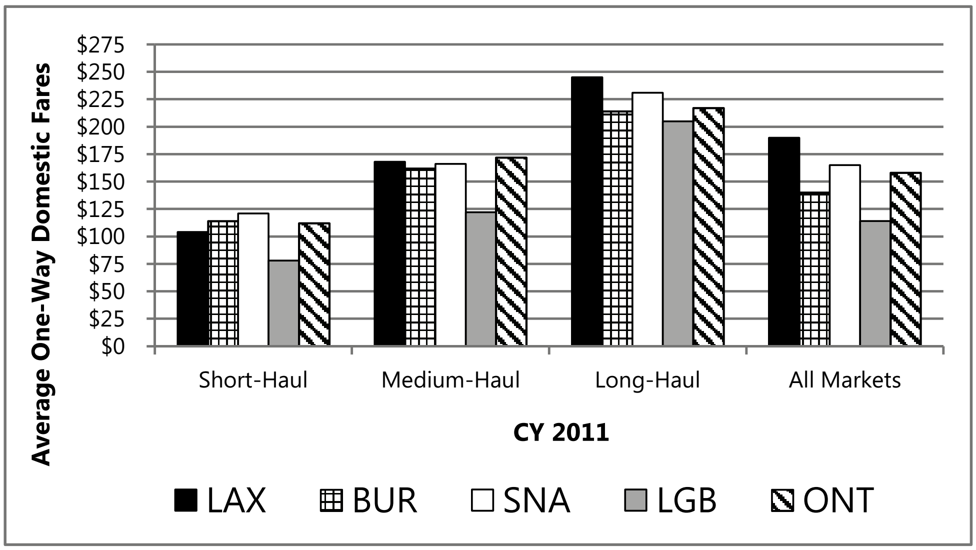
[6] As defined by the FAA, a small hub has between 0.05 percent and 0.249 percent of the nation's enplaned passengers in any calendar year (between 0.4 million and 1.8 million in CY 2011).

Table 2-4 Average One-Way Domestic Fares for Airports in the Air Trade Area

CY 2011

AIRPORT	SHORT-HAUL MARKETS 1/	MEDIUM-HAUL MARKETS 1/	LONG-HAUL MARKETS 1/	ALL MARKETS
Los Angeles (LAX)	**$104**	**$168**	**$245**	**$190**
Bob Hope (BUR)	$114	$162	$214	$140
John Wayne (SNA)	$121	$166	$231	$165
Long Beach (LGB)	$78	$122	$205	$114
LA/Ontario (LA/ONT)	$112	$172	$217	$158



NOTE:

1/ (SH) Short Haul = 1 to 600 miles

(MH) Medium Haul = 601 to 1,800 miles

(LH) Long Haul = over 1,800 miles

SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, August 2012.

PREPARED BY: Ricondo & Associates, Inc., August 2012.

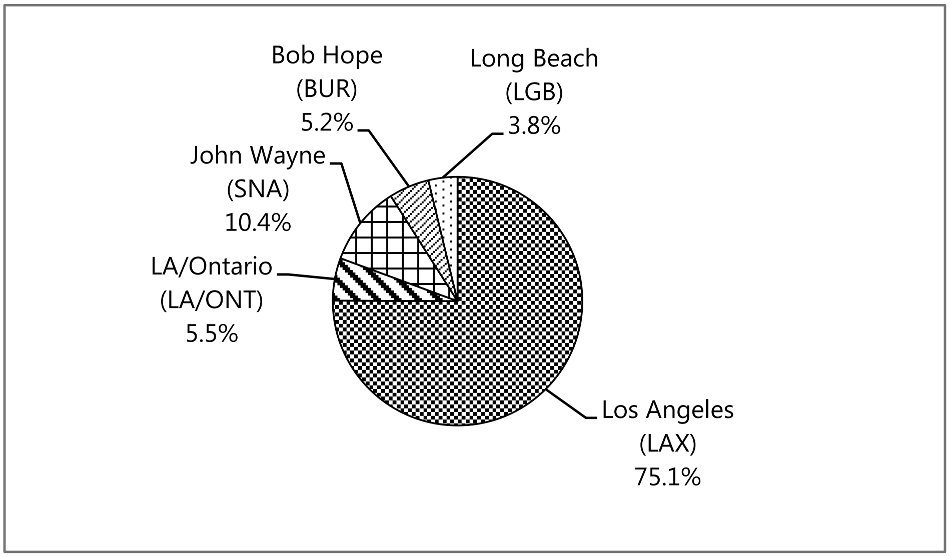
Table 2-5 Regional Airport Shares of Total Enplaned Passengers

Calendar Year

	AIRPORT (LAX)		LA/ONTARIO (ONT)		JOHN WAYNE (SNA)		BOB HOPE (BUR)		LONG BEACH (LGB)		TOTAL
CALENDAR YEAR	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS
2000	**33,836,077**	**77.3%**	3,359,978	7.7%	3,894,993	8.9%	2,367,835	5.4%	312,713	0.7%	43,771,596
2001	**31,007,930**	**76.4%**	3,354,400	8.3%	3,672,827	9.1%	2,248,654	5.5%	287,245	0.7%	40,571,056
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	**30,343,873**	**71.1%**	3,473,284	8.1%	4,902,263	11.5%	2,464,441	5.8%	1,470,620	3.4%	42,654,481
2005	**30,649,324**	**70.7%**	3,611,978	8.3%	4,821,459	11.1%	2,759,984	6.4%	1,523,812	3.5%	43,366,557
2006	**30,500,130**	**70.8%**	3,533,858	8.2%	4,814,108	11.2%	2,843,281	6.6%	1,385,260	3.2%	43,076,637
2007	**31,244,261**	**70.6%**	3,607,184	8.2%	4,989,018	11.3%	2,960,294	6.7%	1,458,128	3.3%	44,258,885
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
2009	**28,288,211**	**72.9%**	2,444,643	6.3%	4,336,168	11.2%	2,295,858	5.9%	1,455,070	3.7%	38,819,950
2010	**29,605,542**	**73.9%**	2,404,511	6.0%	4,310,170	10.8%	2,233,590	5.6%	1,488,869	3.7%	40,042,682
2011	**30,923,005**	**75.1%**	2,281,032	5.5%	4,287,955	10.4%	2,151,250	5.2%	1,549,744	3.8%	41,192,986
Compound Annual Growth Rate											
2000 - 2003	(6.6%)		(0.7%)		3.2%		0.0%		66.6%		(3.8%)
2003 - 2007	3.2%		2.4%		3.9%		5.7%		0.2%		3.3%
2007 - 2009	(4.8%)		(17.7%)		(6.8%)		(11.9%)		(0.1%)		(6.3%)
2009 - 2011	4.6%		(3.4%)		(0.6%)		(3.2%)		3.2%		3.0%
2000 - 2011	(0.8%)		(3.5%)		0.9%		(0.9%)		15.7%		(0.6%)

SOURCES: Airports Council International (2000 - 2008); Individual airport websites 2009 - 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Exhibit 2-2 Air Trade Area Airport Shares of Total Enplaned Passengers – CY 2011



SOURCES: City of Los Angeles, Department of Airports (LAX and ONT); Individual airports (BUR, LGB, SNA), August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

2.3 Airlines Serving the Airport

As of August 2012, scheduled passenger service at the Airport was provided by 20 U.S. flag air carriers, scheduled and nonscheduled service by 42 foreign flag carriers, and nonscheduled service by seven charter airlines. In addition, 22 all-cargo carriers provided scheduled cargo service. All 12 of the nation's Group III 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 Alaska, American, American Eagle, Delta, Frontier, Hawaiian, JetBlue, SkyWest, Southwest/AirTran, United, and US Airways. A complete list of airlines serving the Airport as of August 2012 is provided in **Table 2-6**.

The three major airline alliances are well represented by the large and diverse mix of passenger airlines serving the Airport. Twelve of the 26 members of Star Alliance, 10 of the 18 members of SkyTeam, and eight of the 12 members of oneworld currently provide scheduled service at the Airport. In FY 2012, 68.7 percent of international enplaned passengers at the Airport were flown by alliance members, indicating the importance of airline alliances to large international gateways (55.5 percent of domestic enplaned passengers at the Airport were flown by alliance members; 59.1 percent of total enplaned passengers at the Airport).

Table 2-6 Airlines Serving the Airport [1/]

SCHEDULED U.S. CARRIERS (20)	FOREIGN FLAG CARRIERS (42)	NONSCHEDULED CARRIERS (7)	ALL-CARGO CARRIERS (22)
AirTran [2/]	Aeroflot	ArkeFly	Aerotransporte De Carga Union
Alaska	AeroMexico	Clay Lacy Aviation	Aerotransportes Mas De Carga
Allegiant Air	Aerolitoral (Aeromexico Connect)	Miami Air	Air Transport International
American	Air Berlin	North American	Asiana Cargo
American Eagle	Air Canada	Pace	Astar
Delta	Air China	USA Jet	Atlas Air Cargo
ExpressJet	Air France	World Airways	Cargolux
Frontier	Air New Zealand		Cathay Pacific Cargo
Great Lakes Aviation	Air Pacific		China Cargo
Hawaiian	Air Tahiti Nui		China Southern Cargo
Horizon	Alitalia		DHL/Airborne
JetBlue	All Nippon		Eva Airways Cargo
Republic	Asiana		FedEx
SkyWest	British Airways		Florida West
Southwest [2/]	Cathay Pacific		Kalitta Air
Spirit	China		Korean Cargo
Sun Country	China Eastern		Nippon Cargo
United	China Southern		Polar Air
US Airways	Copa		Singapore Airlines Cargo
Virgin America	El Al Israel		United Parcel Service
	Emirates		World Airways Cargo
	Eva Airways		Yangtze River Express
	Iberia		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa German		
	Malaysia		
	Qantas		
	Singapore		
	SWISS		
	TACA		
	Thai Airways		
	Transaero		
	Turkish Airlines		
	Virgin Atlantic Airways		
	Virgin Australia		
	Volaris		
	Westjet		

NOTE:

1/ As of August 2012.

2/ Following their merger in CY 2011, Southwest and AirTran rceived a single operating certificate from the FAA in CY 2012; however, they continue to operate as separate airlines while integrating.

SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-7 lists scheduled U.S. flag air carriers at the Airport since FY 2002. 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, 13 of the 20 U.S. flag airlines currently serving the Airport have operated there for each of the years shown, including 10 of the 12 Group III U.S. passenger airlines. Activity by those U.S. flag carriers providing a significant level of service is discussed below:[7]

- United, with a 19.8 percent share of domestic enplaned passengers at the Airport in FY 2012 (see Table 2-13), provides nonstop service to 20 domestic markets with a total of 697 weekly flights; as well as a total of 60 weekly flights to the international markets of Cancun, Guadalajara, London, Mexico City, Puerto Vallarta, Los Cabos, Leon/Guanajuato, Shanghai, Sydney, and Tokyo (See **Table 2-8**).
- American, with an 18.6 percent share, provides nonstop service to 19 domestic markets with a total of 614 weekly flights; as well as a total of 47 weekly flights to the international markets of London, Los Cabos, Shanghai, Tokyo, and Toronto.
- Southwest, with a 15.3 percent share, provides nonstop service to 23 domestic markets with a total of 754 weekly flights.
- Delta, with a 12.6 percent share, provides nonstop service to 20 domestic markets with a total of 403 weekly flights; as well as a total of 37 weekly flights to the international markets of Cancun, Guadalajara, Guatemala City, Tokyo, Puerto Vallarta, and Sydney.
- SkyWest, with an 8.1 percent share and operating as the Delta Connection and United Express, provides nonstop service to 36 domestic markets with a total of 983 weekly flights and provides seven weekly flights to Vancouver, B.C., Canada.
- Virgin America, with a 5.9 percent share, provides nonstop service to 11 domestic markets with a total of 264 weekly flights; as well as a total of six weekly flights to the international market of Cancun.
- US Airways, with a 4.2 percent share, provides nonstop service to three domestic markets with a total of 118 weekly flights.
- American Eagle, with a 3.5 percent share and serving as a code-sharing partner with American, provides nonstop service to 17 domestic markets with a total of 444 weekly flights

Table 2-9 lists the foreign flag air carriers at the Airport since FY 2002. As shown, a large and growing foreign flag air carrier base developed during the years shown. In addition, 34 of the 42 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:[8]

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7 All of the domestic nonstop service discussed below is as of the week ending August 17, 2012.

8 All of the international nonstop service discussed below is as of the week ending August 17, 2012.

Table 2-7 Scheduled U.S. Flag Air Carrier Base - LAX

AIR CARRIER	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 1/
Alaska	•	•	•	•	•	•	•	•	•	•	•	•
American	•	•	•	•	•	•	•	•	•	•	•	•
American Eagle	•	•	•	•	•	•	•	•	•	•	•	•
Delta 2/	•	•	•	•	•	•	•	•	•	•	•	•
Frontier	•	•	•	•	•	•	•	•	•	•	•	•
Hawaiian	•	•	•	•	•	•	•	•	•	•	•	•
Horizon	•	•	•	•	•	•	•	•	•	•	•	•
SkyWest	•	•	•	•	•	•	•	•	•	•	•	•
Southwest	•	•	•	•	•	•	•	•	•	•	•	•
Spirit	•	•	•	•	•	•	•	•	•	•	•	•
United 3/	•	•	•	•	•	•	•	•	•	•	•	•
US Airways	•	•	•	•	•	•	•	•	•	•	•	•
Sun Country	•	•	•	•	•	•	•	•	•	•	•	•
AirTran				•	•	•	•	•	•	•	•	•
ExpressJet				•	•	•	•	•	•	•	•	•
Republic						•	•		•	•	•	•
Virgin America							•	•	•	•	•	•
JetBlue								•	•	•	•	•
Allegiant									•	•	•	•
Great Lakes										•	•	•
Airlines No Longer Serving the Airport												
Mesa	•	•	•	•	•	•	•	•	•	•		
Midwest	•	•	•	•	•	•	•	•	•			
ATA	•	•	•	•	•	•	•					
MAXJet							•					
Atlantic Southeast				•	•	•						
Air Wisconsin	•	•	•	•	•							
Independence Air				•	•							
Freedom Air		•	•									
Vanguard	•	•										
Number of Airlines	18	19	18	21	21	20	21	19	21	21	20	20

NOTES:

1/ As of August 2012.

2/ Includes service by Northwest between FY 2002 anfd FY 2010.

3/ Includes service by Continental at the Airport between FY 2002 and FY 2012.

SOURCE: Official Airline Guide, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-8 Scheduled Nonstop Activity for U.S. Flag & Foreign Flag Carriers - LAX [1/]

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
SkyWest	36	983	Vancouver	7	Air Canada	Montreal, Vancouver, Calgary, Toronto	104
SouthWest	23	754			Aeromexico	Guadalajara, Mexico City	49
United	20	697	Cancun, Guadalajara, London, Mexico City, Tokyo, Puerto Vallarta, Los Cabos, Sydney, Leon/Guanajuato, Shanghai	60	Volaris	Culiacan, Guadalajara, Mexico City , Zacatecas, Aguascalientes, Morelia	44
American	19	614	London, Tokyo, Los Cabos, Toronto, Shanghai	47	WestJet	Edmonton, Vancouver, Calgary	28
American Eagle	17	444			Korean Air	Tokyo, Sao Paulo, Seoul	27
Delta	20	403	Cancun, Guadalajara, Guatemala City, Tokyo, Puerto Vallarta, Sydney	37	Qantas	Brisbane, Melbourne, Sydney	25
Virgin America	11	264	Cancun	6	British Airways	London	21
Alaska	4	134	Guadalajara, Mexico City, Mazatlan, Puerto Vallarta, Los Cabos, Vancouver, Ixtapa/Zihuatanejo, Manzanillo	76	Cathay Pacific	Hong Kong	21
US Airways	3	118			Lufthansa	Frankfurt, Munich	21
JetBlue	3	69			Air New Zealand	Auckland, London, Rarotonga Island	21
Horizon	5	59	La Paz, Loreto	8	Air Tahiti Nui	Paris, Papeete	21
AirTran	3	35			Air France	Paris, Papeete	18
Spirit	3	35			EVA	Taipei	18
Great Lakes	3	35			LACSA	Guatemala City, San Salvador, San Jose	18
Frontier	2	32			Taca Intl	Guatemala City, San Salvador	17
Hawaiian	2	28			Air China	Beijing	14
Allegiant	14	24			China Airlines	Taipei	14
Sun Country	1	12			Copa	Panama City	14
Republic	2	10			All Nippon	Tokyo	14
Qantas [2/]	1	7			Asiana	Brisbane, Sydney	14
					Virgin Australia Int`l	Brisbane, Melbourne, Sydney	14
					Virgin Atlantic	London	14
					Singapore	Tokyo, Singapore	12
					Aeromexico Connect	Hermosillo, Leon/Guanajuato	11
					KLM-Royal Dutch	Amsterdam	10
					Alitalia-Compagnia Aerea	Rome	7
					China Southern	Guangzhou	7
					Emirates	Dubai	7
					Japan	Tokyo	7
					Lan	Lima	7
					SWISS	Zurich	7
					China Eastern	Shanghai	7
					Turkish	Istanbul	7
					Air Berlin	Dusseldorf, Berlin	6
					Air Pacific	Nadi	5
					El Al Israel	Tel Aviv	5
					Aeroflot Russian	Moscow	5
					Malaysia	Tokyo	4
					Thai Airways Intl	Seoul	4
					Iberia	Madrid	3
					Lan Peru	Lima	3
					ArkeFly	Amsterdam	2
					Transaero	Moscow	2
Total		**4,757**		**241**			**679**

NOTES:

1/ Nonstop service as of August 11 - 17, 2012.

2/ One daily nonstop flight from the Airport to John F. Kennedy International Airport.

SOURCE: Official Airline Guide (Week of August 11 - 17, 2012).
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-9 Scheduled Foreign Flag Air Carrier Base - LAX

AIR CARRIER	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 1/
Aeroflot	●	●	●	●	●	●	●	●	●	●	●	●
AeroMexico	●	●	●	●	●	●	●	●	●	●	●	●
Air Canada	●	●	●	●	●	●	●	●	●	●	●	●
Air China	●	●	●	●	●	●	●	●	●	●	●	●
Air France	●	●	●	●	●	●	●	●	●	●	●	●
Air New Zealand	●	●	●	●	●	●	●	●	●	●	●	●
Air Pacific	●	●	●	●	●	●	●	●	●	●	●	●
Air Tahiti Nui	●	●	●	●	●	●	●	●	●	●	●	●
All Nippon	●	●	●	●	●	●	●	●	●	●	●	●
Asiana	●	●	●	●	●	●	●	●	●	●	●	●
British Airways	●	●	●	●	●	●	●	●	●	●	●	●
Cathay Pacific	●	●	●	●	●	●	●	●	●	●	●	●
China	●	●	●	●	●	●	●	●	●	●	●	●
China Eastern	●	●	●	●	●	●	●	●	●	●	●	●
China Southern	●	●	●	●	●	●	●	●	●	●	●	●
El Al Israel	●	●	●	●	●	●	●	●	●	●	●	●
Eva Airways	●	●	●	●	●	●	●	●	●	●	●	●
Japan	●	●	●	●	●	●	●	●	●	●	●	●
KLM Royal Dutch	●	●	●	●	●	●	●	●	●	●	●	●
Korean	●	●	●	●	●	●	●	●	●	●	●	●
LACSA	●	●	●	●	●	●	●	●	●	●	●	●
Lan	●	●	●	●	●	●	●	●	●	●	●	●
Air Berlin	●	●	●	●	●	●	●	●	●	●	●	●
Lufthansa German	●	●	●	●	●	●	●	●	●	●	●	●
Malaysia	●	●	●	●	●	●	●	●	●	●	●	●
Qantas	●	●	●	●	●	●	●	●	●	●	●	●
Singapore	●	●	●	●	●	●	●	●	●	●	●	●
TACA	●	●	●	●	●	●	●	●	●	●	●	●
Thai Airways	●	●	●	●	●	●	●	●	●	●	●	●
Virgin Atlantic	●	●	●	●	●	●	●	●	●	●	●	●
Alitalia	●						●	●	●	●	●	●
Copa	●	●	●	●	●	●	●	●	●	●	●	●
AeroLitoral	●	●	●	●	●	●	●	●	●	●	●	●
SWISS	●	●	●	●	●	●	●	●	●	●	●	●
WestJet				●	●	●	●	●	●	●	●	●
Lan Peru				●	●	●	●	●	●	●	●	●
Emirates								●	●	●	●	●
Virgin Australia									●	●	●	●
Volaris									●	●	●	●
Iberia										●	●	●
Turkish										●	●	●
Transaero											●	●
Virgin Blue								●	●			
Air Canada Jazz					●	●	●	●	●			
Air India			●	●	●	●	●	●	●			
Aer Lingus	●	●	●	●	●	●	●	●	●			
Air Jamaica	●	●	●	●	●	●	●	●	●			
Avianca	●	●	●	●	●	●	●	●	●			
Mexicana	●	●	●	●	●	●	●	●	●			
Philippine	●	●	●	●	●	●	●	●	●			
Martinair Holland	●	●						●	●			
Aero California	●	●	●	●	●							
Varig Brazilian	●	●	●	●	●							
Harmony			●	●								
Canada 3000	●											
Number of Airlines	43	41	42	44	44	42	43	46	48	41	42	42

NOTE:
1/ As of August 2012.

SOURCE: Official Airline Guide, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

- Qantas, with a 6.2 percent share of international enplaned passengers at the Airport in FY 2012 (see Table 2-14), provides nonstop service to Brisbane, Melbourne, and Sydney with a total of 25 weekly flights.
- Air Canada, with a 5.5 percent share, provides nonstop service to Calgary, Montreal, Toronto, and Vancouver with a total of 104 weekly flights.
- Korean, with a 3.9 percent share, provides nonstop service to Tokyo, Sao Paulo, and Seoul with a total of 27 weekly flights.
- Air New Zealand, with a 3.6 percent share, provides nonstop service to Auckland, London, and Rarotonga Island with a total of 21 weekly flights.
- Aeromexico, with a 3.3 percent share, provides nonstop service to Guadalajara and Mexico City with a total of 49 weekly flights.
- British Airways, with a 3.2 percent share, provides nonstop service to London with a total of 21 weekly flights.

2.4 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.

2.4.1 HISTORICAL PASSENGER ACTIVITY

Table 2-10 presents historical data on total enplaned passengers (domestic and international activity combined) at the Airport and the nation between FY 2000 and FY 2012. Factors impacting historical domestic and international activity are discussed in this section.

After experiencing a compound annual decrease of 9.5 percent between FY 2001 and FY 2003 due to the events of September 11, 2001 and the nationwide economic slowdown, domestic enplaned passengers at the Airport increased at a CAGR of 1.9 percent between FY 2003 and FY 2008, a rate of growth that was below the CAGR of 3.0 percent 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. Domestic enplaned passengers at the Airport decreased 7.9 percent in FY 2009 from FY 2008 levels as a result of the global recession and the commencement of consolidation between the carriers, notably the merger of Delta and Northwest. This was in line with the national decline in traffic during this same period, as total U.S. enplaned passengers decreased by 7.3 percent in FY 2009 from the previous year. As an economic recovery began in FY 2010, so did the activity levels at the Airport, with domestic enplaned passengers increasing at a CAGR of 3.7 percent between FY 2009 and FY 2012, compared to the 1.0 percent CAGR experienced nationwide.

Table 2-10 Historical Enplanements - LAX

	DOMESTIC ACTIVITY					INTERNATIONAL ACTIVITY		TOTAL ACTIVITY	
FISCAL YEAR	AIRPORT ENPLANED PASSENGERS 1/	AIRPORT ANNUAL % CHANGE	U.S. ENPLANED PASSENGERS 1/ 2/	U.S. ANNUAL % CHANGE	AIRPORT SHARE OF U.S. ENPLANED PASSENGERS 1/	AIRPORT ENPLANED PASSENGERS 1/	ANNUAL % CHANGE	AIRPORT ENPLANED PASSENGERS 1/	ANNUAL % CHANGE
2000	24,880,727	-	641,200,000	-	3.9%	8,350,995	-	33,231,722	-
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%	680,700,000	(1.4%)	3.3%	8,714,960	3.4%	31,142,339	1.1%
2009	20,662,591	(7.9%)	630,800,000	(7.3%)	3.3%	7,666,428	(12.0%)	28,329,019	(9.0%)
2010	21,127,610	2.3%	635,200,000	0.7%	3.3%	7,875,532	2.7%	29,003,142	2.4%
2011	22,151,724	4.8%	649,900,000 3/	2.3%	3.4%	8,128,847	3.2%	30,280,571	4.4%
2012	23,019,578	3.9%	649,400,000 4/	(0.1%)	3.5%	8,499,546	4.6%	31,519,124	4.1%

Compound Annual Growth Rate	Airport Enplaned Passengers (Domestic)	U.S. Enplaned Passengers	Airport Enplaned Passengers (International)	Airport Enplaned Passengers (Total)
2000 - 2001	0.3%	(2.4%)	6.3%	1.8%
2001 - 2003	(9.5%)	(3.1%)	(9.5%)	(9.5%)
2003 - 2008	1.9%	3.0%	3.7%	2.4%
2008 - 2009	(7.9%)	(7.3%)	(12.0%)	(9.0%)
2009 - 2012	3.7%	1.0%	3.5%	3.6%
2000 - 2012	(0.6%)	0.1%	0.1%	(0.4%)

NOTES:

1/ Twelve months ending June 30.

2/ Twelve months ending September 30.

3/ Estimated by the FAA.

4/ Projected by the FAA.

SOURCES: City of Los Angeles, Department of Airports (Airport activity, August 2012); FAA (U.S. activity, March 2012).
PREPARED BY: Ricondo & Associates, Inc., August 2012.

As shown in **Table 2-11**, Southwest tripled its daily nonstop flights at the Airport between FY 1991 and FY 2005, increasing its activity from 41 to 120 daily flights during this period. Southwest's passenger activity increased accordingly, from approximately 1.0 million enplaned passengers in FY 1991 to approximately 3.8 million in FY 2005, a CAGR of 10.0 percent. Its share of domestic enplaned passengers 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, stimulating domestic passenger traffic at the Airport. As also shown in Table 2-11, Southwest's daily flights at the Airport peaked at approximately 130 flights in FY 2008 before decreasing back to approximately 120 daily flights in FY 2011 and FY 2012.

Table 2-12 presents scheduled domestic departing seats by selected airlines (which accounted for a combined 81 percent of annual scheduled domestic departing seats in FY 2012), as well as the total for the Airport between FY 2002 and FY 2012. As shown, scheduled domestic departing seats decreased at a compound annual rate of 2.4 percent between FY 2002 and FY 2009. 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, American, and Delta (mainline and affiliates), airlines with high shares of domestic enplaned passengers at the Airport. Their scheduled domestic departing seats decreased at a compound annual rate of 3.9 percent, 3.3 percent, and 2.6 percent, respectively, between FY 2002 and FY 2009. With the cutbacks in airline service nationwide and the global recession, total scheduled domestic departing seats decreased 8.9 percent in FY 2009 from FY 2008 levels, coinciding with the 7.9 percent decrease in domestic enplaned passengers at the Airport during this same period. As the industry started to emerge from the recession, total scheduled domestic departing seats increased at a CAGR of 2.6 percent between FY 2009 and FY 2012. Delta's scheduled domestic departing seats were especially volatile between FY 2008 and FY 2012 as it tried to right-size its operations at the Airport and provide a better blend of mainline and affiliate activity.

Table 2-13 presents domestic enplaned passengers by airline between FY 2008 and FY 2012.[9] As shown, four airlines (American, United, Southwest, and Delta) accounted for between 66.3 percent and 73.4 percent of domestic enplaned passengers at the Airport during this period, with six other airlines accounting for an additional 18.1 to 27.1 percent. No major shifts in market share among the carriers occurred during the years depicted. **Exhibit 2-3** presents this information for FY 2012.

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9 Due to reporting requirements of certain airlines, the mainline carriers and code-share airlines could not be combined. For example, SkyWest code-shares with Delta, US Airways, and United, but does not differentiate between them in its monthly report of enplaned passenger activity submitted to the Airport.

Table 2-11 Nonstop Service by Southwest/AirTran - LAX

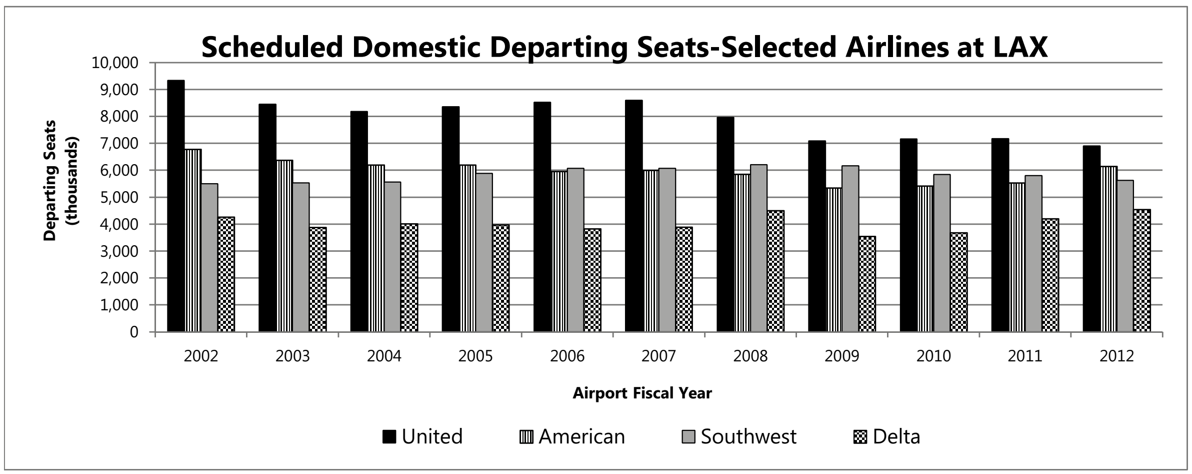
	DAILY NONSTOP FLIGHTS (FISCAL-YEAR-END)																					
	FY 1991	**FY 1992**	**FY 1993**	**FY 1994**	**FY 1995**	**FY 1996**	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**	**FY 2002**	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Albuquerque	5	6	6	6	6	6	6	6	6	6	6	6	6	6	5	4	4	4	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	3	3	3
Oakland	9	10	16	18	24	24	24	24	24	24	23	21	21	21	21	21	20	17	15	15	13	12
Phoenix	20	24	26	25	22	22	23	21	21	21	19	16	13	13	13	13	13	12	11	11	10	9
Las Vegas		8	13	13	19	19	19	18	17	17	16	14	14	14	14	14	14	13	13	12	11	11
San Jose				12	12	13	13	13	13	13	13	13	13	13	13	13	13	12	11	10	10	10
Reno					3	3	3	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	10	10	9	9	9	9	8	8
Salt Lake City					4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	3	3
Tucson					4	4	4	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5
San Antonio						1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2
Kansas City							2	3	4	5	5	5	5	5	4	4	4	4	3	3	3	3
Nashville							2	2	3	3	3	3	3	3	3	3	3	3	3	2	2	2
Austin									1	1	1	1	1	1	1	1	1	1	2	2	2	2
New Orleans										1	1	1	1	1	1	0	0	0	0	0	1	1
Indianapolis											1	1	1	1	1	1	1	1	0	0	0	0
Chicago Midway												3	3	3	6	7	7	7	7	7	7	7
Houston Hobby												1	1	1	4	4	4	4	4	4	4	4
Baltimore													2	2	2	2	2	2	2	3	3	3
St. Louis														1	1	1	1	1	1	2	2	2
Atlanta															3	4	5	6	5	5	5	5
Philadelphia															2	2	2	0	0	0	0	0
Denver																		5	6	6	7	7
Milwaukee																		2	2	2	2	2
San Francisco																		11	11	11	10	10
Total	**41**	**55**	**68**	**81**	**107**	**108**	**113**	**112**	**115**	**118**	**115**	**111**	**110**	**111**	**120**	**120**	**119**	**131**	**126**	**124**	**120**	**118**

SOURCE: Official Airline Guide, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-12 Scheduled Domestic Departing Seats (LAX) by Selected Airlines and Airport Total [1/]

Thousands

	SCHEDULED DOMESTIC DEPARTING SEATS									
FISCAL YEAR	UNITED	ANNUAL % CHANGE	AMERICAN	ANNUAL % CHANGE	SOUTHWEST	ANNUAL % CHANGE	DELTA	ANNUAL % CHANGE	AIRPORT TOTAL	ANNUAL % CHANGE
2002	9,332	-	6,778	-	5,495	-	4,264	-	31,726	-
2003	8,448	(9.5%)	6,379	(5.9%)	5,533	0.7%	3,882	(9.0%)	28,777	(9.3%)
2004	8,180	(3.2%)	6,201	(2.8%)	5,561	0.5%	4,016	3.5%	28,660	(0.4%)
2005	8,358	2.2%	6,202	0.0%	5,887	5.9%	3,975	(1.0%)	29,058	1.4%
2006	8,526	2.0%	5,953	(4.0%)	6,070	3.1%	3,828	(3.7%)	28,511	(1.9%)
2007	8,593	0.8%	6,001	0.8%	6,073	0.1%	3,889	1.6%	29,053	1.9%
2008	7,959	(7.4%)	5,855	(2.4%)	6,207	2.2%	4,504	15.8%	29,295	0.8%
2009	7,086	(11.0%)	5,346	(8.7%)	6,165	(0.7%)	3,546	(21.3%)	26,684	(8.9%)
2010	7,162	1.1%	5,414	1.3%	5,844	(5.2%)	3,679	3.7%	26,787	0.4%
2011	7,176	0.2%	5,527	2.1%	5,806	(0.6%)	4,198	14.1%	27,853	4.0%
2012	6,904	(3.8%)	6,145	11.2%	5,627	(3.1%)	4,544	8.2%	28,793	3.4%
Compounded Annual Growth Rate										
2002 - 2009	(3.9%)		(3.3%)		1.7%		(2.6%)		(2.4%)	
2009 - 2012	(0.9%)		4.8%		(3.0%)		8.6%		2.6%	
2002 - 2012	(3.0%)		(1.0%)		0.2%		0.6%		(1.0%)	



NOTE:

1/ Airline data includes recently merged airlines and code-share affiliates.

SOURCE: Official Airline Guide, August 2012.

PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-13 Historical Domestic Enplaned Passengers by Airline - LAX [1/]

		FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	AIRLINE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
1	United	5,000,529	22.3%	4,593,570	22.2%	4,701,301	22.3%	4,613,547	20.8%	4,563,069	19.8%
2	American	4,307,613	19.2%	4,009,530	19.4%	3,993,708	18.9%	3,983,782	18.0%	4,271,480	18.6%
3	Southwest	3,851,867	17.2%	3,556,203	17.2%	3,389,180	16.0%	3,512,432	15.9%	3,516,770	15.3%
4	Delta	3,191,237	14.2%	3,013,224	14.6%	3,015,589	14.3%	3,125,100	14.1%	2,901,744	12.6%
5	Skywest	1,336,688	6.0%	1,234,324	6.0%	1,386,050	6.6%	1,735,518	7.8%	1,857,053	8.1%
6	Virgin America	343,589	1.5%	733,879	3.6%	892,894	4.2%	1,050,399	4.7%	1,358,674	5.9%
7	US Airways	1,106,982	4.9%	1,060,095	5.1%	958,824	4.5%	981,885	4.4%	964,577	4.2%
8	Alaska	782,663	3.5%	809,289	3.9%	774,149	3.7%	812,389	3.7%	891,964	3.9%
9	American Eagle	485,023	2.2%	406,422	2.0%	437,705	2.1%	536,346	2.4%	814,306	3.5%
10	JetBlue	150	0.0%	7,746	0.0%	151,538	0.7%	264,531	1.2%	358,326	1.6%
11	Frontier	255,525	1.1%	212,323	1.0%	236,783	1.1%	299,477	1.4%	283,888	1.2%
12	Airtran	240,455	1.1%	240,493	1.2%	301,610	1.4%	298,698	1.3%	275,881	1.2%
13	Spirit	100,603	0.4%	73,567	0.4%	69,098	0.3%	139,504	0.6%	265,973	1.2%
14	Hawaiian	226,323	1.0%	195,558	0.9%	186,449	0.9%	240,006	1.1%	235,502	1.0%
15	Allegiant Air	243	0.0%	24,814	0.1%	171,093	0.8%	191,518	0.9%	186,876	0.8%
16	Horizon	372,094	1.7%	300,703	1.5%	281,661	1.3%	244,198	1.1%	129,410	0.6%
17	Qantas	61,873	0.3%	63,004	0.3%	83,162	0.4%	54,835	0.2%	73,826	0.3%
18	Sun Country	53,843	0.2%	33,700	0.2%	24,545	0.1%	43,425	0.2%	51,079	0.2%
19	Great Lakes	-	0.0%	-	0.0%	-	0.0%	1,295	0.0%	9,523	0.0%
20	Compass	-	0.0%	-	0.0%	-	0.0%	-	0.0%	7,044	0.0%
	Other	710,079	3.2%	94,147	0.5%	72,271	0.3%	22,839	0.1%	2,613	0.0%
	Airport Total [2/]	22,427,379	100.0%	20,662,591	100.0%	21,127,610	100.0%	22,151,724	100.0%	23,019,578	100.0%

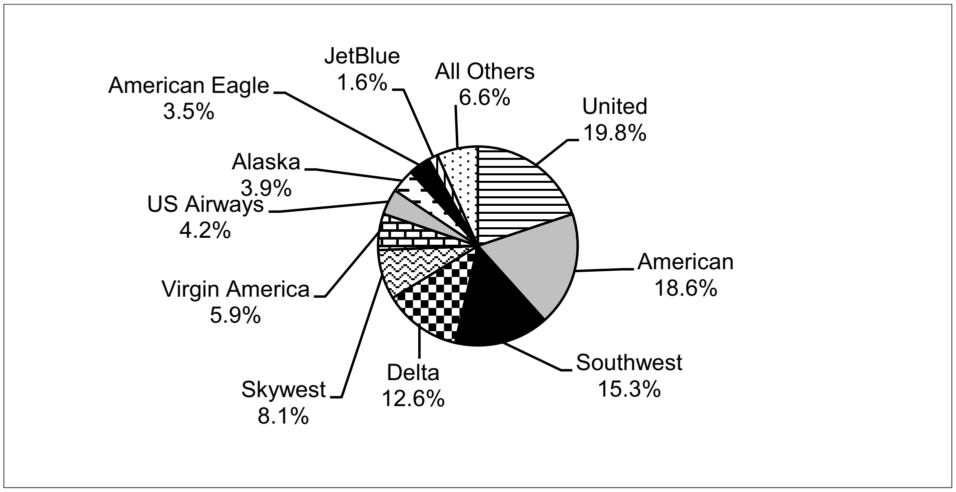
NOTES:

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 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Exhibit 2-3 Domestic Enplaned Passengers by Airline (LAX) – FY 2012



SOURCE: City of Los Angeles, Department of Aviation, July 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012

Table 2-10 also presents historical data on international enplaned passengers at the Airport between FY 2000 and FY 2012. As shown, international passenger activity at the Airport increased from 8.3 million enplaned passengers in FY 2000 to 8.5 million in FY 2012, a CAGR of 0.1 percent during this period. Due to the effects of September 11, 2001 and a downturn in the international economy, particularly in Asia, international enplaned passengers at the Airport decreased from 8.9 million in FY 2001 to 7.3 million in FY 2003 (a compound annual decrease of 9.5 percent during this period). Thereafter, international passenger activity began to recover, with enplaned passengers 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 enplaned passengers decreased by 12.0 percent from FY 2008. As the world began to recover from the global recession, international passenger activity at the Airport rebounded, and increased at a CAGR of 3.5 percent between FY 2009 and FY 2012.

Table 2-14 presents international enplaned passengers by airline between FY 2008 and FY 2012. International enplaned passengers are spread over a number of airlines (42 foreign flag carriers and nine U.S. flag carriers in FY 2012), with no airline dominating. Alaska enplaned the most international passengers at the Airport in FY 2012 with a 7.4 percent share, providing nonstop service to eight international destinations, seven in Mexico and one in Canada. United, providing nonstop service to ten international cities in Mexico, Asia, Europe and Australia, had the second highest share of international enplaned passengers at the Airport in FY 2012 with 6.6 percent of the traffic. Also shown, the top 20 airlines in FY 2012 accounted for between 68.1 and 73.8 percent of international activity during the years depicted. **Exhibit 2-4** presents this information for FY 2012.

Table 2-14 Historical International Enplaned Passengers by Airline - LAX [1/]

	AIRLINE	FY 2008 ENPLANED PASSENGERS	FY 2008 SHARE	FY 2009 ENPLANED PASSENGERS	FY 2009 SHARE	FY 2010 ENPLANED PASSENGERS	FY 2010 SHARE	FY 2011 ENPLANED PASSENGERS	FY 2011 SHARE	FY 2012 ENPLANED PASSENGERS	FY 2012 SHARE
1	Alaska	627,303	7.2%	550,757	7.2%	525,876	6.7%	572,603	7.0%	630,962	7.4%
2	United	503,410	5.8%	382,555	5.0%	346,571	4.4%	463,223	5.7%	563,053	6.6%
3	Qantas	552,338	6.3%	527,956	6.9%	523,808	6.7%	516,169	6.3%	529,344	6.2%
4	Air Canada	477,779	5.5%	424,024	5.5%	416,345	5.3%	438,868	5.4%	468,793	5.5%
5	Korean	335,803	3.9%	334,256	4.4%	352,470	4.5%	332,593	4.1%	335,310	3.9%
6	Delta	300,456	3.4%	223,921	2.9%	310,047	3.9%	316,546	3.9%	329,256	3.9%
7	American	303,604	3.5%	267,948	3.5%	263,688	3.3%	320,543	3.9%	327,443	3.9%
8	Air New Zealand	386,452	4.4%	334,028	4.4%	339,760	4.3%	340,567	4.2%	304,171	3.6%
9	Aeromexico	241,626	2.8%	208,536	2.7%	204,679	2.6%	269,479	3.3%	282,415	3.3%
10	British Airways	296,390	3.4%	284,737	3.7%	269,204	3.4%	274,372	3.4%	274,882	3.2%
11	Cathay Pacific	326,263	3.7%	244,372	3.2%	220,936	2.8%	254,191	3.1%	262,793	3.1%
12	Air France	280,763	3.2%	281,619	3.7%	251,803	3.2%	254,579	3.1%	258,054	3.0%
13	Lufthansa German	266,492	3.1%	242,930	3.2%	245,944	3.1%	237,723	2.9%	240,780	2.8%
14	Eva Airways	255,263	2.9%	232,477	3.0%	239,294	3.0%	203,575	2.5%	215,751	2.5%
15	Virgin Blue	-	0.0%	28,383	0.4%	164,706	2.1%	207,737	2.6%	210,249	2.5%
16	Volaris	-	0.0%	63	0.0%	140,563	1.8%	202,376	2.5%	207,702	2.4%
17	Asiana	159,873	1.8%	179,999	2.3%	199,010	2.5%	201,848	2.5%	205,030	2.4%
18	China	222,747	2.6%	209,862	2.7%	225,456	2.9%	209,101	2.6%	201,466	2.4%
19	Air Tahiti Nui	210,280	2.4%	187,397	2.4%	181,137	2.3%	194,764	2.4%	185,890	2.2%
20	Virgin Atlantic	184,303	2.1%	176,229	2.3%	169,654	2.2%	185,852	2.3%	181,849	2.1%
	Other	2,783,815	31.9%	2,344,379	30.6%	2,284,581	29.0%	2,132,138	26.2%	2,284,353	26.9%
	Airport Total [2/]	8,714,960	100.0%	7,666,428	100.0%	7,875,532	100.0%	8,128,847	100.0%	8,499,546	100.0%

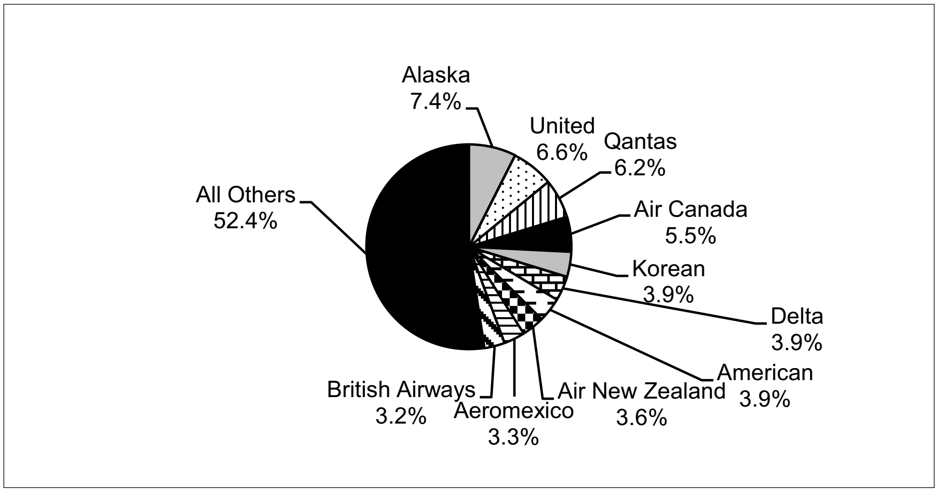
NOTES:

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 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Exhibit 2-4 International Enplaned Passengers by Airline (LAX) – FY 2012



SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-15 presents total enplaned passengers by airline at the Airport between FY 2008 and FY 2012. Four airlines (United, American, Southwest, and Delta) accounted for slightly more than half of total enplaned passengers at the Airport from FY 2008 through FY 2012. The shares for these four airlines have been steadily decreasing since FY 2010; and as of FY 2012, their collective market share of total enplaned passengers at the Airport was 52.3 percent.

2.4.2 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 2-16** presents historical data on the Airport's top 50 domestic O&D markets for CY 2011, the latest calendar year for which such data are currently available. As shown, many markets along the West Coast corridor occupy the highest ranks. Notwithstanding this strong regional demand, the Airport's markets in CY 2011 had an average stage length (i.e., passenger trip distance) of 1,562 miles, compared to 800 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 2-17**. As shown, 91 domestic cities are served with a total of 4,757 weekly nonstop flights. San Francisco, the Airport's second-largest domestic O&D market, was provided 353 weekly nonstop flights. Other domestic markets with significant weekly nonstop service include New York/Newark (315), San Diego (247), and Las Vegas (234). **Exhibit 2-5** graphically illustrates the Airport's nonstop domestic markets, as of the week ending August 17, 2012.

Table 2-15 Historical Total Enplaned Passengers by Airline - LAX 1/

		FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	AIRLINE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
1	United	5,503,939	17.7%	4,976,125	17.6%	5,047,872	17.4%	5,076,770	16.8%	5,126,122	16.3%
2	American	4,611,217	14.8%	4,277,478	15.1%	4,257,396	14.7%	4,304,325	14.2%	4,598,923	14.6%
3	Southwest	3,851,867	12.4%	3,556,203	12.6%	3,389,180	11.7%	3,512,432	11.6%	3,516,770	11.2%
4	Delta	3,491,693	11.2%	3,237,145	11.4%	3,325,636	11.5%	3,441,646	11.4%	3,231,000	10.3%
5	Skywest	1,383,225	4.4%	1,289,602	4.6%	1,441,834	5.0%	1,777,359	5.9%	1,887,638	6.0%
6	Alaska	1,409,966	4.5%	1,360,046	4.8%	1,300,025	4.5%	1,384,992	4.6%	1,522,926	4.8%
7	Virgin American	343,589	1.1%	733,879	2.6%	893,623	3.1%	1,085,506	3.6%	1,387,310	4.4%
8	US Airways	1,110,117	3.6%	1,060,803	3.7%	958,824	3.3%	981,885	3.2%	964,577	3.1%
9	American Eagle	485,023	1.6%	406,422	1.4%	437,705	1.5%	536,346	1.8%	814,306	2.6%
10	Qantas	614,211	2.0%	590,960	2.1%	606,970	2.1%	571,004	1.9%	603,170	1.9%
11	Air Canada	477,779	1.5%	424,024	1.5%	416,345	1.4%	438,868	1.4%	468,793	1.5%
12	JetBlue	150	0.0%	7,746	0.0%	151,538	0.5%	264,531	0.9%	358,326	1.1%
13	Korean	335,803	1.1%	334,256	1.2%	352,470	1.2%	332,593	1.1%	335,310	1.1%
14	Air New Zealand	386,452	1.2%	334,028	1.2%	339,760	1.2%	340,567	1.1%	304,228	1.0%
15	Frontier	278,881	0.9%	212,323	0.7%	236,783	0.8%	299,477	1.0%	284,804	0.9%
16	Aeromexico	241,626	0.8%	208,536	0.7%	204,679	0.7%	269,479	0.9%	282,415	0.9%
17	Airtran	240,455	0.8%	240,493	0.8%	301,610	1.0%	298,698	1.0%	275,881	0.9%
18	British Airways	296,390	1.0%	284,737	1.0%	269,204	0.9%	274,372	0.9%	274,882	0.9%
19	Spirit	120,584	0.4%	73,567	0.3%	69,098	0.2%	139,504	0.5%	265,973	0.8%
20	Cathay Pacific	326,263	1.0%	244,372	0.9%	220,936	0.8%	254,191	0.8%	262,793	0.8%
	Other	5,633,109	18.1%	4,476,274	15.8%	4,781,654	16.5%	4,696,026	15.5%	4,752,977	15.1%
	Airport Total 2/	31,142,339	100.0%	28,329,019	100.0%	29,003,142	100.0%	30,280,571	100.0%	31,519,124	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 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-16 Primary Domestic O&D Passenger Markets - LAX

CY 2011

RANK	MARKET	NONSTOP SERVICE 1/	TRIP LENGTH 2/	TOTAL O&D PASSENGERS
1	New York, NY	●	LH	3,315,240
2	San Francisco, CA	●	SH	1,933,540
3	Chicago, IL	●	MH	1,541,200
4	Las Vegas, NV	●	SH	1,192,960
5	Washington, DC	●	LH	1,088,960
6	Dallas, TX	●	MH	998,300
7	Seattle, WA	●	MH	996,350
8	Denver, CO	●	MH	981,550
9	Honolulu, HI	●	LH	945,460
10	Boston, MA	●	LH	876,800
11	Atlanta, GA	●	LH	820,780
12	Houston, TX	●	MH	675,710
13	Phoenix, AZ	●	SH	650,280
14	Oakland, CA	●	SH	626,410
15	San Jose, CA	●	SH	625,640
16	Orlando, FL	●	LH	549,230
17	Detroit, MI	●	LH	525,860
18	Minneapolis, MN	●	MH	485,930
19	Fort Lauderdale, FL	●	LH	476,180
20	Philadelphia, PA	●	LH	473,530
21	Miami, FL	●	LH	468,710
22	Sacramento, CA	●	SH	446,270
23	Salt Lake City, UT	●	SH	436,560
24	Portland, OR	●	MH	435,880
25	Kahului, HI	●	LH	400,360
26	Baltimore, MD	●	LH	386,760
27	Austin, TX	●	MH	309,120
28	St. Louis, MO	●	MH	307,540
29	Kansas City, MO	●	MH	285,710
30	New Orleans, LA	●	LH	284,070
31	Reno, NV	●	SH	267,850
32	Albuquerque, NM	●	MH	242,140
33	Nashville, TN	●	MH	239,280
34	Tucson, AZ	●	SH	228,660
35	Milwaukee, WI	●	MH	216,080
36	Lihue, HI	●	LH	211,850
37	Charlotte, NC	●	LH	206,440
38	St. Petersburg, FL		LH	202,220
39	Cleveland, OH	●	LH	190,430
40	San Antonio, TX	●	MH	184,510
41	Kona, HI	●	LH	180,060
42	Raleigh, NC	●	LH	177,250
43	Indianapolis, IN	●	LH	155,340
44	Cincinnati, OH	●	LH	150,130
45	Hartford, CT		LH	147,560
46	Pittsburgh, PA	●	LH	141,610
47	Columbus, OH	●	LH	137,040
48	El Paso, TX	●	MH	130,490
49	San Juan, PR		LH	98,950
50	Buffalo, NY		LH	94,400
	Others			4,090,110
	Total			31,233,290

Average

Airport 3/	1,562	miles
United States	800	miles

NOTES:
1/ Nonstop service as of August 11 - 17, 2012.
2/ (SH) Short Haul = 1 to 600 miles
(MH) Medium Haul = 601 to 1,800 miles
(LH) Long Haul = over 1,800 miles
3/ Average calculated for all of the Airport's O&D markets.

SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-17 (1 of 2) Nonstop Domestic Markets - LAX

	MARKET	WEEKLY NONSTOP FLIGHTS	NUMBER OF AIRLINES	AIRLINE
1	San Francisco	353	6	American (42), Delta (7), SkyWest (71), United (101), Virgin America (58), Southwest (74)
2	New York City 1/	315	8	American (7-EWR, 63-JFK), JetBlue (41), Delta (54), Qantas (7), United (61-EWR, 40-JFK), Virgin America (42)
3	San Diego	247	2	American Eagle (69), SkyWest (133-SAN, 45-CLD)
4	Las Vegas	234	5	American (35), Spirit (21), SkyWest (78), United (20), Southwest (80)
5	Chicago 2/	229	5	American (75-ORD), Spirit (7-ORD), United (84-ORD), Virgin America (21-ORD), Southwest (42-MDW)
6	Dallas	177	3	American (133), SkyWest (23), Virgin America (21)
7	Phoenix	176	4	American Eagle (27), SkyWest (47), US Airways (43), Southwest (59)
8	Denver	162	5	Frontier (26), American Eagle (28), Republic (7), United (55), Southwest (46)
9	San Jose	149	4	American Eagle (49), SkyWest (14), Horizon (20), Southwest (66)
10	Houston 3/	139	3	American Eagle (21-IAH), United (90-IAH), Southwest (28-HOU)
11	Sacramento	129	3	American Eagle (28), SkyWest (49), Southwest (52)
12	Seattle	122	3	Alaska (74), SkyWest (21), Virgin America (27)
13	Honolulu	121	4	American (28), Delta (23), Hawaiian (21), United (49)
14	Atlanta	116	3	Delta (76), AirTran (27), Southwest (13)
15	Oakland	107	2	SkyWest (28), Southwest (79)
16	Washington, DC 4/	106	5	American (7-DCA, 21-IAD), Alaska (7-DCA), United (53-IAD), Virgin America (18-IAD)
17	Salt Lake City	101	4	Delta (33), American Eagle (21), SkyWest (28), Southwest (19)
18	Santa Barbara	89	2	American Eagle (35), SkyWest (54)
19	Boston	84	4	American (28), JetBlue (21), United (14), Virgin America (21)
20	Fresno	75	2	American Eagle (41), SkyWest (34)
21	Portland	73	3	Alaska (39), SkyWest (20), Virgin America (14)
22t	Kahului	69	4	American (21), Delta (14), Hawaiian (7), United (27)
22t	Philadelphia	69	3	United (7), US Airways (41), Virgin America (21)
24	Tucson	68	3	American Eagle (21), SkyWest (14), Southwest (33)
25	Albuquerque	66	3	American Eagle (21), SkyWest (18), Southwest (27)
26	Miami	62	2	American (56), Delta (6)
27	Minneapolis	60	2	Delta (48), Sun Country (12)
28t	Austin	49	3	American (21), SkyWest (14), Southwest (14)
28t	Reno	49	3	American Eagle (21), SkyWest (7), Southwest (21)
30	Detroit	47	2	Delta (40), Spirit (7)
31	Orlando	45	4	American (14), Delta (14), United (10), Virgin America (7)
32	San Luis Obispo	42	1	SkyWest
33	Monterey	41	2	American Eagle (20), SkyWest (21)
34	Lihue	35	3	American (14), Delta (7), United (14)
35t	Charlotte	34	1	US Airways
35t	Palm Springs	34	1	SkyWest
35t	St. Louis	34	2	American (21), Southwest (13)
38t	Baltimore	33	3	AirTran (7), United (13), Southwest (13)
38t	San Antonio	33	2	SkyWest (19), Southwest (14)
40t	Nashville	28	2	American (14), Southwest (14)
40t	El Paso	28	2	American Eagle (14), Southwest (14)
40t	Ft. Lauderdale	28	3	American (7), JetBlue (7), Virgin America (14)
40t	Kona	28	3	American (7), Delta (7), United (14)
44t	Colorado Springs	27	2	Frontier (6), SkyWest (21)
44t	New Orleans	27	3	Delta (13), United (7), Southwest (7)
44t	Santa Maria	27	1	SkyWest
47	Oklahoma City	26	2	American Eagle (14), SkyWest (12)
48	Cleveland	24	1	United

NOTES:
1/ Includes flights to Kennedy, LaGuardia, and Newark.
2/ Includes 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.

SOURCE: Official Airline Guide (Week of August 11-17, 2012).

PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-17 (2 of 2) Nonstop Domestic Markets - LAX

	MARKET	WEEKLY NONSTOP FLIGHTS	NUMBER OF AIRLINES	AIRLINE
49	Yuma	21	1	SkyWest
50t	Kansas City	20	3	Delta (4), SkyWest (2), Southwest (14)
50t	Memphis	20	1	Delta
52	Cincinnati	19	1	Delta
53	Santa Rosa	18	1	Horizon
54t	Anchorage	14	1	Alaska
54t	Aspen	14	2	American Eagle (7), SkyWest (7)
54t	Bakersfield	14	1	SkyWest
54t	El Centro/Imperial	14	1	SkyWest
54t	Inyokern	14	1	SkyWest
54t	Prescott	14	1	Great Lakes
54t	Visalia	14	1	Great Lakes
61	Milwaukee	13	2	AirTran (1), Southwest (12)
62	Boise	11	1	SkyWest
63	Medford	9	2	Allegiant (2), Horizon (7)
64t	Bozeman	7	1	SkyWest
64t	Hilo	7	1	United
64t	Jackson	7	1	SkyWest
64t	Merced	7	1	Great Lakes
64t	Mammoth Lakes	7	1	Horizon
64t	Pittsburgh	7	1	United
64t	Santa Fe	7	1	American Eagle
64t	Sun Valley	7	1	Horizon
64t	Tampa	7	1	Delta
73t	St. George	6	1	SkyWest
73t	Tulsa	6	1	SkyWest
75t	Columbus	4	1	Delta
75t	Indianapolis	4	1	Delta
77t	Bellingham	3	1	Allegiant
77t	Missoula	3	1	Allegiant
77t	Omaha	3	1	Republic
77t	Raleigh	3	1	Delta
81t	Billings	2	1	Allegiant
81t	Eugene	2	1	Allegiant
81t	Pasco	2	1	Allegiant
81t	Springfield	2	1	Allegiant
81t	Fayetteville	2	1	Allegiant
86t	Des Moines	1	1	Allegiant
86t	Fargo	1	1	Allegiant
86t	Sioux Falls	1	1	Allegiant
86t	Grand Junction	1	1	Allegiant
86t	Wichita	1	1	Allegiant
86t	Idaho Falls	1	1	Allegiant
	Total Weekly Departures	4,757		

NOTES:
1/ Includes flights to Kennedy, LaGuardia, and Newark.
2/ Includes 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.

SOURCE: Official Airline Guide (Week of August 11-17, 2012).
PREPARED BY: Ricondo & Associates, Inc., August 2012.

SOURCE: Official Airline Guide, Inc., August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

EXHIBIT 2-5

Nonstop Domestic Markets

Table 2-18 presents historical data on the Airport's top 50 international O&D markets for CY 2011, the latest calendar 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 96 percent of international traffic at the Airport was O&D traffic in CY 2011, indicating that approximately 4 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 2-19**. As shown, 57 international cities are served with a total of 921 weekly nonstop flights. Each of the Airport's top 13 international O&D markets in CY 2011 are served with nonstop service, as well as 44 of the Airport's top 50 international O&D markets. London, the largest international O&D market for the Airport in CY 2011, is served by 56 weekly nonstop flights. Other international markets with significant nonstop service from the Airport include Vancouver (70 weekly nonstop flights), Tokyo (67), Guadalajara (65), Mexico City (63), and Toronto (56). **Exhibit 2-6** graphically illustrates the Airport's nonstop international markets, as of the week ending August 17, 2012.

2.4.3 HISTORICAL AIRCRAFT OPERATIONS

Table 2-20 presents historical operations at the Airport by major user groups between FY 2000 and FY 2012. 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, total aircraft operations nationwide decreased at a 1.7 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. Total operations at the Airport rebounded between FY 2010 and FY 2012, increasing at a CAGR of 2.8 percent during this period and reaching 610,585 operations in FY 2012.

Passenger airline activity at the Airport increased 2.6 percent between FY 2000 and FY 2001, from 707,920 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 1.7 percent between FY 2004 and FY 2008, reaching 609,812 operations in FY 2008. By comparison, combined air carrier and air taxi/commuter operations nationwide decreased at a compounded annual rate 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 609,812 operations in FY 2008 to 521,783 operations in FY 2009, a 14.4 percent decrease during this period. Passenger airline activity increased each year thereafter through FY 2012, increasing at a CAGR of 2.3 percent between FY 2009 and FY 2012.

General aviation activity at the Airport was relatively stable between FY 2000 and FY 2012. This activity accounted for approximately 2.5 percent of total operations at the Airport during this period. The majority of general aviation activity in the Air Trade Area is accommodated at Van Nuys Airport (VNY), ranked as one of the busiest general aviation airports in the world by averaging approximately 400,000 operations annually.

Table 2-18 Primary International O&D Passenger Markets - LAX

CY 2011 1/

RANK	CITY	COUNTRY	NONSTOP SERVICE 2/	TOTAL O&D PASSENGERS 3/
1	London	United Kingdom	•	1,258,228
2	Seoul	Republic of Korea	•	785,521
3	Taipei	Chinese Taipei	•	742,101
4	Guadalajara	Mexico	•	685,525
5	Mexico City	Mexico	•	649,568
6	Vancouver	Canada	•	598,398
7	Tokyo	Japan	•	597,167
8	Paris	France	•	526,020
9	Toronto	Canada	•	505,520
10	Hong Kong	Hong Kong-China	•	444,843
11	Sydney	Australia	•	444,302
12	Auckland	New Zealand	•	333,575
13	San Salvador	El Salvador	•	327,553
14	Manila	Philippines		293,838
15	Frankfurt	Germany	•	285,633
16	Dubai	United Arab Emirates	•	276,715
17	Shanghai	China	•	269,205
18	San Jose Del Cabo	Mexico	•	267,730
19	Papeete	French Polynesia	•	221,995
20	Amsterdam	Netherlands	•	213,465
21	Calgary	Canada	•	209,306
22	Beijing	China	•	208,916
23	Cancun	Mexico	•	200,710
24	Panama City	Panama Republic	•	187,130
25	Melbourne	Australia	•	186,741
26	Guatemala City	Guatemala	•	185,431
27	Brisbane	Australia	•	183,604
28	Munich	Germany	•	163,780
29	Zurich	Switzerland	•	161,539
30	Lima	Peru	•	146,462
31	Tel Aviv	Israel	•	144,863
32	Singapore	Singapore	•	144,564
33	Montreal	Canada	•	142,209
34	San Jose	Costa Rica	•	138,433
35	Rome	Italy	•	133,184
36	Bangkok	Thailand		123,528
37	Puerto Vallarta	Mexico	•	116,520
38	Guangzhou	China	•	110,018
39	Istanbul	Turkey	•	108,785
40	Moscow	Russia (European)	•	100,389
41	Madrid	Spain	•	97,181
42	Edmonton	Canada	•	94,866
43	Nadi	Fiji Islands	•	93,209
44	Leon-Guanajuato	Mexico	•	93,120
45	Sao Paulo	Brazil	•	91,895
46	Morelia	Mexico	•	66,833
47	Santiago	Chile		57,262
48	Koeln/Bonn Airport	Germany		53,713
49	Buenos Aires	Argentina		51,550
50	Barcelona	Spain		48,635
	Others			1,696,862
	Total			15,268,140

NOTES:

1/ Most current 12-month data available from the U.S. Department of Transportation.

2/ As of week ending August 17, 2012.

3/ Results for CY 2011 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.

SOURCE: US DOT *Origin & Destination Survey of Airline Passeneger Traffic, International*
US DOT T-100(f) Onflight Market Data for Foreign Carriers, August 2012.

PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-19 Nonstop International Markets - LAX

	MARKET	WEEKLY NONSTOP FLIGHTS	NUMBER OF AIRLINES	AIRLINE
1	Vancouver BC, Canada	70	4	Air Canada (28), Alaska (21), SkyWest (7), WestJet (14)
2	Tokyo, Japan	67	10	American (7-NRT), Delta (7-HND, 7-NRT), Japan (7-NRT), Korean Air (7-NRT), Malaysia (4), All Nippon Airways (7-HND, 7-NRT), Singapore (7-NRT), United (7-NRT)
3	Guadalajara, Mexico	65	5	Aeromexico (14), Alaska (14), Delta (7), United (7), Volaris (23)
4	Mexico City, Mexico	63	4	Aeromexico (35), Alaska (14), United (7), Volaris (7)
5t	London, England, UK	56	5	American (7), British Airways (21), Air New Zealand (7), United (7), Virgin Atlantic Airways (14)
5t	Toronto, ON, Canada	56	2	American (14), Air Canada (42)
7	Seoul, Rep. of Korea	35	3	Korean Air (17), Asiana (14), Thai Airways Intl (4)
8	Sydney, NS, Australia	34	4	Delta (7), Qantas Airways (13), United (7), Virgin Australia Int`l (7)
9	Los Cabos, Mexico	33	3	American (12), Alaska (14), United (7)
10	Taipei, Chinese Taipei	32	2	EVA Airways (18), China (14)
11	Paris, France	22	2	Air France (15), Air Tahiti Nui (7)
12t	Hong Kong, China	21	1	Cathay Pacific Airways
12t	Shanghai China	21	3	American (7), China Eastern (7), United (7)
12t	San Salvador, El Salvador	21	2	LACSA (7), Taca Intl (14)
12t	Calgary, AB, Canada	21	2	Air Canada (14), WestJet (7)
16	Montreal QC, Canada	20	1	Air Canada
17t	Guatemala City, Guatemala	17	3	Delta (7), LACSA (7), Taca Intl (3)
17t	Papeete, French Polynesia	17	2	Air France (3), Air Tahiti Nui (14)
19t	Frankfurt, Germany	14	1	Lufthansa
19t	Beijing, China	14	1	Air China
19t	Panama City, Panama	14	1	Copa
22	Auckland, New Zealand	13	1	Air New Zealand
23	Amsterdam, Netherlands	12	2	KLM-Royal Dutch (10), ArkeFly (2)
24	Leon/Guanajuato, Mexico	11	2	United (7), Aeromexico Connect (4)
25t	Brisbane, QL, Australia	10	2	Qantas Airways (6), Virgin Australia Int`l (4)
25t	Cancun, Mexico	10	3	Delta (1), United (3), Virgin America (6)
25t	Lima, Peru	10	2	Lan (7), Lan Peru (3)
28t	Melbourne, VI, Australia	9	2	Qantas Airways (6), Virgin Australia Int`l (3)
28t	Puerto Vallarta, Mexico	9	3	Alaska (7), Delta (1), United (1)
30t	Guangzhou, China	7	1	China Southern
30t	Moscow, Russian Fed.	7	2	Aeroflot Russian (5), Transaero (2)
30t	Dubai, U.A. Emirates	7	1	Emirates
30t	Rome, Italy	7	1	Alitalia
30t	Hermosillo, Mexico	7	1	AeroMexico
30t	Istanbul, Turkey	7	1	Turkish
30t	Munich, Germany	7	1	Lufthansa
30t	EdmontonAB, Canada	7	1	WestJet
30t	Zurich, Switzerland	7	1	Swiss
39	Morelia, Mexico	6	1	Volaris
40t	Loreto, Mexico	5	1	Horizon
40t	Nadi, Fiji	5	1	Air Pacific
40t	Singapore	5	1	Singapore
40t	Tel Aviv, Israel	5	1	El Al
44t	San Jose, Costa Rica	4	1	LASCA
44t	Zacatecas, Mexico	4	1	Volaris
46t	Aguascalientes, Mexico	3	1	Volaris
46t	Dusseldorf, Germany	3	1	Air Berlin
46t	Sao Paulo, SP, Brazil	3	1	Korean Air
46t	La Paz, Mexico	3	1	Horizon
46t	Madrid, Spain	3	1	Iberia
46t	Mazatlan, Mexico	3	1	Alaska
46t	Berlin, Germany	3	1	Air Berlin
53	Ixtapa/Zihuatanejo, Mexico	2	1	Alaska
54t	Culiacan, Mexico	1	1	Volaris
54t	Durango, Mexico	1	1	ExpressJet
54t	Rarotonga Island, Cook Is., S. Pacific	1	1	Air New Zealand
54t	Manzanillo, Mexico	1	1	Alaska
	Total Weekly Flights	921		

SOURCE: Official Airline Guide (Week of August 11-17, 2012).
PREPARED BY: Ricondo & Associates, Inc., August 2012.

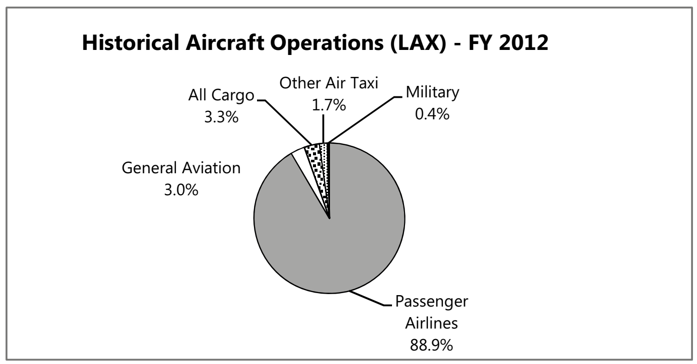
SOURCE: Official Airline Guide, Inc., August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

EXHIBIT 2-6

Nonstop International Markets

Table 2-20 Historical Aircraft Operations - LAX

FISCAL YEAR	U.S. CARRIERS [1/]	FOREIGN FLAG CARRIERS [1/]	AIRLINE TOTAL [1/]	GENERAL AVIATION	ALL CARGO	OTHER AIR TAXI	MILITARY	TOTAL
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	529,529	80,283	609,812	18,239	22,174	26,798	2,758	679,781
2009	448,847	72,936	521,783	15,758	19,440	2,447	2,561	561,989
2010	446,088	68,118	514,206	19,514	18,951	6,804	2,908	562,383
2011	465,237	70,958	536,195	18,681	19,124	9,193	2,445	585,638
2012	488,264	70,725	558,989	18,546	19,874	10,472	2,704	610,585
Compound Annual Growth Rate								
2000 - 2001	2.3%	5.7%	2.6%	(2.8%)	(1.8%)	(16.2%)	(22.9%)	1.8%
2001 - 2004	(8.5%)	(1.9%)	(7.7%)	(6.1%)	(11.1%)	18.3%	12.6%	(7.2%)
2004 - 2008	1.6%	1.9%	1.7%	5.5%	(3.3%)	4.2%	(0.4%)	1.7%
2008 - 2009	(15.2%)	(9.2%)	(14.4%)	(13.6%)	(12.3%)	(90.9%)	(7.1%)	(17.3%)
2009 - 2012	2.8%	(1.0%)	2.3%	5.6%	0.7%	62.4%	1.8%	2.8%
2000 - 2012	(2.1%)	(0.4%)	(1.9%)	0.1%	(5.0%)	(3.7%)	0.5%	(2.0%)



NOTE:
1/ Data for FY 2010 is scheduled activity from Official Airline Guide, Inc.

SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Activity by all-cargo carriers at the Airport was relatively stable between FY 2000 and FY 2001, 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 18,951 in FY 2010. High fuel prices and a weak economy lead to the reduction in all-cargo operations during this period. A modest increase in all-cargo activity occurred in recent years, increasing at a CAGR of 2.4 percent between FY 2010 and FY 2012.

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 approximately 2,500 operations in FY 2009.

Military activity at the Airport was relatively stable between FY 2000 and FY 2012, averaging approximately 2,500 operations per year during this period.

2.4.4 HISTORICAL LANDED WEIGHT

Table 2-21 presents landed weight for passenger airlines and all-cargo carriers at the Airport between FY 2000 and FY 2012. As shown, landed weight for passenger airlines increased from 54,934,696 thousand pounds in FY 2000 to 56,668,681 thousand pounds in FY 2001, a year-over-year increase of 3.2 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 47,787,165 thousand pounds in FY 2008 to 42,982,832 thousand pounds in FY 2009, a 10.1 percent decrease during this period. Thereafter, landed weight for passenger airlines at the Airport increased at a CAGR of 2.2 percent through FY 2012. As also shown, landed weight for all-cargo carriers at the Airport decreased from 6,339,188 thousand pounds in FY 2000 to 4,325,572 thousand pounds in FY 2003, and then remained relatively stable at approximately 4,300,000 thousand pounds through FY 2012.

Table 2-22 presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 2008 and FY 2012. As shown, four airlines (United, American, Southwest, and Delta) accounted for 44.1 percent to 46.7 percent of total landed weight at the Airport during this period. Four other airlines accounted for an additional 11.1 percent to 14.1 percent of landed weight between FY 2008 and FY 2012. FedEx accounted for the highest share of landed weight among all-cargo carriers at the Airport during each of the years shown, averaging approximately 1,635,012 thousand pounds of landed weight between FY 2008 and FY 2012. **Exhibit 2-7** below presents airline shares of landed weight at the Airport for FY 2012.

Table 2-21 Historical Landed Weight (thousand pounds) - LAX

(thousand pounds)

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
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	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	26,179,246	3,639,478	2,732,947	15,235,494	47,787,165	4,311,780	52,098,945	(0.4%)
2009	24,392,691	2,701,756	2,121,612	13,766,773	42,982,832	3,735,976	46,718,808	(10.3%)
2010	24,465,008	2,902,972	2,062,511	14,050,708	43,481,199	3,890,090	47,371,289	1.4%
2011	25,064,080	3,233,809	2,281,928	13,913,599	44,493,416	3,954,394	48,447,810	2.3%
2012	25,790,799	3,526,713	2,454,785	14,119,882	45,892,179	4,143,160	50,035,339	3.3%
Compound Annual Growth Rate								
2000 - 2001	2.3%	1.3%	8.3%	4.4%	3.2%	(2.5%)	2.6%	
2001 - 2009	(4.9%)	1.1%	(7.1%)	(0.1%)	(3.4%)	(6.1%)	(3.6%)	
2009 - 2012	1.9%	9.3%	5.0%	0.8%	2.2%	3.5%	2.3%	
2000 - 2012	(2.7%)	3.1%	(3.0%)	0.5%	(1.5%)	(3.5%)	(1.7%)	

SOURCE: City of Los Angeles, Department of Airports, August 2012.

PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-22 Historical Landed Weight by Airline (thousand pounds) - LAX [1/]

		FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	AIRLINE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
1	United	7,945,946	15.3%	7,052,298	15.1%	6,907,635	14.6%	6,986,999	14.4%	6,932,412	13.9%
2	American	6,203,061	11.9%	5,667,801	12.1%	5,616,948	11.9%	5,589,632	11.5%	5,900,084	11.8%
3	Delta	4,606,761	8.8%	4,007,883	8.6%	4,331,409	9.1%	4,487,225	9.3%	4,641,153	9.3%
4	Southwest	5,092,746	9.8%	5,068,050	10.8%	4,744,526	10.0%	4,737,254	9.8%	4,601,662	9.2%
5	Skywest	1,787,682	3.4%	1,634,395	3.5%	1,865,047	3.9%	2,187,953	4.5%	2,295,517	4.6%
6	Virgin America	520,530	1.0%	923,066	2.0%	1,079,918	2.3%	1,331,658	2.7%	1,634,820	3.3%
7	FedEx	1,775,030	3.4%	1,642,089	3.5%	1,523,405	3.2%	1,605,640	3.3%	1,628,897	3.3%
8	Alaska	1,684,252	3.2%	1,530,621	3.3%	1,365,625	2.9%	1,433,511	3.0%	1,518,762	3.0%
9	Qantas Airways	1,442,048	2.8%	1,434,230	3.1%	1,426,256	3.0%	1,243,114	2.6%	1,331,893	2.7%
10	Korean	1,138,390	2.2%	1,138,866	2.4%	1,249,739	2.6%	1,219,303	2.5%	1,200,835	2.4%
11	American Eagle	613,349	1.2%	544,559	1.2%	600,609	1.3%	681,853	1.4%	1,037,949	2.1%
12	US Airways	1,315,542	2.5%	1,231,410	2.6%	987,948	2.1%	1,023,668	2.1%	1,003,778	2.0%
13	Cathay Pacific Airways	930,340	1.8%	747,759	1.6%	699,675	1.5%	764,462	1.6%	778,532	1.6%
14	China	738,316	1.4%	650,588	1.4%	830,542	1.8%	769,780	1.6%	726,682	1.5%
15	Eva Airways	769,663	1.5%	666,451	1.4%	704,432	1.5%	643,079	1.3%	607,128	1.2%
16	Air New Zealand	740,537	1.4%	628,380	1.3%	650,340	1.4%	643,814	1.3%	589,878	1.2%
17	British Airways	679,770	1.3%	634,410	1.4%	612,360	1.3%	621,180	1.3%	588,948	1.2%
18	Air Canada	617,503	1.2%	532,474	1.1%	520,123	1.1%	561,953	1.2%	583,479	1.2%
19	Asiana	570,672	1.1%	620,966	1.3%	649,826	1.4%	656,330	1.4%	524,490	1.0%
20	Lufthansa	605,150	1.2%	547,259	1.2%	548,024	1.2%	505,985	1.0%	522,132	1.0%
	Other	12,321,657	23.7%	9,815,253	21.0%	10,456,902	22.1%	10,753,417	22.2%	11,386,308	22.8%
	Airport Total [2/]	52,098,945	100.0%	46,718,808	100.0%	47,371,289	100.0%	48,447,810	100.0%	50,035,339	100.0%

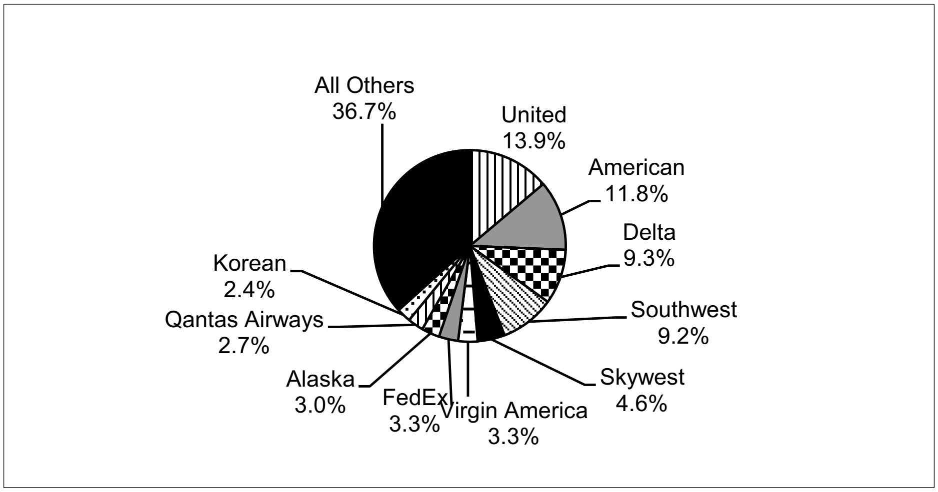
NOTES:

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 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

Exhibit 2-7 Landed Weight by Airline (LAX) – FY 2012



SOURCE: City of Los Angeles, Department of Airports, July 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

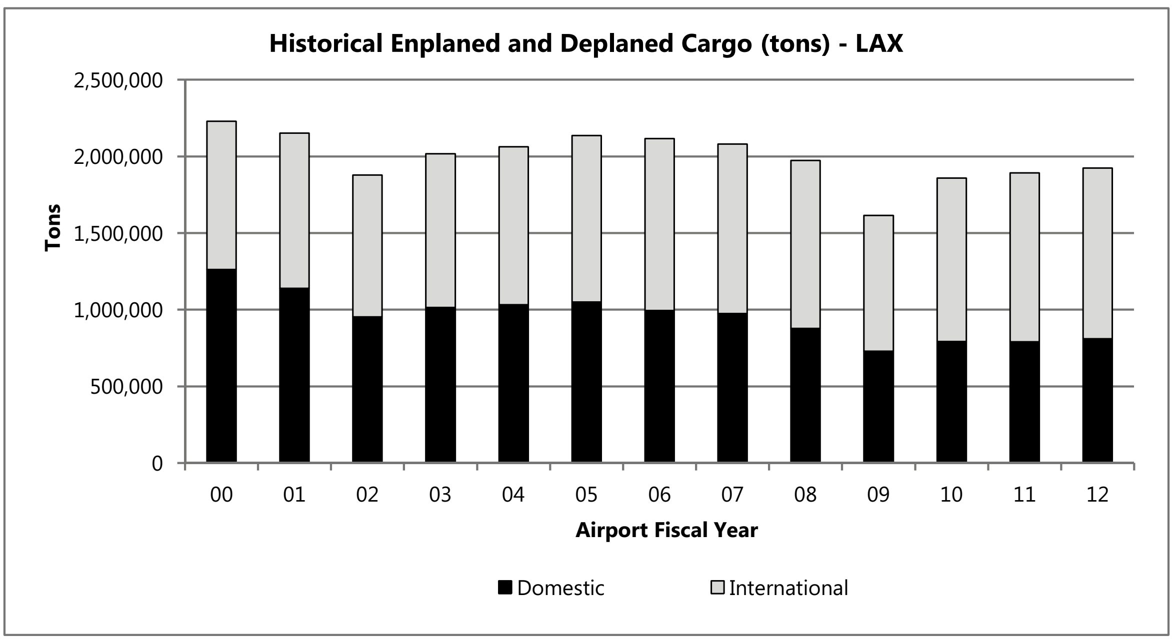
2.4.5 HISTORICAL CARGO ACTIVITY

As discussed earlier, the Airport ranked 13th worldwide and 5th nationwide in total cargo handled with approximately 1.7 million enplaned and deplaned tons in CY 2011.[10] The demand for cargo at the Airport is driven by the diverse and large number of all-cargo and passenger airlines (via belly-hold) operating at the Airport, especially the large number of foreign flag carriers (42 passenger airlines and 13 all-cargo carriers). **Table 2-23** presents historical enplaned and deplaned cargo handled at the Airport between FY 2000 and FY 2012. As shown, and as a result of the events of September 11, 2001 and an economic slowdown, total cargo decreased from 2,229,183 tons in FY 2000 to 1,882,391 tons in FY 2002, a compound annual decrease of 8.1 percent during this period. 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. As also presented in Table 2-23, 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, respectively. Similar to the passenger airlines, the air cargo industry was impacted in these 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. In recent years, however, total air cargo has rebounded, increasing at a CAGR of 6.0 percent between FY 2009 and FY 2012.

10 *2011 World Traffic Report*, Airports Council International .

Table 2-23 Historical Enplaned and Deplaned Cargo (tons) - LAX

FISCAL YEAR	DOMESTIC CARGO	ANNUAL % CHANGE	INTERNATIONAL CARGO	ANNUAL % CHANGE	TOTAL CARGO	ANNUAL % CHANGE
2000	1,263,279	-	965,904	-	2,229,183	-
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%)	886,594	(19.1%)	1,615,299	(18.1%)
2010	792,005	8.7%	1,067,249	20.4%	1,859,254	15.1%
2011	791,414	(0.1%)	1,101,270	3.2%	1,892,684	1.8%
2012	811,728	2.6%	1,111,668	0.9%	1,923,396	1.6%
Compound Annual Growth Rate						
2000 - 2002	(13.1%)		(1.9%)		(8.1%)	
2002 - 2005	3.3%		5.3%		4.3%	
2005 - 2009	(8.8%)		(4.9%)		(6.8%)	
2009 - 2012	3.7%		7.8%		6.0%	
2000 - 2012	(3.6%)		1.2%		(1.2%)	



SOURCE: City of Los Angeles, Department of Airports, August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

2.5 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 2.6 (e.g., jet fuel prices), these factors were indirectly considered and analyzed in developing the projections.

2.5.1 NATIONAL ECONOMY

Air travel demand is directly correlated to consumer income, business profits, and U.S. Gross Domestic Product (GDP). As consumer income, business profits, and GDP increase, so does demand for air travel. Econometric research by the International Air Transport Association[11] and the MIT International Center for Air Transportation[12] found that demand for air passenger service is responsive to changes in GDP with a very high correlation coefficient. In addition, the national economy is tied closely to the overall global economy. As such, any major impacts/fluctuations to the global economy could directly or indirectly impact the national economy and, therefore, international and domestic activity at the Airport.

As noted in Chapter 1, the nation experienced an economic recession between December 2007 and June 2009, which was marked by a combination of declines in construction activity, falling home prices, rising oil prices, and a falling stock market. Following annual year-over-year increases between 2003 through 2007, demand for air travel weakened nationwide in 2008, registering a 3.1 percent decline during that year, followed by an additional 5.2 percent decline nationwide in 2009. In 2010 and 2011, air travel demand rebounded and scheduled passenger totals increased 2.6 and 1.8 percent, respectively, from the previous year's level. The 2011 passenger total still remained 4.0 percent below the level of 835.4 million in 2007, the peak level for passenger totals nationwide between 2000 and 2011.

Similar to air travel demand weakening nationwide in 2008, U.S. GDP decreased 0.3 percent in 2008 from 2007 levels (the first annual decrease in U.S. GDP since 1991), followed by a 3.5 percent decrease in 2009. Trends in U.S. GDP thereafter have improved, with the nation recording an increase of 3.0 percent in 2010 and a 1.7 percent increase in 2011. Recently, according to the "second" estimate released by the Bureau of Economic Analysis, U.S. GDP increased 1.9 percent in the first quarter of 2012 from the fourth quarter of 2011. The rise in real GDP in recent years is reflective of positive contributions from stronger consumer spending, private inventory investment, residential and nonresidential fixed investment, and exports during these periods. In September 2010, the National Bureau of Economic Research determined that a trough in business activity occurred in the U.S. economy in June 2009, thus officially marking the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II.

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11 *Air Travel Demand, IATA Economics Briefing No. 9,* International Air Transport Association, April 2008.

12 *Analysis of Interaction Between Air Transportation and Economic Activity: A Worldwide Perspective,* MIT International Center for Air Transportation, March 2009.

The most recently published surveys of leading economists by the National Association for Business Economics (NABE) and the Blue Chip Economic Indicators indicate consensus for modest U.S. annual real GDP growth through 2013 – roughly consistent with the latest forecast by the U.S. Federal Reserve Open Market Committee (FOMC).[13] The May 2012 NABE forecast projects U.S. real GDP growth of 2.4 percent for 2012 and 2.8 percent in 2013. The June 2012 Blue Chip Economic Indicators forecast has a similar outlook, projecting 2.1 percent growth in U.S. real GDP for 2012 and 2.6 percent growth in 2013.[14] According to the latest FOMC forecast, U.S. real GDP is projected to grow between 1.4 to 2.9 percent in 2012, 2.2 to 2.8 percent in 2013, 3.0 to 3.5 percent in 2014 and 2.3 to 2.5 percent beyond the 2014 period, which suggests the upward trend in nationwide air travel should continue.[15] However, should the economy stall, or again trend downward (e.g., encounter a “double-dip” recession), aviation demand nationwide would likely be negatively impacted.

2.5.2 STATE OF THE AIRLINE INDUSTRY

In the aftermath of the events of September 11, the U.S. airline industry saw a material adverse shift in the demand for air travel. The result was five years of reported industry operating losses between 2001 and 2005, totaling more than $28 billion (excluding extraordinary charges and gains). Following the restructuring years after the events of September 11, the airline industry finally gained ground in 2007 with virtually every U.S. airline posting profits. In 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for U.S. network and low-cost carriers since September 11. In 2008, many of the domestic network competitors announced significant capacity reductions, increases in fuel surcharges, fares and fees, and other measures to address the challenges.

Whereas the capacity reductions following the events of September 11 were the direct results of reduced demand due to perceived terror threats targeting the traveling public, the industry reductions starting in late 2008 and continuing 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. airlines, and the contraction of the U.S. economy. After nearly an $8.0 billion profit for the global airline industry in 2011, the International Air Transport Association (IATA) is predicting a $3.0 billion profit for the global industry in 2012. Globally, passenger traffic increased 5.9 percent in 2011 over 2010. Even though recovery is uneven across different regions, North American airlines profits are projected to be $1.4 billion in 2012, compared to the $1.3 billion profit in 2011. The increase in profit is due to North American carriers’ strict control on capacity.

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13 Source: National Association of Business Economics, *NABE Outlook May 2012*, available online at http://nabe.com/press/outlook1205.pdf. Accessed in July 2012.

14 Source: Barron’s, *Economic Beat: The Chips are a Mixed Bag,* June 23, 2012.

15 Source: U.S. Federal Reserve, *Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2012*, available online at http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20120620.pdf. Accessed in July 2012.

2.5.3 COST OF AVIATION FUEL

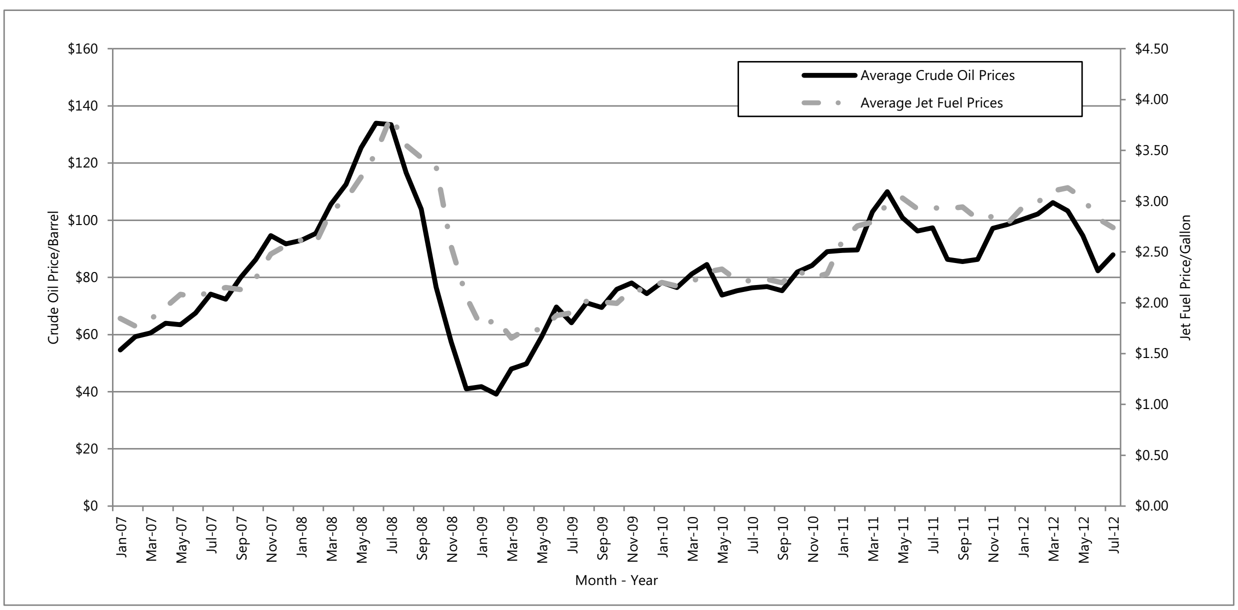
The price of fuel is one of the most significant forces affecting the airline industry today. In 2000, jet fuel accounted for nearly 14 percent of airline industry operating expenses and, historically, fuel expense was the second highest operating expense for the airline industry behind labor. In 2008, jet fuel surpassed labor as an airline's largest operating expense and, according to the Airlines for America (A4A), formerly known as Air Transport Association, 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 airline industry's largest operating expense representing 25.8 percent of total operating expenses, while fuel was at 21.3 percent.

The average price of jet fuel was $0.82 per gallon in 2000 compared to $2.87 per gallon in 2011, an increase of 250 percent. According to A4A, every one-cent increase in the price per gallon of jet fuel increases annual airline operating expenses by approximately $190 million to $200 million.

If jet fuel prices approach or surpass their mid-2008 peak (July 2008's average price was $3.84 per gallon), aviation demand nationwide may be negatively impacted due to potential route reductions the airlines might make or higher ticket prices the airlines might impose in efforts to remain profitable, as airlines have done in the past when jet fuel prices increased. The average price of jet fuel in July 2012 was $2.70 per gallon, compared to the July 2011 average price of $2.94 per gallon.

Exhibit 2-8 shows the monthly averages of jet fuel and crude oil prices from January 2007 through July 2012.

Exhibit 2-8 Historical Monthly Averages of Jet Fuel and Crude Oil Prices



SOURCE: Airlines for America (A4A), August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

2.5.4 AIRLINE SCHEDULED SEAT CAPACITY

The airlines continue to restrain growth in capacity due to the weak economy and relatively high fuel prices, keeping in place reductions they implemented beginning in 2008. The height of the industry capacity decline occurred in the first quarter of 2009, as domestic seat-capacity declined by 11.0 percent versus the first quarter of 2008. Demand for domestic air travel, as measured by revenue passenger miles (RPMs), slipped at a similar rate of 11.6 percent during this period. Based on Official Airline Guide, Inc. scheduled departing seat data, scheduled domestic capacity was down 1.6 percent in May 2012 compared to the same month in 2011.[16]

The business model for airlines has changed due, in part, to recent soaring oil prices, as the airlines now focus on better matching supply (seats) with demand (passengers). This capacity "right-sizing" and discipline has resulted in higher yields (as measured by revenue passenger miles) in recent years. Domestic mainline passenger yields (per coupon mile) increased from $0.1195 in 2009 to $0.1359 in 2011, a compound annual growth rate of 6.6 percent during this period. Domestic passenger yields for regionals/commuters decreased at a compound rate of 4.1 percent between 2009 and 2011; however, this decrease was more a function of longer trip lengths due to a growing number of larger and faster regional jet aircraft rather than failing to "right-size" capacity.

2.5.5 AIRLINE BANKRUPTCIES

A number of airlines serving the Airport have filed for bankruptcy since the events of September 11, 2001 including Air Canada, American, ATA, Delta, Frontier, Hawaiian, Japan (JAL), Maxjet, Mexicana, Midway, Northwest, United, US Airways, Vanguard, and Varig. ATA, MaxJet, Mexican, Midway, Vanguard, and Varig have ceased operations. AMR Corporation, the parent company of American and American Eagle, filed for Chapter 11 bankruptcy protection on November 29, 2011 and is currently in its reorganization stage. American was ranked second in total enplaned passengers at the Airport each year between FY 2008 and FY 2012 (see Table 2-15). None of the airlines that have ceased operations was responsible for more than 2.0 percent of enplaned passengers at the Airport. 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 the Airport of current or future airline bankruptcies, liquidations, or major restructurings.

2.5.6 AIRLINE CONSOLIDATIONS

The airline industry continues to evolve as a result of competition and changing demand patterns. It is possible that airlines serving the Airport could consolidate operations through mergers and acquisitions. Delta's merger with Northwest received regulatory and shareholder approval in October 2008, with a single operating certificate under Delta's name granted by the FAA on December 31, 2009. In CY 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operations under the United name. On November 30, 2011, the merger was completed and Continental no longer operates as a separate airline. In addition, in CY 2010, the respective Boards of

16 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 May 2012 schedules as of April 3, 2012.

Directors of Southwest and AirTran approved Southwest's acquisition of AirTran, which was completed in CY 2011. Southwest and AirTran received a single operating certificate from the FAA in CY 2012; however, Southwest and AirTran continue to operate as separate airlines while integrating. On August 31, 2012, American and US Airways signed legal documents allowing them to confidentially exchange information to discuss and analyze a potential merger.

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

2.5.7 FEDERAL SEQUESTRATION

On August 2, 2011, Congress passed the Federal Budget Control Act of 2011 (the Act), enacted as Public Law 112-25. The Act established caps on defense and nondefense discretionary spending that will reduce spending by $1.0 trillion over 10 years. The Act also created the Joint Select Committee on Deficit Reduction (referred to as the Supercommittee) to come up with a plan to reduce the deficit by another $1.2 trillion over the same 10 years. The Act also established sequestration as an incentive to compel deficit reduction. Sequestration would require automatic, across-the-board cuts of another $1.0 trillion to nearly all government programs, including the FAA and the TSA. On November 21, 2011, the Supercommittee concluded that it would not be possible to make any bipartisan agreement available to the public before its December 23, 2011 deadline.

In order to avoid sequestration on January 2, 2013, Congress must pass and the President enact a deficit reduction proposal that meets the requirement of the Act,, unless amended.

If sequestration occurs, the FAA will have to cut its federal fiscal year (FFY) 2013 budget by $1.35 billion. Under the terms of the Act, the FAA will be unable to shield air traffic control or any other FAA-funded service from cuts. Cuts under sequestration are expected to be in the range of 8 to 10 percent to nondefense discretionary programs, including the FAA and the TSA. According to one Congressional estimate, sequestration could force layoffs of approximately 1,200 air traffic controllers, 9,000 TSA screeners, and 1,600 customs inspectors nationwide. Other potential consequences of sequestration that have been estimated by various groups include the following:

- The Center for American Progress, an independent nonpartisan educational institute based in Washington, D.C., states that FAA officials will likely be forced to cut air traffic service at smaller airports, where they would have the least impact on the traveling public. Their analysis indicated that those airports having less than 700,000 to 800,000 enplaned passengers per year would be targeted for air traffic controller downsizing, representing as many as 106 U.S. airports that would effectively be shut down.

- A study was commissioned by the Aerospace Industries Association and compiled by Econsult Corporation, an economic consulting firm based in Philadelphia.17 In one scenario, it was assumed that the FAA would spread the sequestration reductions in proportion to budget shares of its various accounts. The study estimates that enplaned passengers nationwide would decrease by 5 to 10 percent (annual decreases of 37 million to 73 million), and that cargo would decrease by 1 million to 2 million pounds annually.

In the event sequestration is invoked on January 2, 2013, it is not possible at this time to estimate the impacts that it would have on future activity at the Airport through the Projection Period. As such, the potential impacts of sequestration have not been factored into the activity projections provided in this Report.

2.5.8 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 industry costs directly and indirectly and could have an adverse effect on passenger demand.

2.5.9 THREAT OF TERRORISM

As has been the case since September 11, the recurrence of terrorism incidents against either domestic or international 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. As discussed in Section 2.6, it is assumed in the forecasts of activity at the Airport that no major security or terrorist incidents will occur during the Projection Period that negatively impact aviation demand.

2.5.10 OTHER FACTORS AFFECTING THE AIRPORT

2.5.10.1 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.

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[17] *Economic Impacts of FAA Budget Sequestration on the U.S. Economy*, Econsult Corporation, August 2012.

In January 2005, 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, challenged approval of the LAX Master Plan and the LAX Master Plan EIR. The lawsuits were settled on February 17, 2006 pursuant to a stipulated settlement and judgment (the “Stipulated Settlement” or “Settlement”).

The Stipulated Settlement requires, in certain limited circumstances, gate reductions at LAX. However, if LAX does not have 75 million passengers annually or if the LAX Master Plan is substantially revised pursuant to a LAX Specific Plan Amendment process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction is necessary. Please refer to the “AIRPORT PLANNING” section in Part II of the Official Statement for the Series 2012 Bonds for a more detailed discussion.

The projections of Airport activity reflected in this report through FY 2018 are consistent with and/or fall within the requirements and limitations of the Settlement.

2.5.10.2 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 enplaned passengers 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 (owner and operator of LGB) 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 3.1 MAP in CY 2011). 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.

2.5.10.3 Proposed High-Speed Rail in California

In November 2008, California voters passed a referendum allowing the State to issue approximately $9.0 billion of bonds to help fund the first phase of a high-speed rail system that would ultimately connect various cities in Northern California to cities in Southern California. According to information from the California High Speed Rail Authority in its Revised 2012 Business Plan, high-speed rail service would not begin until 2022 (after the Projection Period) and would connect Merced to the San Fernando Valley. The Revised 2012 Business Plan also stipulates that the Phase 1 Blended Section (San Francisco to Los Angeles/Anaheim) would not be operational until 2029, well beyond the Projection Period included in these analyses.

2.6 Projections of Airport Activity

Projections of aviation demand at the Airport (discussed in Sections 2.6.1, 2.6.2, and 2.6.3 below) were developed after analyzing several different projection methodologies. **Table 2-24** describes the various projection methodologies analyzed for both the Near-Term (FY 2013 through FY 2015) and the Longer-Term (FY 2016 to FY 2018). Table 2-24 also compares the projected enplaned passenger growth rates under each methodology and indicates which specific methodologies were ultimately used in the final projection of enplaned passengers 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 and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific methodologies described herein and on Table 2-24 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. In addition, general assumptions that were incorporated in the projections of Airport activity through FY 2018 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 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 enplaned passengers at the Airport, for both domestic and international activity.
- 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.

Table 2-24 Enplaned Passenger Projection Methodologies Analyzed and Incorporated

NEAR-TERM PROJECTION (FY 2013-FY 2015):

METHODOLOGY	DESCRIPTION	CAGR FOR FY 2013 - FY 2015 ENPLANED PASSENGERS	STATUS
1. Scheduled Departing Seats (OAG) Approach	Based on OAG schedules of departing seats and relationship with enplaned passengers (e.g., aircraft load factors).	+2.2% Total +2.1% Domestic +2.6% International	This method was used as the final projection for FY 2013 to FY 2015 enplaned passengers

LONGER-TERM PROJECTION (FY 2016-FY 2018):

METHODOLOGY	DESCRIPTION	CAGR FOR FY 2016 - FY 2018 ENPLANED PASSENGERS	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)	+1.8% Total +1.8% Domestic +1.9% International	This method was used as the final projection for FY 2016 to FY 2018 enplaned passengers
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; however, coefficients of determination (R^2) were relatively low.
3. Trend Analysis	Relies on historical time series data to predict the future	+0.9% Total	Used as comparison benchmark; however, coefficient of determination (R^2) was relatively low.

SOURCE: Ricondo & Associates, Inc., September 2012.
PREPARED BY: Ricondo & Associates, Inc., September 2012.

- 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 business activity) and, to a certain extent, at BUR.
- International traffic growth at the Airport will outpace domestic traffic growth, consistent with historical trends.
- Airline consolidation/mergers (including the potential for an American/US Airways merger) 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.
- 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.

It is important to note that the projections of aviation activity discussed below 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 March 2012. 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.

2.6.1 PROJECTED ENPLANED PASSENGERS

Table 2-25 presents historical and projected enplaned passengers at the Airport. Specific assumptions and points regarding projected enplaned passengers for the Near-Term (FY 2013 through 2015) and the Longer-Term (FY 2016 through FY 2018) are discussed below.

Table 2-25 Enplaned Passenger Projections - LAX

	DOMESTIC ENPLANED PASSENGERS				INTERNATIONAL ENPLANED PASSENGERS				TOTAL ENPLANED PASSENGERS	
FISCAL YEAR	MAJORS/ NATIONALS	REGIONALS/ COMMUTERS	TOTAL	ANNUAL % CHANGE	U.S. FLAG CARRIERS	FOREIGN FLAG CARRIERS	TOTAL	ANNUAL % CHANGE	TOTAL	ANNUAL % CHANGE
Historical										
2000	23,370,480	1,510,247	24,880,727	-	1,705,862	6,645,133	8,350,995	-	33,231,722	-
2001	23,421,360	1,539,395	24,960,755	0.3%	1,801,060	7,078,154	8,879,214	6.3%	33,839,969	1.8%
2002	19,202,331	1,581,486	20,783,817	(16.7%)	1,369,295	5,978,549	7,347,844	(17.2%)	28,131,661	(16.9%)
2003	18,567,188	1,873,916	20,441,104	(1.6%)	1,332,111	5,937,113	7,269,224	(1.1%)	27,710,328	(1.5%)
2004	19,254,785	1,987,075	21,241,860	3.9%	1,423,386	6,414,601	7,837,987	7.8%	29,079,847	4.9%
2005	20,169,841	1,973,601	22,143,442	4.2%	1,604,210	6,800,599	8,404,809	7.2%	30,548,251	5.0%
2006	19,986,545	2,044,152	22,030,697	(0.5%)	1,657,549	6,966,900	8,624,449	2.6%	30,655,146	0.3%
2007	20,131,051	2,243,282	22,374,333	1.6%	1,765,060	6,664,077	8,429,137	(2.3%)	30,803,470	0.5%
2008	19,791,301	2,636,078	22,427,379	0.2%	1,902,462	6,812,498	8,714,960	3.4%	31,142,339	1.1%
2009	18,670,480	1,992,111	20,662,591	(7.9%)	1,503,705	6,162,723	7,666,428	(12.0%)	28,329,019	(9.0%)
2010	19,022,194	2,105,416	21,127,610	2.3%	1,523,708	6,351,824	7,875,532	2.7%	29,003,142	2.4%
2011	19,634,367	2,517,357	22,151,724	4.8%	1,777,167	6,351,680	8,128,847	3.2%	30,280,571	4.4%
2012	20,209,286	2,810,292	23,019,578	3.9%	1,930,501	6,569,045	8,499,546	4.6%	31,519,124	4.1%
Projected										
2013	20,633,700	2,907,300	23,541,000	2.3%	2,017,400	6,739,800	8,757,200	3.0%	32,298,200	2.5%
2014	21,025,700	3,002,300	24,028,000	2.1%	2,090,000	6,888,100	8,978,100	2.5%	33,006,100	2.2%
2015	21,404,200	3,095,300	24,499,500	2.0%	2,156,900	7,025,900	9,182,800	2.3%	33,682,300	2.0%
2016	21,816,200	3,186,300	25,002,500	2.1%	2,221,600	7,152,400	9,374,000	2.1%	34,376,500	2.1%
2017	22,151,700	3,275,300	25,427,000	1.7%	2,274,900	7,274,000	9,548,900	1.9%	34,975,900	1.7%
2018	22,482,800	3,363,300	25,846,100	1.6%	2,324,900	7,390,400	9,715,300	1.7%	35,561,400	1.7%
Compound Annual Growth Rate										
2000 - 2012	(1.2%)	5.3%	(0.6%)		1.0%	(0.1%)	0.1%		(0.4%)	
2012 - 2015	1.9%	3.3%	2.1%		3.8%	2.3%	2.6%		2.2%	
2015 - 2018	1.7%	2.8%	1.8%		2.5%	1.7%	1.9%		1.8%	
2012 - 2018	1.8%	3.0%	1.9%		3.1%	2.0%	2.3%		2.0%	

SOURCES: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc. (projected), August 2012
PREPARED BY: Ricondo & Associates, Inc., August 2012.

2.6.1.1 Projected Near-Term Enplaned Passengers—FY 2013 Through FY 2015

For projecting Near-Term enplaned passengers at the Airport for FY 2013, 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 seating capacity for FY 2013 to project future Airport activity for FY 2013.

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 2013 in comparison to a similar period in FY 2012.

As discussed earlier, domestic enplaned passengers at the Airport increased at a CAGR of 3.7 percent between FY 2009 and FY 2012, a strong recovery from the 7.9 percent decrease in FY 2009 from FY 2008 levels. The increase in domestic enplaned passengers during this period can be attributed to increased scheduled seat capacity at the Airport. Domestic scheduled seats decreased 8.9 percent in FY 2009 from FY 2008 levels. In FY 2010, domestic scheduled seats remained at FY 2009 levels, and then increased 4.0 percent in FY 2011 and 3.4 percent in FY 2012 from the previous year's level.

Scheduled domestic departing seats for the first half of FY 2013 indicate a continued increase in capacity at the Airport, although at a lower rate than that experienced in the recovery years FY 2010 through FY 2012. As such, domestic enplaned passengers at the Airport are expected to increase from 23.0 million in FY 2012 to 23.5 million in FY 2013, an annual increase of 2.3 percent (compared to the annual growth of 3.9 percent in FY 2012 from FY 2011 levels).

The severity of the economic recession worldwide during the FY 2008/FY 2009 period resulted in decreased international passenger activity at the Airport in FY 2009 from FY 2008 levels (a 12.0 percent decrease during this period). Similar to domestic activity, a strong recovery in international activity occurred at the Airport thereafter, as international enplaned passengers increased at a CAGR of 3.5 percent between FY 2009 and FY 2012. The increase in international enplaned passengers during this period can also be attributed to increased scheduled seat capacity at the Airport. International scheduled seats decreased 11.8 percent in FY 2009 from FY 2008 levels. In FY 2010, domestic scheduled seats remained at FY 2009 levels, and then increased 3.1 percent in FY 2011 and 3.9 percent in FY 2012 from the previous year's level.

Scheduled international departing seats for the first half of FY 2013 also indicate a continued increase in capacity at the Airport. As such, international enplaned passengers at the Airport are expected to increase from 8.5 million in FY 2012 to 8.8 million in FY 2013, an annual increase of 3.0 percent (compared to the annual growth of 4.6 percent in FY 2012 from FY 2011 levels).

With expectations of continued recovery from the recession of FY 2008/FY 2009, total enplaned passengers are projected to increase further in FY 2014 and FY 2015 at annual growth rates of 2.2 percent and 2.0 percent, respectively, reaching approximately 33.7 million in FY 2015.

2.6.1.2 Longer-Term Projected Enplaned Passengers—FY 2016 through FY 2018

For projecting Longer-Term enplaned passengers 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 enplaned passengers at the Airport in FY 2012), 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 enplaned passengers 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 2-24, the market share approach was the ultimate methodology of choice for developing the Longer-Term projections of enplaned passengers, with the other two approaches used as a comparison benchmark and as a test for reasonableness. To provide for a more conservative projection than that prepared by the FAA for nationwide activity, it was assumed that long-term growth at the Airport would increase at rates below that of the nation (i.e., a decreasing market share of U.S. traffic).

Based on points and assumptions discussed below, and following the expected increase in passenger activity at the Airport through FY 2015, total enplaned passengers at the Airport are projected to increase from 33.7 million in FY 2015 to 35.6 million in FY 2018, resulting in a CAGR of 2.0 percent between FY 2012 (base year) and FY 2018, compared to 2.8 percent projected nationwide by the FAA during this same period.

Longer-Term projections of individual components of total activity at the Airport are discussed below:

- With the expected shifting of certain air service by the legacy carriers, regional/commuter domestic enplaned passengers are projected to continue to increase at a higher rate than the domestic major/national enplaned passengers (CAGRs of 3.0 percent and 1.8 percent, respectively, between FY 2012 and FY 2018).
- It is expected that certain legacy carriers will continue to re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international

enplaned passengers by U.S. flag carriers are projected to increase at a higher rate than international enplaned passengers by foreign flag carriers (CAGRs of 3.1 percent and 2.0 percent, respectively, between FY 2012 and FY 2018).

2.6.2 PROJECTED OPERATIONS

Table 2-26 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 recovery in passenger airline capacities, total operations at the Airport are expected to increase from 610,585 operations in FY 2012 to 662,510 operations in FY 2018, a CAGR of 1.4 percent during this period.

It is expected that passenger airline operations will increase from 559,287 operations in FY 2012 to 609,840 in FY 2018, a CAGR of 1.5 percent during this period. In general, the passenger airline projections were developed based on historical relationships among enplaned passengers, 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 160.3 seats in FY 2012 to 162.0 seats in FY 2018, similar to average seat levels immediately prior to September 11.
- Average seats for regionals/commuters are projected to increase approximately 0.50 seats per year, from 50.9 seats in FY 2012 to 53.9 seats in FY 2018. 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 1.25 to 1.45 seats per year, from 228.2 seats in FY 2012 to 236.2 seats in FY 2018. 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 79 to 81 percent during the Projection Period, relatively consistent with load factor assumptions used by the FAA in its nationwide projections (approximately 83 percent between FY 2012 and FY 2018).

General aviation activity at the Airport has been relatively constant in recent years, as growth in this activity has occurred primarily at outlying airports within the Air Trade Area due to cost and delay considerations at the Airport for these operators. As a result, general aviation activity at the Airport is projected to remain at its average level between FY 2011 and FY 2012 (approximately 18,600 operations) each year during the Projection 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, which has been relatively stable between FY 2009 and FY 2012 at approximately 19,350 operations during this period, is expected to increase moderately from 19,874 operations in FY 2012 to 20,470 operations in FY 2018. This increase represents a CAGR of 0.5 percent during this period.

Table 2-26 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
Historical											
2000	409,720	186,710	36,974	74,516	707,920	18,292	36,756	16,388	2,552	781,908	-
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	325,854	150,086	20,772	74,376	571,088	14,709	25,344	22,740	2,806	636,687	(0.7%)
2005	326,252	153,880	26,286	80,808	587,226	14,040	27,100	22,605	2,852	653,823	2.7%
2006	319,258	154,092	25,580	81,476	580,406	16,116	26,272	25,582	2,488	650,864	(0.5%)
2007	318,210	159,182	28,372	79,364	585,128	15,624	25,232	35,037	2,488	663,509	1.9%
2008	320,172	181,244	27,690	80,706	609,812	18,239	22,174	26,798	2,758	679,781	2.5%
2009	299,087	128,026	21,626	73,044	521,783	15,758	19,440	2,447	2,561	561,989	(17.3%)
2010	285,246	134,000	21,660	73,300	514,206	19,514	18,951	6,804	2,908	562,383	0.1%
2011	280,275	158,600	24,960	72,360	536,195	18,681	19,124	9,193	2,445	585,638	4.1%
2012	314,703	147,450	26,111	70,725	558,989	18,546	19,874	10,472	2,704	610,585	4.3%
Projected											
2013	319,800	151,200	26,980	71,640	569,620	18,600	19,970	10,300	2,700	621,190	1.7%
2014	324,200	154,600	27,640	72,300	578,740	18,600	20,070	10,430	2,700	630,540	1.5%
2015	328,400	158,000	28,200	72,840	587,440	18,600	20,170	10,560	2,700	639,470	1.4%
2016	332,600	161,200	28,720	73,240	595,760	18,600	20,270	10,700	2,700	648,030	1.3%
2017	336,000	164,400	29,100	73,560	603,060	18,600	20,370	10,800	2,700	655,530	1.2%
2018	339,200	167,400	29,420	73,820	609,840	18,600	20,470	10,900	2,700	662,510	1.1%
Compound Annual Growth Rate											
2000 - 2012	(2.2%)	(1.9%)	(2.9%)	(0.4%)	(1.9%)	0.1%	(5.0%)	(3.7%)	0.5%	(2.0%)	
2012 - 2015	1.4%	2.3%	2.6%	1.0%	1.7%	0.1%	0.5%	0.3%	(0.0%)	1.6%	
2015 - 2018	1.1%	1.9%	1.4%	0.4%	1.3%	0.0%	0.5%	1.1%	0.0%	1.2%	
2012 - 2018	1.3%	2.1%	2.0%	0.7%	1.5%	0.0%	0.5%	0.7%	(0.0%)	1.4%	

SOURCES: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2012.

PREPARED BY: Ricondo & Associates, Inc., August 2012.

Activity by other air taxi operators is also expected to increase moderately from 10,472 operations in FY 2012 to 10,900 operations in FY 2018, a CAGR of 1.2 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 2008 and FY 2012.

2.6.3 PROJECTED PASSENGER AIRLINE AND ALL-CARGO LANDED WEIGHT

Table 2-27 presents historical and projected passenger airline and all-cargo carrier landed weight at the Airport. As shown, passenger airline landed weight is projected to increase from 45,892,179 thousand pounds in FY 2012 to 51,307,954 thousand pounds in FY 2018, a CAGR of 1.9 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 4,143,160 thousand pounds in FY 2012 to 4,438,655 thousand pounds in FY 2018, a CAGR of 1.2 percent during this period. In general, the increases in landed weight 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 2-27 Landed Weight Projections (thousand pounds) - LAX

(thousand pounds)

FISCAL YEAR	DOMESTIC MAJORS/ NATIONALS	REGIONALS/ COMMUTERS	INTERNATIONAL U.S. FLAG CARRIERS	INTERNATIONAL FOREIGN FLAG CARRIERS	TOTAL PASSENGER AIRLINES 1/	ALL CARGO CARRIERS	AIRPORT	ANNUAL % CHANGE
Historical								
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	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	26,179,246	3,639,478	2,732,947	15,235,494	47,787,165	4,311,780	52,098,945	(0.4%)
2009	24,392,691	2,701,756	2,121,612	13,766,773	42,982,832	3,735,976	46,718,808	(10.3%)
2010	24,465,008	2,902,972	2,062,511	14,050,708	43,481,199	3,890,090	47,371,289	1.4%
2011	25,064,080	3,233,809	2,281,928	13,913,599	44,493,416	3,954,394	48,447,810	2.3%
2012	25,790,799	3,526,713	2,454,785	14,119,882	45,892,179	4,143,160	50,035,339	3.3%
Projected								
2013	26,313,363	3,654,361	2,563,336	14,428,356	46,959,416	4,191,017	51,150,433	2.2%
2014	26,805,420	3,775,344	2,653,552	14,688,239	47,922,555	4,239,987	52,162,542	2.0%
2015	27,289,384	3,898,034	2,735,382	14,925,850	48,848,650	4,289,236	53,137,886	1.9%
2016	27,772,406	4,017,447	2,814,407	15,136,424	49,740,683	4,338,763	54,079,446	1.8%
2017	28,187,464	4,138,466	2,880,608	15,331,728	50,538,267	4,388,570	54,926,836	1.6%
2018	28,594,834	4,256,007	2,941,567	15,515,546	51,307,954	4,438,655	55,746,608	1.5%
Compound Annual Growth Rate								
2000 - 2012	(2.7%)	3.1%	(3.0%)	0.5%	(1.5%)	(3.5%)	(1.7%)	
2012 - 2015	1.9%	3.4%	3.7%	1.9%	2.1%	1.2%	2.0%	
2015 - 2018	1.6%	3.0%	2.5%	1.3%	1.7%	1.1%	1.6%	
2012 - 2018	1.7%	3.2%	3.1%	1.6%	1.9%	1.2%	1.8%	

NOTE:
1/ Passenger airline landed weight reflected for FY 2013 through FY 2018 is greater than passenger landed weight reflected on the bottom of Table 4-8, which excludes certain passenger airline landed weight the Department treats as cargo landed weight.

SOURCES: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

3. Airport Facilities and Capital Program

This chapter presents a review of existing Airport facilities, a discussion of the Series 2012 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.

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.

The combined area of all nine passenger terminals is approximately 4.7 million square feet. Each of the nine terminals is briefly described below:

- **Terminal 1** is used for domestic operations and comprises approximately 369,200 square feet on three levels. Tenants of this facility include Air Tran Airways, Southwest Airlines, and US Airways.
- **Terminal 2** is used by 15 airlines, including Aero Mexico, Air Canada, Air China, Air France, Air New Zealand, Alitalia, Arkfly, Hawaiian Airlines, KLM, LACSA, Sun Country, TACA, Virgin Atlantic, Volaris, and WestJet, for domestic and international use. The building is comprised of approximately 496,800 square feet on three levels. In addition, there is a mezzanine level with airline clubs and offices.
- **Terminal 3** is used by four airlines (JetBlue, Spirit Airlines, Virgin Australia, and Virgin America) primarily for domestic operations, although Virgin Australia operates international departures. This terminal is comprised of approximately 327,500 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. American Eagle also operates out of Terminal 4. The terminal is comprised of approximately 589,700 square feet and includes two levels and a mezzanine.
- **Terminal 5** is leased by Delta and also used by Virgin Australia (international arrivals) and Allegiant Air, and includes approximately 637,800 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 used by Alaska Airlines, Delta, United Airlines, Allegiant Air (split operations between Terminals 5 and 6), Frontier, and Copa, for domestic and international operations. The two levels comprise approximately 475,800 square feet.
- **Terminals 7 and 8** are leased by United for domestic and international operations, and encompass approximately 759,200 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 1,070,700 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.

3.1.3 PUBLIC PARKING FACILITIES

As reflected on **Table 3-1**, approximately 19,000 public parking spaces are available at the Airport, including approximately 8,700 parking spaces in eight parking garages in the CTA. Approximately 7,300 public parking spaces are also provided in an economy-rate, remote surface parking lot (Lot C, located at 96th Street and Sepulveda Boulevard). Approximately 2,700 public parking spaces are provided in the Park One surface parking lot located adjacent to Terminal 1. To help reduce vehicle traffic congestion in the CTA, the Airport also provides a 77-space cell phone waiting lot (located at 96th Street near Lot C) 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 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, approximately 11,500 parking spaces are available in various parking lots for Airport employees.

3.1.4 RENTAL CAR FACILITIES

Ten rental car companies operating at the Airport under a concession agreement with the Department (see Section 4.6.2 of the Report for more detail) provide free shuttle service between the Airport and their off-Airport locations and are permitted to pick up and drop off their customers directly from the airline terminals. A number of other off-Airport rental car companies (not under a concession agreement) pick up rental car customers at the Off-Airport Rental Car Terminal (located at Lot C).

3.1.5 CARGO FACILITIES

Based on data obtained from the Airports Council International (ACI) for CY 2011, the Airport ranked 13th worldwide and 5th nationwide in total cargo handled with approximately 1.7 million enplaned and deplaned tons. The cargo areas at the Airport comprise 1.9 million square feet of building space in 25 buildings on 175 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.

Table 3-1 Airport Parking

PARKING FACILITY	PARKING SPACES	LOCATION
PUBLIC PARKING		
CTA Parking Garages	8,727	Central Terminal Area
Lot C	7,300	96th St. and Sepulveda Blvd.
Park One [1/]	2,728	Adjacent to Terminal 1
Cell Phone Lot	77	Adjacent to Lot C
Total Public Parking	18,832	
EMPLOYEE PARKING		
CTA	420	Central Terminal Area
Lot D	1,944	6101 Westchester Parkway
Lot E	5,068	5555 West 111th. Street
Lot F (parking garage)	1,700	6075 Avion Drive
Jenny Lot (anticipated to open April 2013)	2,000	Jenny Street
Lot A, Lot IC, Lot IT	423	Century Blvd-Lot A; Avaition Blvd.-Lot IC; Imperial Highway -Lot IT.
Total EmployeeParking	11,555	

NOTE:

1/ Parking spaces in the Park One lot are provided subject to a lease with Park 'N Fly. See Section 4.6.1 of the Report for more information.

SOURCE: City of Los Angeles, Department of Airports, October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

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 Airport Traffic Control Tower (ATCT) 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)
  - United 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.

- **Central Utility Plant.** The existing Central Utility Plant (CUP), constructed in 1961, is located west of the ATCT in the CTA, and includes a network of approximately 18 miles of piping that serves the CTA, including terminals and concourses, Department administration facilities, and the Theme Building. In addition to providing hot water and chilled water to the closed loop piping systems that heat and cool these facilities, the adjacent, associated cogeneration plant provides co-generated electrical power back to the City's electrical grid. The cogeneration facility became operational in 1985. As described in Section 3.5, a new CUP is currently being constructed at the Airport.
- **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 PLANNING" section of the front portion of the Official Statement for the Series 2012 Bonds for a more detailed discussion. The Department approaches its capital development 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. Department management reviews and assesses the Capital Program annually on a formal basis, 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 Capital 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 Capital Program.

In July 2012, the Department released a Preliminary LAX Specific Plan Amendment Study (LAX SPAS Report) and a draft environmental impact report (the LAX SPAS Draft EIR), copies of which are available on the Department's website. The LAX SPAS Draft EIR identified and evaluated nine alternatives for the Yellow Light Projects, the environmental impacts of each and mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan Program EIR along with other required components of an environmental impact report pursuant to CEQA. The LAX SPAS Report summarizes the concept development process for the nine alternatives, identifies potential amendments to the LAX Specific Plan that would be needed to implement any of the nine alternatives, and provides certain security and financial information for comparison purposes.

As described in more detail in the LAX SPAS Report, the nine SPAS alternatives were formulated at a programmatic level of conceptual planning, and no design or engineering plans, or construction phasing plans or schedules, are available for any of the alternatives. The LAX SPAS Report generally assumed that improvements proposed under each alternative would be completed by 2025, but there is no specific requirement that any such improvements be completed by 2025. For the purposes of the Report, it was assumed that construction of any improvements ultimately proposed by the Department under a preferred alternative would not be started until after the Projection Period (and would be considered "Future Projects" as described below).

As discussed further in Chapter 4 of the Report, specific funding source decisions are driven by the Capital Program 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.

For purposes of the Report, the Airport's Capital Program is organized into the following categories:

- **The Series 2012 Projects.** Includes capital projects to be funded, in part, with Series 2012 Bond proceeds. The capital and operating costs, and any estimated revenue impacts, associated with the Series 2012 Projects **have been included** in the financial analysis incorporated in the Report (see Chapter 4).
- **Other Incorporated Projects.** Includes future capital projects other than the Series 2012 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in the Report, and are expected by the Department to be completed during the Projection Period (through FY 2018). 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 the 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.
- **Ongoing Projects.** Includes capital projects currently underway that have already been funded. The capital and operating costs, and any estimated revenue impacts associated with the Ongoing Projects **have been included** in the Report.

There are other potential future projects at the Airport that the Department may consider (referred to as Future Projects) that are not part of the current Capital Program and **are NOT reflected** in the Report because: (1) the scope, timing, cost, or approvals for these projects are uncertain; (2) environmental reviews are not yet completed or are not expected to be completed within the Projection Period; or (3) construction of these projects is not expected to be started during the Projection Period. The Department will only undertake Future Projects, or portions thereof, as demand at the Airport 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 2012 Projects

The Series 2012 Projects are Airport projects that will be funded in part with the proceeds of the Series 2012 Bonds and include Terminal 5 and Terminal 6 improvement projects. **Table 3-2** presents estimated costs for the Series 2012 Projects and the Other Incorporated Projects and Ongoing Projects discussed below in Section 3.4.

As described in more detail below, the Series 2012 Projects will modernize Terminals 5 and 6 (with new in-line bag systems, federal facilities, passenger security checkpoints, ticketing/check-in lobbies, boarding bridges, and information displays, among other things) and improve terminal efficiency and the overall passenger experience.

The Series 2012 Projects are estimated to cost approximately $519.2 million. Certain expenditures associated with the Series 2012 Projects have already been made. Sources of funding for the Series 2012 Projects are described in Section 4.7 of the Report. The financial impacts of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects are incorporated in the Report.

The Series 2012 Projects are described as follows:

- **Terminal 6 Improvement Project.** This project consists of improvements made as part of the modernization of Terminal 6, including a new in-line baggage screening system, renovated ticketing/check-in lobby with kiosks for check-in and bag-check, new boarding areas, a new passenger lounge, new gate information displays, and renovated U.S. Customs and Border Protection facilities to accommodate international passengers. As reflected on Table 3-2, the Terminal 6 Improvement project is estimated to cost approximately $245.0 million.
- **Terminal 5 Improvement Project.** This project consists of improvements made as part of the modernization of Terminal 5, including a new in-line baggage screening system, a new outbound baggage system, renovated U.S. Customs and Border Protection facilities to accommodate international passengers, renovated passenger security screening checkpoints, renovated ticketing/check-in lobby, renovated baggage claim areas, and the replacement of 13 passenger boarding bridges. This project also includes the refunding of approximately $46.9 million of Subordinate Commercial Paper notes previously issued by the Department for the refunding of certain Regional Airports Improvement Corporation bonds issued to finance and refinance certain improvements in Terminal 5. As reflected on Table 3-2, the Terminal 5 Improvement Project is estimated to cost approximately $274.2 million.

Table 3-2 Summary of Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects--Estimated Costs

			ESTIMATED PROJECT COSTS [1/]
SERIES 2012 PROJECTS			
Terminal 6 Improvement Project		$	244,997,000
Terminal 5 Improvement Project			274,242,000
Total Series 2012 Projects	**[A]**	**$**	**519,239,000**
OTHER INCORPORATED PROJECTS [2/]			
Terminal Projects			
Terminal Improvement Projects [3/]		$	1,440,675,000
Midfield Satellite Concourse - Phase 1			638,000,000
Terminal 4/TBIT Connector Building			175,000,000
Other Terminal Related Improvements [4/]			50,445,000
	[b1]	$	2,304,120,000
Airfield and Apron Projects			
Noise Mitigation and Soundproofing		$	405,000,000
West Maintenance Facility Pad and Infrastructure			195,000,000
Runway Safety Area Improvements			93,237,000
Runway 25R, Taxiway B&C			73,206,000
Midfield Satellite Concourse - Phase 1 Aprons			60,500,000
Other Airfield and Apron Projects [5/]			200,068,000
	[b2]	$	1,027,011,000
Landside, IT, and Infrastructure Projects			
Landside Projects (Parking and Roadway Improvements)		$	358,481,000
Information Technology (IT) Projects			76,822,000
Infrastructure Projects			26,000,000
	[b3]	$	461,303,000
Total Other Incorporated Projects	**[B]=[b1]+[b2]+[b3]**	**$**	**3,792,434,000**
ONGOING PROJECTS [6/]			
Terminal Projects			
Bradley West Terminal Project		$	1,538,888,000
Central Utility Plant			423,835,000
Elevators and Escalators Replacements			240,035,000
Fire Life Safety System Upgrades - Terminals 1 & 2			4,256,000
	[c1]	$	2,207,014,000
Airfield and Apron Projects			
Taxilane S		$	140,532,000
Taxilane T			156,284,000
Bradley West Aprons			126,109,000
Construction Support Facilities			9,475,000
	[c2]	$	432,400,000
Total Ongoing Projects	**[C]=[c1]+[c2]**	**$**	**2,639,414,000**
TOTAL SERIES 2012 PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING PROJECTS	**= [A+B+C]**	**$**	**6,951,087,000**

NOTES:
1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts
2/ Other Incorporated Projects are future projects that are anticipated to be completed during the Projection Period.
3/ Includes the renovation and modernization of terminal facilities, as well as improvements to baggage screening systems, concessions, bathrooms, and other facilities with various terminals.
4/ Includes a concessions enabling project, buyout of a First Class lounge, improvements to the Commuter Terminal, relocation of a passenger boarding bridge, and a project to provide aircraft ground power
5/ Includes rehabilitation of Runways 24R and 25L, Taxilane D-10 reconstruction, Airport Operation Areas (AOA) perimeter fence enhancements, and other airfield and apron improvements
6/ Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds

SOURCE: City of Los Angeles, Department of Airports, October 2012
PREPARED BY: Ricondo & Associates, Inc., October 2012

3.4 Other Incorporated Projects

As described in Section 3.2, Other Incorporated Projects include future projects expected by the Department to be completed during the projection period (through FY 2018), 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 3-2, preliminary cost estimates for the Other Incorporated Projects total approximately $3.8 billion. Sources of funding for the Other Incorporated Projects are described in Section 4.7 of the Report. The estimated financial impacts of the Other Incorporated Projects **are incorporated in the Report**.

The Department intends to undertake the Other Incorporated Projects for reasons including, but not limited to: increasing operational efficiency and capacity; modernizing Airport facilities and systems; improving the overall passenger experience at the Airport; complying with FAA design standards; enhancing passenger and aircraft safety; and maintaining existing Airport pavements and facilities. Brief descriptions of the Other Incorporated Projects are provided below.

Other Incorporated Projects--Terminal Projects

- **Terminal Improvement Projects.** These projects include improvements to all nine terminals at the Airport. Specific projects include: terminal renovations; construction of in-line baggage screening systems; 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. As reflected on Table 3-2, these projects are estimated to cost approximately $1.4 billion.
- **Midfield Satellite Concourse – Phase 1.** Phase 1 of the Midfield Satellite Concourse, to be located west of TBIT, includes construction of a northern section of aircraft gates. This project is estimated to cost approximately $638 million.
- **Terminal 4/TBIT Connector Building.** This terminal improvement project will be a multi-level, multi-purpose facility providing secure passenger connectivity between Terminal 4 and TBIT; a checked baggage inspection system for Terminal 4; an arriving international passenger security screening checkpoint near the exit from the TBIT FIS facility; a passenger lounge and bus bay for airside bus connections to other terminals; and a public plaza area adjacent between the upper-level roadway linking Terminal 4 and TBIT. This project is estimated to cost $175.0 million.
- **Other Terminal Improvements.** These improvements include aircraft ground power, concessions, and ADA accessibility improvements. Also included is a program reserve for future terminal improvements. These improvements are estimated to cost approximately $50.4 million.

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. This project is estimated to cost approximately $405.0 million.

- **West Maintenance Facility Pad and Infrastructure.** This project entails the construction of approximately 21 acres of aircraft apron and 21 acres of grading for proposed hanger and aircraft parking improvements. This project also includes associated utilities and demolition of existing facilities. This project is estimated to cost approximately $195.0 million.
- **Runway Safety Area Improvements.** This project includes improvements to the Runway Safety Area (RSA) on the west end of Runway 7L/25R, to meet FAA standards. This project will also expand the west end of Runway 7L/25R by approximately 850 feet. This project includes the demolition of certain sections of taxiways, construction of new runway and taxiway pavement, associated utilities, pavement markings and striping, lighting, and navigational aids. This project also includes improvements to RSAs on the west ends of Runways 24L and 24R. Total RSA improvements are estimated to cost approximately $93.2 million.
- **Runway 25R and Taxiway B East End Rehabilitation and Taxiway C Extension.** This project includes the rehabilitation of the east end of Runway 25R/7L and Taxiway B. This project also includes extension of the east end of Taxiway C. This project is estimated to cost approximately $73.2 million.
- **Midfield Satellite Concourse – Phase 1 Aprons.** This project includes the construction of aircraft parking aprons associated with Phase 1 of the Midfield Satellite Concourse. This project is estimated to cost approximately $60.5 million.
- **Other Airfield and Apron Improvements.** These improvements include amounts for pavement rehabilitation, perimeter fencing, and certain taxiway improvements. These improvements are estimated to cost approximately $200.1 million.

Other Incorporated Projects—Landside, Infrastructure, and Information Technology Projects

- **Landside, Information Technology, and Infrastructure Projects**. These projects include the purchase of certain property (Skyview Property) adjacent to the Airport including a surface parking lot and two office buildings; the repair and replacement of structural expansion joints on the second level roadway in the CTA; restoration of coastal dunes; construction of a 1,900-space parking lot; other parking improvements; and various information technology (IT) projects including closed-circuit television improvements, IT infrastructure improvements, and airport control tower computer system improvements. These projects are estimated to cost approximately $461.3 million.

3.5 Ongoing Projects

As described in Section 3.2, Ongoing Projects include capital projects currently underway that have already been funded. The capital and operating costs, and any estimated revenue impacts associated with the Ongoing Projects **have been incorporated** in the Report. As shown on Table 3-2, the total cost of the Ongoing Projects is approximately $2.6 billion.

A brief description of the Ongoing Projects is provided below. Collectively, the Ongoing Projects are expected to be completed within budget estimates. Information provided below regarding anticipated completion dates and spending to date is from the August 31, 2012 Program Status Report for the Airport.

Ongoing Projects--Terminal Projects

- **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. 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 meeter/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. New and longer concourses would replace the existing TBIT north and south concourses, providing larger passenger hold areas and improved concessions, airline lounges, passenger corridors, administrative offices, and support space. The twelve gates that currently exist along the east side of TBIT would be replaced by approximately nine new gates on the west side of the new concourses. It is anticipated that many of the new 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 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. This project is estimated to cost approximately $1.5 billion. One new gate has already opened and two additional gates are expected to be opened by the end of the first quarter of CY 2013. The Department estimates that a total of 11 gates will be operational by the end of September 2013; a total of 16 gates will be operational by the end of September 2014; and all gates will be operational by the end of June 2015. As of August 31, 2012, approximately $982.0 million of the total $1.5 billion estimated budget had been spent.
- **Central Utility Plant (CUP).** This 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, 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. This project is estimated to cost approximately $423.8 million and is expected to be completed in FY 2014. As of August 31, 2012, approximately $174.0 million of the total $423.8 million estimated budget had been spent.

- **Elevators and Escalators Replacements.** This project includes upgrade and replacement of all aging elevators, escalators and moving walkways at the airport, which have exceeded their useful life expectancy. This project is estimated to cost approximately $240.0 million. The first phase of replacements has been completed and the second phase is now underway. Completion of the second phase is anticipated in FY 2016. As of August 31, 2012, approximately $67.0 million of the total $240.0 million estimated budget has been spent.
- **Fire Life Safety System Upgrades (Terminals 1 and 2).** This project replaces existing and outdated fire life safety systems in Terminals 1 and 2 with new systems that will bring those terminals into full compliance with Los Angeles Fire Department and ADA requirements. This project is estimated to cost approximately $4.3 million and is expected to be completed in December 2012.

Ongoing Projects--Airfield and Apron Projects

- **Taxilane S.** This project consists of the construction of a 3,785-foot long taxilane plus a connector taxiway to connect Taxiway B on the south and Taxiway E 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 the future Midfield Satellite Concourse and TBIT. This project is estimated to cost approximately $140.5 million. This project is substantially complete and all taxiways are open and in operation.
- **Taxilane T.** 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. This project is estimated to cost approximately $156.3 million and is expected to be completed in FY 2015. As of August 31, 2012, approximately $32.0 million of the total $156.3 million estimated budget had been spent.
- **Bradley West Aprons.** The Bradley West Aprons Project is associated with the Bradley West Terminal Project described above. 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. The Bradley West Aprons Project is estimated to cost approximately $126.1 million.
- **Construction Support Facilities.** This project includes the construction of new sections of aircraft parking ramp, security fencing, and other improvements related to construction efforts at the Airport. This project is estimated to cost approximately $9.5 million and is expected to be completed by June 30, 2013.

It should be noted that in addition to the Other Incorporated Projects and Ongoing Projects discussed above, there are other projects at the Airport that are smaller in terms of estimated cost and more routine in nature relative to the projects listed on Table 3-2. These other projects (1) are not being funded with Series 2012 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 the Report.

4. Financial Analysis

This chapter examines the financial structure of the Airport and the financial implications of the Series 2012 Projects, the Other Incorporated Projects, and Ongoing 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, and the cost center structure utilized for airline rate-setting purposes.

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 November 1, 2012, there were five series of Senior Bonds outstanding (Series 2008A, 2008B, 2009A, 2010A, and 2010D), with a combined principal amount outstanding of approximately $2.661 billion. As of November 1, 2012, there were six series of Subordinate Obligations outstanding (Series 2008C, 2009C, 2009D 2009E, 2010B, and 2010C), with a combined principal amount outstanding of approximately $782.6 million. Additionally, pursuant to the Subordinate Indenture, the Department is authorized to issue up to $500 million aggregate principal amount of its Subordinate Commercial Paper Notes, however, as of the date of the Report, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support provided by various letter of credit banks ($350 million). As of November 1, 2012, the Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately $272.1 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). The Department also maintains property that is not currently used for airport purposes, known as LA/Palmdale Regional Airport (together with the Airport, LA/ONT, and VNY, the Airport System). 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.

Operation and Maintenance (O&M) 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 two 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:

- <u>Terminal Cost Center.</u> 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 two indirect Cost Centers are as follows:

- 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 the Report as the Senior Indenture), the Department may issue Los Angeles International Airport Revenue Bonds (referred to in the Report as Senior Bonds) secured by Net Pledged Revenues and by certain funds and accounts held by the Senior Trustee under the Senior Indenture.

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 the Report are summarized below. The capitalized terms used in this Section 4.2 are used as defined in the Senior Indenture.

4.2.1 KEY SENIOR INDENTURE DEFINITIONS

"LAX Revenues" means, generally, 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**" or "**LAX M&O 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. Additionally, 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 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

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, 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 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 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 with respect to all outstanding Senior Bonds, 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, 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 Senior Bonds or the establishment of a Senior Program, were at least equal to 125% of the sum of the Senior Aggregate Annual Debt Service due and payable with respect to all outstanding Senior Bonds (not including the proposed series of Senior Bonds or the proposed Senior Program Bonds) for such Fiscal Year or other applicable period; and

    (2) for the period from and including the first full Fiscal Year following the issuance of such proposed series of Senior Bonds during which no interest on such series of Senior 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 Senior Bonds, or (B) the third full Fiscal Year during which no interest on such series of Senior Bonds is expected to be paid from the proceeds thereof, the estimated Net Pledged Revenues, together with any estimated Transfer, for each such Fiscal Year,

will be at least equal to 125% of the Senior Aggregate Annual Debt Service for each such Fiscal Year with respect to all outstanding Senior Bonds, Unissued Senior Program Bonds and the proposed series of Senior Bonds (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 subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of the Senior Aggregate Annual Debt Service on the outstanding Senior Bonds, Unissued Senior Program Bonds, the proposed series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds, as applicable, for such applicable Fiscal Year or such other applicable period.

At the time of issuance of the Series 2012 Senior Bonds, the Department expects to deliver a certificate as described in (a) above.

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.

As described in more detail below in Section 4.6.6, the Department expects to use certain available PFC revenues (including certain PFC revenues irrevocably committed by the Department through FY 2014) to pay a portion of the debt service associated with (1) 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); (2) the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and the Series 2010D Senior Bonds); and (3) certain future terminal projects.

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 the Report as the Subordinate Indenture), the Department may issue Los Angeles International Airport Subordinate Revenue Bonds (referred to in the Report as Subordinate Bonds) and Los Angeles International Airport Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity – AMT), Series C (Federally Taxable) and

Series D (Private Activity – Non-AMT) (referred to in the Report as Subordinate Commercial Paper Notes) secured by Subordinate Pledged Revenues and by certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture.

Articles II, IV and V of the Subordinate Indenture establish the requirements for the Department to issue Subordinate Bonds and Subordinate Commercial Paper Notes, 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 the Report are summarized below. The capitalized terms used in this Section 4.3 are defined in the Subordinate Indenture.

4.3.1 KEY SUBORDINATE INDENTURE DEFINITIONS

"**Subordinate Pledged Revenues**" means, for any given period, Pledged Revenues for such period, less LAX Maintenance and Operations Expenses (defined previously in Section 4.2.1) for such period, less Senior Aggregate Annual Debt Service (defined previously in Section 4.2.1) on the Senior Bonds for such period, less any required deposits to the Senior Reserve Fund(s) for such period.

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 outstanding Subordinate Bonds or any additional Subordinate Bonds expected to be issued during the Projection Period.

4.3.2 ADDITIONAL SUBORDINATE BONDS

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, 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 an Authorized Board Representative showing that the Subordinate Pledged Revenues, together with any Transfer, for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds were at least equal to

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

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

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

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 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 any of its outstanding Subordinate Bonds or Subordinate Commercial Paper Notes.

4.4 Financing Plan

As discussed in Chapter 3, the Department's capital development efforts are organized for the purposes of the Report into the Series 2012 Projects, Other Incorporated Projects, and Ongoing 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 2012 Projects reflect those projects to be funded, in part, with Series 2012 Bond proceeds. Other Incorporated Projects include future projects other than the Series 2012 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in the Report, and are expected by the Department to be completed during the Projection Period. Ongoing Projects include certain projects already underway that have been funded and do not require additional bond proceeds. The financial impacts of the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects have been analyzed and incorporated in the Report.

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 4.6 discusses funding available to the Department and how these sources are incorporated into the financial analysis of the impacts of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects.

- The Department intends to finance the Series 2012 Projects with TSA grants, internal Department funds, other funds (tenant funds), the net proceeds of the Series 2012 Bonds, and the net proceeds of certain future bonds.
- The Department expects to finance Other Incorporated Projects with TSA grants, FAA AIP grants, internal Department funds, Terminal Renewal and Improvement Fund amounts (pursuant to Terminal Rate Agreements described in section 4.7.2 of this chapter), PFC funding, other funds (tenant funds), and the net proceeds of additional future senior and subordinate revenue bonds. Subordinate Commercial Paper Notes may be used for Other Incorporated Projects and refunded in the future with additional bonds, however, any such use of commercial paper is not assumed or reflected in these analyses.
- Ongoing Projects have been funded primarily with prior bond proceeds, as well as internal Department funds, and PFC funding, and certain other funds (including Department Funds restricted for use on the Central Utility Plant).

Table 4-1 presents the estimated funding sources for the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects discussed previously in Chapter 3. As shown on Table 4-1, the Series 2012 Projects are estimated to cost approximately $519.2 million; the Other Incorporated Projects are estimated to cost approximately $3.8 billion, and the Ongoing Projects are estimated to cost approximately $2.6 billion. The financial impacts of the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects are reflected in the Report.

A description of estimated funding sources for the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects is presented in greater detail in the following paragraphs.

4.4.1 TSA GRANTS

As reflected on Table 4-1, the Department expects to use approximately $47.4 million of TSA grant funds in connection with the Terminal 5 and Terminal 6 Projects as part of the Series 2012 Projects. The remainder of the $194.3 million total of expected TSA grant amounts for the Airport will be used to fund the installation of explosive detection systems and other security projects at other terminals in the future, as reflected in the Terminal Improvement Project on Table 4-1 (under Other Incorporated Projects—Terminal Projects). For purposes of the Report, it has been assumed that the receipt of TSA grants reflected on Table 4-1 will not be impacted by any potential federal spending reductions that may be required pursuant to the Federal Budget Control Act of 2011 (which is summarized in Section 2.5.7 of the Report and discussed in more detail in the Official Statement for the Series 2012 Bonds).

Table 4-1 Summary of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects -- Costs and Funding (Based on $4.50 PFC Level Throughout Projection Period)

			ESTIMATED SOURCES OF FUNDS							FUTURE BOND PROCEEDS 5/	
		ESTIMATED PROJECT COSTS 1/	TSA FUNDS	AIP FUNDS	DEPARTMENT FUNDS 2/	OTHER FUNDS 3/	PFC PAY-AS-YOU-GO FUNDS	PRIOR BOND PROCEEDS 4/	SERIES 2012 SENIOR BOND PROCEEDS	SUBORDINATE	SENIOR
SERIES 2012 PROJECTS											
Terminal 6 Improvement Project		$ 244,997,000	$ 22,417,000	$ -	$ 77,722,000	$ 14,858,000	$ -	$ -	$ 130,000,000	$ -	$ -
Terminal 5 Improvement Project		274,242,000	25,000,000	-	75,220,000	11,823,000	-	-	122,199,000	-	40,000,000
Total Series 2012 Projects	[A]	**$ 519,239,000**	**$ 47,417,000**	**$ -**	**$ 152,942,000**	**$ 26,681,000**	**$ -**	**$ -**	**$ 252,199,000**	**$ -**	**$ 40,000,000**
OTHER INCORPORATED PROJECTS 6/											
Terminal Projects											
Terminal Improvement Projects 7/		$ 1,440,675,000	$ 99,900,000	$ -	$ 349,363,000	$ 51,103,000	$ -	$ -	$ -	$ -	$ 940,309,000
Midfield Satellite Concourse - Phase 1		638,000,000	-	-	25,000,000	-	-	-	-	-	613,000,000
Terminal 4/TBIT Connector Building		175,000,000	37,000,000	-	15,500,000	-	-	-	-	-	122,500,000
Other Terminal Related Improvements 8/		50,445,000	-	-	35,045,000	-	-	-	-	-	15,400,000
	[b1]	$ 2,304,120,000	$ 136,900,000	$ -	$ 424,908,000	$ 51,103,000	$ -	$ -	$ -	$ -	$ 1,691,209,000
Airfield and Apron Projects											
Noise Mitigation and Soundproofing		$ 405,000,000	$ -	$ -	$ 295,000,000	$ -	$ 110,000,000	$ -	$ -	$ -	$ -
West Maintenance Facility Pad and Infrastructure		195,000,000	-	-	-	30,000,000	-	-	-	165,000,000	$ -
Runway Safety Area Improvements		93,237,000	-	3,500,000	737,000	-	-	-	-	89,000,000	-
Runway 25R, Taxiway B&C		73,206,000	-	5,000,000	2,206,000	-	-	-	-	66,000,000	-
Midfield Satellite Concourse - Phase 1 Aprons		60,500,000	-	-	6,050,000	-	-	-	-	54,450,000	-
Other Airfield and Apron Projects 9/		200,068,000	-	33,500,000	20,068,000	-	-	-	-	146,500,000	-
	[b2]	$ 1,027,011,000	$ -	$ 42,000,000	$ 324,061,000	$ 30,000,000	$ 110,000,000	$ -	$ -	$ 520,950,000	$ -
Landside, IT, and Infrastructure Projects											
Landside Projects (Parking and Roadway Improvements)		$ 358,481,000	$ -	$ -	$ 358,481,000	$ -	$ -	$ -	$ -	$ -	$ -
Information Technology (IT) Projects		76,822,000	10,000,000	-	16,215,000	-	50,607,000	-	-	-	-
Infrastructure Projects		26,000,000	-	-	16,000,000	-	-	-	-	-	10,000,000
	[b3]	$ 461,303,000	$ 10,000,000	$ -	$ 390,696,000	$ -	$ 50,607,000	$ -	$ -	$ -	$ 10,000,000
Total Other Incorporated Projects	[B]=[b1]+[b2]+[b3]	**$ 3,792,434,000**	**$ 146,900,000**	**$ 42,000,000**	**$ 1,139,665,000**	**$ 81,103,000**	**$ 160,607,000**	**$ -**	**$ -**	**$ 520,950,000**	**$ 1,701,209,000**
ONGOING PROJECTS 10/											
Terminal Projects											
Bradley West Terminal Project		$ 1,538,888,000	$ -	$ -	$ 79,829,000	$ -	$ 235,000,000	$ 1,224,059,000	$ -	$ -	$ -
Central Utility Plant		423,835,000	-	-	12,314,000	39,721,000	115,000,000	256,800,000	-	-	-
Elevators and Escalators Replacements		240,035,000	-	-	64,835,000	-	130,000,000	45,200,000	-	-	-
Fire Life Safety System Upgrades - Terminals 1 & 2		4,256,000	-	-	4,256,000	-	-	-	-	-	-
	[c1]	$ 2,207,014,000	$ -	$ -	$ 161,234,000	$ 39,721,000	$ 480,000,000	$ 1,526,059,000	$ -	$ -	$ -
Airfield and Apron Projects											
Taxilane S		140,532,000	-	48,468,000	-	-	-	92,064,000	-	-	-
Taxilane T		156,284,000	-	105,000,000	1,922,000	-	-	49,362,000	-	-	-
Bradley West Aprons		126,109,000	-	-	6,005,000	-	-	120,104,000	-	-	-
Construction Support Facilities		9,475,000	-	-	9,475,000	-	-	-	-	-	-
	[c2]	$ 432,400,000	$ -	$ 153,468,000	$ 17,402,000	$ -	$ -	$ 261,530,000	$ -	$ -	$ -
Total Ongoing Projects	[C]=[c1]+[c2]	**$ 2,639,414,000**	**$ -**	**$ 153,468,000**	**$ 178,636,000**	**$ 39,721,000**	**$ 480,000,000**	**$ 1,787,589,000**	**$ -**	**$ -**	**$ -**
TOTAL SERIES 2012 PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING PROJECTS	= [A+B+C]	**$ 6,951,087,000**	**$ 194,317,000**	**$ 195,468,000**	**$ 1,471,243,000**	**$ 147,505,000**	**$ 640,607,000**	**$ 1,787,589,000**	**$ 252,199,000**	**$ 520,950,000**	**$ 1,741,209,000**

NOTES:

1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
2/ Includes funds from the Terminal Renewal and Improvement Fund.
3/ Other Funds include grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/3rd party funding.
4/ Prior bond proceeds for Terminal 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 2017--see Table 4-3. Future bond proceeds used for Airfield and Apron Projects are assumed as future Subordinate Bonds and all other future bonds are asumed as future Senior Bonds.
6/ Other Incorporated Projects are future projects that are anticipated to be completed during the Projection Period. The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the report (with the impacts reflected in the Projection Period).
7/ Includes the renovation and modernization of terminal facilities, as well as improvements to baggage screening systems, concessions, bathrooms, and other facilities with various terminals.
8/ Includes a concessions enabling project, buyout of a First Class lounge, improvements to the Commuter Terminal, relocation of a passenger boarding bridge, and a project to provide aircraft ground power.
9/ Includes rehabilitation of Runways 24R and 25L, Taxilane D-10 reconstruction, Airport Operation Areas (AOA) perimeter fence enhancements, and other airfield and apron improvements.
10/ Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds. The financial impacts, if any, associated with Ongoing Projects are incorporated in the report (with the impacts reflected in the Projection Period).

SOURCE: City of Los Angeles, Department of Airports, October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

4.4.2 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 4-1, the Department expects to use $195.5 million of AIP discretionary grants for in connection with various apron and airfield projects included in the Other Incorporated Projects and the Ongoing Projects. For purposes of the Report, it has been assumed that the receipt of AIP grants reflected on Table 4-1 will not be impacted by any potential federal spending reductions that may be required pursuant to the Federal Budget Control Act of 2011 (which is summarized in Section 2.5.7 of the Report and discussed in more detail in the Official Statement for the Series 2012 Bonds).

4.4.3 DEPARTMENT FUNDS

As reflected on Table 4-1, the Department expects to use approximately $152.9 million of Department funds for the Series 2012 Projects; approximately $1.1 billion of Department funds for Other Incorporated Projects; and approximately $178.6 million of Department funds for Ongoing Projects. Department funds reflected on Table 4-1 include Terminal Renewal and Improvement Fund amounts estimated to be used for future terminal projects (generated pursuant the proposed Terminal Rate Agreements described in Section 4.7.2 of the Report).

The use of Department funds as reflected on Table 4-1 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 annual LAX Maintenance and Operation Expenses.

4.4.4 OTHER FUNDS

Other Funds include grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/third party (airline tenant) funding. Approximately $26.7 million in airline tenant funding is anticipated to be used to fund the Series 2012 Projects, and approximately $81.1 million and $39.7 million are expected to be used on the Other Incorporated Projects and the Ongoing Projects, respectively.

4.4.5 PASSENGER FACILITY CHARGES

The estimated capital project funding sources, projected airline payments, and other key financial results reflected in the 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 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 may 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 the 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 the 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 eight PFC application approvals, to impose and use approximately $2.5 billion of PFC revenues (at the $4.50 PFC level) for various projects at the Airport. Through June 30, 2012, the Department had collected approximately $1.7 billion of its total approved collection authority for the Airport and had spent approximately $986 million on approved projects.

As shown on Table 4-1, the Department expects to use approximately $640.6 million of PFC funds for Other Incorporated Projects and Ongoing Projects (including noise mitigation, soundproofing, the Central Utility Plant, elevators and escalators replacements, the Bradley West Core and Concourses, among other projects).

The Department expects to use certain available PFC revenues to pay a portion of the debt service associated with (1) 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); (2) the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and the Series 2010D Senior Bonds); and (3) certain future terminal projects. The use of PFC revenues to pay portions of debt service associated with the TBIT and Bradley West projects has already been approved by the Federal Aviation Administration (FAA), and LAWA expects to submit future PFC applications for future terminal projects. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year.

4.4.6 SERIES 2012 BOND PROCEEDS

Bond proceeds are assumed to be the remaining source of funding for the Series 2012 Projects. As reflected on Table 4-1, approximately $252.2 million of Series 2012 Bond proceeds are expected to be used to fund costs of the Series 2012 Projects.

Table 4-2 presents a listing of estimated sources and uses of funds for the proposed Series 2012 Bonds. The assumptions, estimated sources and uses of funds, and debt service for the proposed Series 2012 Bonds were provided by the Department and its financial advisors, using information regarding the estimated cost and timing of the Series 2012 Projects and the estimated receipt of TSA grants and other funds reflected on Table 4-1.

Debt service estimates for the proposed Series 2012 Bonds are based on the following assumptions:

- Approximately $237.3 million of Series 2012 Bonds will be issued to fund a portion of the costs of the Series 2012 Projects.
- An original issue premium of approximately $25.8 million.

Table 4-2 Estimated Sources and Uses of Funds -- Series 2012 Bonds

		SERIES 2012 BONDS
Sources:		
Par Amount of Bonds	$	237,320,000
Original Issue Premium / (Discount)		25,789,000
Total Sources	**$**	**263,109,000**
Uses:		
Project costs funded with Bond proceeds [1/]	$	252,199,000
Senior Debt Service Reserve Fund		9,222,000
Costs of issuance		1,688,000
Total Uses	**$**	**263,109,000**

NOTE:
1/ Includes refunding of Subordinate Commercial Paper Notes.

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

- The Series 2012 Bonds are structured with maturities 2013 through 2037 so that overall debt service is approximately level. The overall interest rate is assumed to be 4.00 percent.
- A portion of the proceeds of the Series 2012 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) Senior Maximum Annual Debt Service, or (c) 125 percent of Senior Average Annual Debt Service for all Senior Bonds.

4.4.7 FUTURE SERIES BOND PROCEEDS

As reflected on Table 4-1, approximately $521.0 million of future Subordinate Bond proceeds and $1.7 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 4-3 reflects future bond issues expected to be issued during the Projection Period (subsequent to the issuance of the Series 2012 Bonds)—including Series 2013 bonds, Series 2014 bonds, Series 2015 bonds, and series issued after Series 2015 bonds. Table 4-3 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.
- Future bonds (subsequent to the Series 2012 Bonds) were assumed to be issued with 25-year to 30-year terms and an overall interest rate of 6.00 percent. Future bonds are assumed to be issued with approximately level debt service.
- 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.
- Interest on the future bonds is capitalized through the estimated project completion date using a capitalized interest investment rate of 1.0 percent.

Table 4-4 presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2012 Bonds, and future additional Senior Bonds (as reflected on Table 4-3) for FY 2010 through FY 2018. 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 4-4 reflects PFC revenues expected to be used by the Department each year to pay a portion of Senior Bond debt service (see Section 4.2.4 for more information). The actual amount of PFC revenues that the Department will ultimately use to pay debt service may vary from year to year.

Table 4-3 Expected Future Bond Issues (After Issuance of Series 2012 Bonds) 1/

	FUTURE 2013 BONDS	FUTURE 2014 BONDS	FUTURE 2015 BONDS	FUTURE BONDS AFTER 2015	TOTAL FUTURE BONDS
Bond Principal					
Senior Bonds	$ 130,400,000	$ 597,565,000	$ 473,930,000	$ 707,650,000	$ 1,909,545,000
Subordinate Bonds	14,895,000	310,325,000	116,880,000	134,835,000	576,935,000
Total Expected Future Bond Principal	$ 145,295,000	$ 907,890,000	$ 590,810,000	$ 842,485,000	$ 2,486,480,000
Bond Proceeds Used to Pay Project Costs					
Senior Bond Proceeds	$ 113,943,000	$ 547,123,000	$ 422,651,000	$ 657,492,000	$ 1,741,209,000
Subordinate Bond Proceeds	14,000,000	277,750,000	106,750,000	122,450,000	520,950,000
Total Expected Bond Proceeds Used to Pay Project Costs	$ 127,943,000	$ 824,873,000	$ 529,401,000	$ 779,942,000	$ 2,262,159,000

	FUTURE 2013 BONDS	FUTURE 2014 BONDS	FUTURE 2015 BONDS	FUTURE BONDS AFTER 2015
Key Projects Funded with Expected Future Bonds				
Funded from Senior Bond Proceeds:				
Terminal Improvement Projects	•	•	•	•
Terminal 4/TBIT Connector Building		•		
Terminal 5 Improvement Project		•		
Midfield Satellite Concourse - Phase 1			•	•
Funded from Subordinate Bond Proceeds:				
Runway 25R, Taxiway B&C		•	•	
Runway Safety Area Improvements		•	•	
West Maintenance Facility Pad and Infrastructure		•		

NOTE:

1/ Debt service associated with expected future bond issues shown here is reflected on Table 4-4.

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

Table 4-4 (1 of 2) Debt Service

Net of Capitalized Interest
Fiscal Years Ending June 30

		ACTUAL	ACTUAL	ACTUAL	PROJECTED					
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Existing Senior Bond Debt Service										
Series 2002A [1/]		$ 1,624,633	$ 1,624,633	$ 1,624,633	$ 1,624,633	$ 1,624,633	$ 2,819,633	$ 8,100,638	$ 8,098,325	$ 8,096,325
Series 2003B [2/]		15,943,850	16,184,100	16,181,350	6,762,044	-	-	-	-	-
Series 2008A		-	40,421,025	40,420,275	40,423,075	40,364,325	39,903,400	39,701,900	40,434,263	40,500,688
Series 2008B		1,434,000	1,435,500	1,434,250	1,435,250	1,433,250	1,433,250	-	-	-
Series 2009A		5,707,280	17,807,766	18,482,875	20,972,875	21,028,275	21,487,275	21,693,275	20,959,525	20,896,025
Series 2010A		-	-	-	-	43,522,537	63,846,000	61,883,250	61,893,400	61,891,200
Series 2010D		-	1,622,156	7,609,250	9,359,523	32,515,011	52,202,525	51,589,025	51,725,225	51,877,125
Subtotal - Existing Senior Bond Debt Service	**[A]**	**$ 24,709,763**	**$ 79,095,180**	**$ 85,752,633**	**$ 80,577,399**	**$ 140,488,030**	**$ 181,692,083**	**$ 182,968,088**	**$ 183,110,738**	**$ 183,261,363**
Future Senior Bond Debt Service										
Proposed Series 2012 Senior Bonds		$ -	$ -	$ -	$ 6,138,050	$ 18,581,250	$ 18,992,750	$ 19,601,750	$ 19,461,500	$ 19,307,000
Future 2013 Bonds		-	-	-	-	1,434,370	2,966,765	9,821,527	10,442,149	10,442,149
Future 2014 Bonds		-	-	-	-	-	12,592,899	41,263,335	43,648,889	46,623,088
Future 2015 Bonds		-	-	-	-	-	-	11,682,648	18,075,440	34,369,608
Other Future Bonds		-	-	-	-	-	-	-	9,049,055	43,040,217
Subtotal - Future Senior Bond Debt Service	**[B]**	$ -	$ -	$ -	$ 6,138,050	$ 20,015,620	$ 34,552,414	$ 82,369,259	$ 100,677,034	$ 153,782,062
Total Senior Lien Debt Service	**[C]=[A]+[B]**	**$ 24,709,763**	**$ 79,095,180**	**$ 85,752,633**	**$ 86,715,449**	**$ 160,503,650**	**$ 216,244,496**	**$ 265,337,347**	**$ 283,787,771**	**$ 337,043,425**
Less: PFC Revenues used to pay Debt Service	**[D]**	$ -	$ (19,000,000)	$ (25,176,000)	$ (34,403,945)	$ (99,970,135)	$ (89,891,630)	$ (134,881,612)	$ (166,561,737)	$ (199,562,814)
SENIOR AGGREGATE ANNUAL DEBT SERVICE [3/]	**[E]=[C]+[D]**	**$ 24,709,763**	**$ 60,095,180**	**$ 60,576,633**	**$ 52,311,504**	**$ 60,533,515**	**$ 126,352,866**	**$ 130,455,735**	**$ 117,226,034**	**$ 137,480,610**
Allocation to Direct Cost Centers										
Terminal		$ 14,707,709	$ 47,357,281	$ 47,844,386	$ 42,978,339	$ 53,418,538	$ 117,821,372	$ 118,869,051	$ 105,636,137	$ 125,886,684
Apron		422,499	428,082	424,127	251,166	141,971	252,802	608,998	609,084	609,222
Airfield		2,404,531	2,429,905	2,438,983	1,382,579	680,201	1,112,401	2,213,470	2,214,149	2,215,054
Aviation		1,913,583	1,931,444	1,926,826	1,082,611	495,800	880,304	2,343,363	2,343,175	2,343,130
Commercial		4,542,397	7,221,258	7,215,356	6,202,128	5,606,862	6,095,842	6,420,853	6,423,489	6,426,520
Subtotal - Total LAX Debt Service		$ 23,990,719	$ 59,367,969	$ 59,849,679	$ 51,896,823	$ 60,343,372	$ 126,162,723	$ 130,455,735	$ 117,226,034	$ 137,480,610
Exclusions		-	-	-	-	-	-	-	-	-
Other Airports		719,044	727,211	726,954	414,682	190,143	190,143	-	-	-
Senior Aggregate Annual Debt Service	**=[E]**	$ 24,709,763	$ 60,095,180	$ 60,576,633	$ 52,311,504	$ 60,533,515	$ 126,352,866	$ 130,455,735	$ 117,226,034	$ 137,480,610

Table 4-4 (2 of 2) Debt Service

Net of Capitalized Interest
Fiscal Years Ending June 30

		ACTUAL	ACTUAL	ACTUAL	PROJECTED					
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Existing Subordinate Bond Debt Service										
Series 2002 C1 4/		$ 44,655	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Series 2002 C2 4/		29,211	-	-	-	-	-	-	-	-
Series 2003A 4/		36,758	-	-	-	-	-	-	-	-
Series 2008C		15,980,149	15,983,399	15,982,305	15,980,768	15,978,368	15,983,368	15,980,199	15,983,199	15,978,386
Series 2009C		3,786,553	13,843,401	17,155,075	19,606,380	19,606,380	19,606,380	27,911,380	27,766,597	27,617,064
Series 2009D		630,810	4,829,831	5,857,586	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	4,790,950	4,792,750
Series 2010B		-	-	-	715,250	1,430,500	6,071,063	6,734,000	6,734,000	6,734,000
Series 2010C		-	777,440	1,465,331	2,047,393	4,186,661	4,186,661	4,186,661	4,186,661	4,186,661
Commercial Paper 5/		613,223	418,809	256,832	9,574,717	16,424,430	2,126,575	-	-	-
Subtotal - Existing Subordinate Bond Debt Service	[F]	$ 23,878,433	$ 40,649,055	$ 45,508,354	$ 61,074,558	$ 70,775,589	$ 61,119,096	$ 59,603,740	$ 59,461,406	$ 59,308,861
Future Subordinate Bond Debt Service										
Future 2013 Bonds		$ -	$ -	$ -	$ -	$ 669,827	$ 1,081,808	$ 1,081,808	$ 1,081,808	$ 1,081,808
Future 2014 Bonds		-	-	-	-	-	786,532	19,252,068	21,143,054	22,709,647
Future 2015 Bonds		-	-	-	-	-	-	3,482,396	6,350,328	8,343,904
Other Future Bonds		-	-	-	-	-	-	-	-	8,348,498
Subtotal - Future Subordinate Bond Debt Service	[G]	$ -	$ -	$ -	$ -	$ 669,827	$ 1,868,341	$ 23,816,272	$ 28,575,190	$ 40,483,858
SUBORDINATE AGGREGATE ANNUAL DEBT SERVICE	[H]=[F]+[G]	**$ 23,878,433**	**$ 40,649,055**	**$ 45,508,354**	**$ 61,074,558**	**$ 71,445,415**	**$ 62,987,437**	**$ 83,420,012**	**$ 88,036,596**	**$ 99,792,719**
Allocation to Direct Cost Centers										
Terminal		$ 3,375,333	$ 5,214,984	$ 5,048,057	$ 10,917,911	$ 15,300,348	$ 6,152,818	$ 4,791,500	$ 4,790,950	$ 4,792,750
Apron		475	-	-	885,505	1,722,555	6,192,934	19,121,172	20,495,677	27,379,765
Airfield		20,410,453	35,434,071	40,460,297	47,065,286	50,638,597	50,151,758	59,507,340	62,749,969	67,620,204
Aviation		5,769	-	-	859,835	1,474,958	190,972	-	-	-
Commercial		10,403	-	-	1,028,461	1,764,218	228,424	-	-	-
Subtotal - Total LAX Debt Service		$ 23,802,432	$ 40,649,055	$ 45,508,354	$ 60,756,998	$ 70,900,675	$ 62,916,906	$ 83,420,012	$ 88,036,596	$ 99,792,719
Exclusions		44,655	-	-	-	-	-	-	-	-
Other Airports		31,346	-	-	317,559	544,740	70,531	-	-	-
Subordinate Aggregate Annual Debt Service	=[H]	$ 23,878,433	$ 40,649,055	$ 45,508,354	$ 61,074,558	$ 71,445,415	$ 62,987,437	$ 83,420,012	$ 88,036,596	$ 99,792,719
TOTAL DEBT SERVICE	=[E]+[H]	**$ 48,588,196**	**$ 100,744,235**	**$ 106,084,987**	**$ 113,386,062**	**$ 131,978,930**	**$ 189,340,303**	**$ 213,875,747**	**$ 205,262,630**	**$ 237,273,330**

NOTES:
1/ The Department recently defeased the Series 2002A Senior Bonds with commercial paper. For purposes of this report, the defeasance has not been reflected.
2/ The Department recently defeased the Series 2003B Senior Bonds with commercial paper. See Commercial Paper debt service in Existing Subordinate Bond Debt Service section of this table.
3/ 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.
4/ 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.
5/ Commercial paper outstanding as of November 1, 2012 is approximately $272.1 million. The Department's current commercial paper authorization is $500 million, however, as of the date of this Report, the Department has decided to limit its Commercial Paper issuances to the total credit support provided by various letter of credit banks ($350 million). Outstanding commercial paper is expected to be repaid with future bond proceeds. Commercial paper debt service reflected in this table includes debt service associated with the defeasance of the Series 2003B Senior Bonds.

SOURCES: City of Los Angeles, Department of Airports for existing Debt Service, and Public Resources Advisory Group for Future Debt Service, October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

As shown in Table 4-4, Senior Aggregate Annual Debt Service is estimated to increase from approximately $60.6 million in FY 2012 to approximately $137.5 million in FY 2018.

Table 4-4 also presents estimates of Subordinate Aggregate Annual Debt Service, future additional Subordinate Bonds, and Subordinate Commercial Paper Notes. Subordinate Aggregate Annual Debt Service is estimated to increase from $45.5 million in FY 2012 to approximately $99.8 million in FY 2018. At this time, the Department does not expect to use PFC revenues to pay for debt service on the outstanding Subordinate Bonds, or expected future Subordinate Bonds.

4.5 LAX Maintenance & Operation Expenses

LAX M&O Expenses are captured within the SAP accounting system used by the Department. SAP provides the LAX 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, LAX M&O Expenses are tracked within the SAP system in a number of classifications, including by cost center, cost element, and business area.

LAX M&O Expenses are budgeted for each of the Department's Direct Divisions and Administrative Divisions. For rate-setting purposes, LAX M&O Expenses by division are allocated to the various Airport cost centers described previously in Section 4.1.2. Within each division, LAX 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.

LAX M&O Expenses for the Airport, as defined in the Senior Indenture, increased from $466.7 million in FY 2007 to $578.1 million in FY 2012 (unaudited actual), representing a CAGR of 4.4 percent.

Table 4-5 presents actual LAX M&O Expenses at the Airport for actual FY 2010 through projected FY 2018. Projected LAX M&O Expenses are based on budgeted FY 2013 LAX M&O Expenses, equal to approximately $605.7 million.

As shown on Table 4-5, operating expenses allocable to other airports operated by the Department are excluded from LAX M&O Expenses.

Table 4-5 LAX Maintenance and Operation Expenses [1/]

Fiscal Years Ending June 30

	ACTUAL	ACTUAL	UNAUDITED ACTUAL	BUDGET	PROJECTED				
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
BY TYPE OF EXPENSE									
Salaries and Benefits	$ 314,871,770	$ 323,522,117	$ 337,411,173	$ 338,074,465	$ 373,563,188	$ 392,241,097	$ 415,652,452	$ 436,435,625	$ 466,398,206
Contractual Services	141,324,000	143,683,968	162,070,857	176,737,392	195,290,262	205,054,975	217,293,623	228,158,405	243,821,675
Administrative Services	2,377,225	3,196,984	5,894,968	3,869,400	4,275,870	4,489,014	4,757,314	4,995,280	5,338,444
Materials and Supplies	32,649,733	32,697,860	35,986,303	44,066,200	48,691,510	51,126,986	54,178,135	56,886,742	60,792,879
Utilities	28,829,283	29,605,830	30,663,788	34,294,699	37,894,434	39,789,905	42,164,401	44,272,421	47,311,692
Advertising and Public Relations	6,933,710	6,219,419	3,186,401	4,000,484	4,420,508	4,641,534	4,918,060	5,164,613	5,518,744
Other Operating Expenses	12,224,082	10,604,664	12,941,784	15,528,253	17,158,665	18,015,899	19,091,894	20,045,688	21,422,423
LAX M&O EXPENSES BEFORE ADJUSTMENTS	$ 539,209,804	$ 549,530,841	$ 588,155,274	$ 616,570,892	$ 681,294,437	$ 715,359,409	$ 758,055,879	$ 795,958,773	$ 850,604,062
ADJUSTMENTS [2/]	(11,406,879)	(9,996,729)	(10,056,275)	(10,831,912)	(11,373,508)	(11,942,183)	(12,539,292)	(13,166,257)	(13,824,570)
LAX M&O EXPENSES	**$ 527,802,925**	**$ 539,534,112**	**$ 578,099,000**	**$ 605,738,980**	**$ 669,920,929**	**$ 703,417,226**	**$ 745,516,587**	**$ 782,792,516**	**$ 836,779,492**
Annual % change	1.6%	2.2%	7.1%	4.8%	10.6%	5.0%	6.0%	5.0%	6.9%
Compound annual growth rate FY 2012 to FY 2018									6.4%
Equipment and Vehicles	476,680	2,180,060	1,206,484	6,336,058	7,000,861	7,351,504	7,789,779	8,179,518	8,740,594
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	$ 528,279,605	$ 541,714,172	$ 579,305,484	$ 612,075,038	$ 676,921,790	$ 710,768,730	$ 753,306,366	$ 790,972,034	$ 845,520,086
SUMMARY BY COST CENTER									
Terminal	$ 252,879,434	$ 262,086,670	$ 270,191,439	$ 300,939,382	$ 349,724,710	$ 367,210,796	$ 392,571,586	$ 412,200,515	$ 447,810,991
Apron	26,329,540	28,199,496	25,392,818	26,753,030	31,912,088	33,507,693	35,183,078	36,942,231	38,789,343
Airfield	107,524,423	115,686,094	125,911,263	135,179,984	141,794,550	148,884,278	156,328,492	164,144,916	172,352,162
Aviation	46,500,475	44,865,436	44,305,499	49,539,126	51,933,011	54,529,662	57,256,145	60,118,952	63,124,899
Commercial	79,071,380	74,113,961	74,996,573	80,356,971	84,240,070	88,452,074	92,873,678	97,519,412	102,394,332
Exclusions / Other	15,974,354	16,762,515	38,507,892	19,306,544	17,316,360	18,183,228	19,092,389	20,047,008	21,049,359
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	$ 528,279,605	$ 541,714,172	$ 579,305,484	$ 612,075,038	$ 676,920,790	$ 710,767,730	$ 753,305,366	$ 790,973,034	$ 845,521,086

NOTES:

1/ Pursuant to the Senior Indenture.

2/ Includes administrative costs allocated to other airports that are not defined as LAX M&O expenses.

SOURCES: City of Los Angeles, Department of Airports, October 2012; Ricondo & Associates, Inc., October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

Projections of future LAX M&O Expenses are based on an assumed 5.0 percent annual base growth rate for all categories of LAX 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 and the Ongoing Projects, specifically the Bradley West terminal projects, the T4/TBIT Connector Building, and the Midfield Satellite Concourse – Phase 1, will result in additional increases in Terminal LAX M&O Expenses in FY 2014, FY 2016, and FY 2018 (as reflected on Table 4-5). Estimated LAX M&O Expenses associated with these terminal projects were developed based on preliminary estimates of increased total terminal square footage and current LAX M&O Expenses associated with terminal facilities. Expenses associated with increased space were discounted to account for higher efficiency in newer facilities (e.g., lower utility costs).

As shown on Table 4-5, total LAX M&O Expenses are projected to increase from $578.1 million in FY 2012 to $836.8 million in FY 2018, representing a CAGR of 6.4 percent.

Details of the O&M Expense projections by expense category are described below.

4.5.1 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 4-5, salaries and benefits represented the single largest expense category in FY 2012, accounting for approximately 57.4 percent of LAX M&O Expenses (before adjustments). 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 various separate labor agreements between management and unions. As shown in Table 4-5, total salaries and benefit expenses are projected to increase from $337.4 million in FY 2012 to $466.4 million in FY 2018, representing a CAGR of 5.5 percent. This increase is a result of the base M&O Expense growth rate along with increases related to future facilities.

4.5.2 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 2012, accounting for 27.6 percent of LAX M&O Expenses (before adjustments). As shown in Table 4-5, contractual expenses are projected to increase from $162.1 million in FY 2012 to $243.8 million in FY 2018, representing a CAGR of 7.0 percent. This increase is a result of the base M&O Expense growth rate along with increases related to future facilities.

4.5.3 ADMINISTRATIVE SERVICES

Administrative Services expenses include expenses associated with training, travel, tuition reimbursement, memberships, and other miscellaneous administrative expenses. As shown in Table 4-5, administrative services expenses are budgeted to decrease from $5.9 million in FY 2012 to $3.9 million in FY 2013, with an increase to $5.3 million projected by FY 2018.

4.5.4 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 6.1 percent of LAX M&O Expenses (before adjustments) in FY 2012. As shown in Table 4-5, expenses for materials and supplies are projected to increase from $36.0 million in FY 2012 to $60.8 million in FY 2018.

4.5.5 UTILITIES

Utility expenses include electrical, water, gas, and telephone expenses, and account for 5.2 percent of LAX M&O Expenses (before adjustments) in FY 2012. As shown in Table 4-5, utility expenses are projected to increase from $30.7 million in FY 2012 to $47.3 million in FY 2018.

4.5.6 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 $3.2 million in FY 2012 to $5.5 million in FY 2018.

4.5.7 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 2.2 percent of total M&O Expenses in FY 2012. As shown in Table 4-5, other operating expenses are projected to increase from $12.9 million in FY 2012 to $21.4 million in FY 2018.

4.6 Airport Revenues Other than Airline Terminal, Landing, and Apron Fees

Table 4-6 presents Airport revenues other than airline terminal, landing, and apron fees (hereinafter referred to as “nonairline revenues”) for actual FY 2010, actual FY 2011, actual FY 2012 (preliminary), and projected FY 2013 through FY 2018.

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.

Table 4-6 Summary of Airport Revenues Other Than Airline Terminal Rentals, Landing Fees, and Apron Fees

Fiscal Years Ending June 30

	ACTUAL	ACTUAL	UNAUDITED ACTUAL	PROJECTED					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Aviation Revenues [1/]									
Building Rent - Other than Passenger Terminals [2/]	$ 31,537,244	$ 49,629,463	$ 51,232,295	$ 52,769,264	$ 54,624,649	$ 57,317,142	$ 60,863,485	$ 62,080,755	$ 64,122,370
Land Rentals [3/]	52,554,714	87,224,752	80,628,781	81,862,000	86,235,434	90,703,475	93,171,640	95,760,066	98,425,410
Plane Parking	729,146	630,920	870,608	846,000	883,212	926,718	971,433	1,016,254	1,062,364
Fuel Fees	104,511	146,903	163,959	159,000	165,994	174,170	182,574	190,998	199,664
Other Aviation Revenue [4/]	4,342,583	5,022,803	4,737,380	7,100,000	7,412,299	7,777,422	8,152,689	8,528,849	8,915,825
TOTAL AVIATION REVENUES	$ 89,268,198	$ 142,654,841	$ 137,633,023	$ 142,736,264	$ 149,321,588	$ 156,898,928	$ 163,341,822	$ 167,576,923	$ 172,725,634
Annual % change		59.8%	-3.5%	3.7%	4.6%	5.1%	4.1%	2.6%	3.1%
Concession Revenues									
Auto Parking	$ 64,661,504	$ 66,575,360	$ 69,945,316	$ 69,168,000	$ 72,097,679	$ 75,046,248	$ 78,124,828	$ 81,076,779	$ 84,082,692
Car Rental	56,752,079	58,647,288	64,361,109	67,979,000	71,553,000	75,209,000	79,062,000	82,854,000	86,768,000
Bus, Limo & Taxi	14,157,741	15,450,684	18,270,030	17,657,000	18,585,320	19,535,062	20,535,814	21,520,700	22,537,387
Duty Free	26,338,058	36,742,790	45,434,269	48,160,000	67,807,000	73,231,000	78,292,000	82,473,000	87,311,000
Food & Beverage	31,108,837	36,578,800	32,955,613	34,151,000	47,114,337	50,483,553	52,812,132	55,076,306	60,198,160
Gifts & News	16,713,332	17,998,377	17,282,137	20,786,000	28,427,807	30,460,721	31,088,524	31,630,594	34,572,100
Terminal Advertising	13,675,560	17,419,166	17,432,841	20,132,000	27,178,200	27,993,546	28,833,352	29,698,353	30,589,304
Foreign Exchange	6,381,000	6,533,000	6,571,667	6,343,000	8,563,050	8,819,942	9,084,540	9,357,076	9,637,788
Telecommunications	1,629,758	1,713,800	975,441	1,315,000	1,315,000	1,315,000	1,315,000	1,315,000	1,315,000
Other Concession Revenue [5/]	5,493,442	5,535,460	5,538,342	5,633,000	7,041,250	7,252,488	7,470,062	7,694,164	7,924,989
TOTAL CONCESSION REVENUES	$ 236,911,311	$ 263,194,725	$ 278,766,765	$ 291,324,000	$ 349,682,642	$ 369,346,559	$ 386,618,251	$ 402,695,971	$ 424,936,420
Annual % change		11.1%	5.9%	4.5%	20.0%	5.6%	4.7%	4.2%	5.5%
Airport Sales and Services									
Airfield Bus	$ 1,223,821	$ 1,289,965	$ 1,534,409	$ 1,906,000	$ 1,981,861	$ 2,057,857	$ 2,137,024	$ 2,212,336	$ 2,288,735
Accommodations	243,011	260,454	80,854	170,000	176,766	183,544	190,606	197,323	204,137
Other Sales & Services	353,284	365,878	575,136	375,000	381,563	388,240	395,034	401,947	408,981
TOTAL AIRPORT SALES & SERVICES	$ 1,820,117	$ 1,916,297	$ 2,190,399	$ 2,451,000	$ 2,540,190	$ 2,629,641	$ 2,722,664	$ 2,811,606	$ 2,901,853
Annual % change		5.3%	14.3%	11.9%	3.6%	3.5%	3.5%	3.3%	3.2%
Miscellaneous Revenues									
Miscellaneous Revenues	$ 1,135,675	$ 1,496,511	$ 1,224,424	$ 1,374,000	$ 1,442,700	$ 1,514,835	$ 1,590,577	$ 1,670,106	$ 1,753,611
Build America Bond federal subsidy (Series 2009C) [6/]	3,088,005	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,711,809	6,556,222
Build America Bond federal subsidy (Series 2010C) [6/]	-	777,440	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331
TOTAL MISCELLANEOUS	$ 4,223,680	$ 9,136,184	$ 9,551,988	$ 9,701,564	$ 9,770,264	$ 9,842,399	$ 9,918,141	$ 9,847,246	$ 9,775,165
Annual % change		116.3%	4.6%	1.6%	0.7%	0.7%	0.8%	-0.7%	-0.7%
TOTAL NONAIRLINE REVENUES	**$ 332,223,306**	**$ 416,902,047**	**$ 428,142,176**	**$ 446,212,829**	**$ 511,314,684**	**$ 538,717,527**	**$ 562,600,878**	**$ 582,931,745**	**$ 610,339,072**
Annual % change		25.5%	2.7%	4.2%	14.6%	5.4%	4.4%	3.6%	4.7%
Compound annual growth rate FY 2012 to FY 2018									6.1%

NOTES:

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

2/ Revenues for building rent other than passenger terminals increased substantially in FY 2011 as a result of increased rates.

3/ Includes revenues associated with the Park One Property. Land rentals increased substantially in FY 2011 as a result of increased land rental rates.

4/ Includes TSA revenue and other aviation fees.

5/ Includes luggage carts and ATM revenue.

6/ For purposes of this report, no reduction for Build America Bond credits has been assumed in connection with potential federal sequestration.

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

In FY 2012, nonairline revenues accounted for approximately $428.1 million, or 50.1 percent, of total Pledged Revenues.

In general, projections of nonairline revenues were based on a review of historical trends, budgeted FY 2013 revenues, the anticipated impacts of inflation, impacts related to the Series 2012 Projects and Other Incorporated Projects, new concession agreements, 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 2002 and FY 2012, nonairline revenues grew from $217.6 million to $428.1 million, representing a CAGR of 7.0 percent. As shown on Table 4-6, nonairline revenues are projected to increase from $428.1 million in FY 2012 to $610.3 million in FY 2018, a CAGR of 6.1 percent.

4.6.1 AVIATION REVENUES

Aviation Revenues at the Airport (excluding airline terminal rentals, landing fees, and apron fees) consist primarily of building rentals other than passenger terminal rentals (referred to as Building Rentals), land rentals, plane parking fees, fuel fees, and other aviation revenues. Aviation Revenues increased from $68.4 million in FY 2002 to $137.6 million in FY 2012, representing a CAGR of 7.2 percent. Aviation Revenues are projected to increase to $172.7 million in FY 2018, representing a CAGR of 3.9 percent for FY 2012 to FY 2018--primarily from expected growth in building and land rentals discussed below.

Specific details regarding key Aviation Revenues are discussed below.

- Building Rentals are generated from the air freight terminal, hangar rentals, and maintenance facilities, as well as other miscellaneous shops and storage facilities, pursuant to agreements between tenants and the Department. Between FY 2002 and FY 2010, Building Rentals remained relatively flat, as many facilities remained under 30-year leases. In FY 2011, Building Rentals increased substantially as a result of new leases, increased rates, and additional facilities being leased. Building Rentals increased from $28.5 million in FY 2002 to $51.2 million in FY 2012, representing a CAGR of 6.0 percent. Starting in FY 2013 and continuing over the next several years, the Department expects that agreements associated with a series of cargo facilities will be renewed at current rates, resulting in increases in Building Rentals. Building Rental revenues are projected to increase from approximately $51.2 million in FY 2012 to approximately $64.1 million in FY 2018, representing a CAGR of 3.8 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. Between FY 2002 and FY 2012, land rental revenues grew at a CAGR of 7.9 percent. Land rental revenues increased from $52.6 million in FY 2010 to approximately $87.2 million in FY 2011, an approximate 67.3 percent increase, primarily as a result of increased rates and FY 2011 being the first full Fiscal Year of the Department receiving

revenues associated with the Park One property. Land rental revenues decreased by approximately $6.6 million in FY 2012 as a result of land associated with certain demolished hangars no longer being rented. Approximately $8.5 million of FY 2013 land rental revenues is associated with a Park 'N Fly sublease for the Park One property (which expires December 31, 2012 with three 5-year renewal options which could extend the lease through December 31, 2027). For purposes of the Report it was assumed that the Park 'N Fly sublease is extended through the Projection Period. Land rental revenues are projected to increase from approximately $80.6 million in FY 2012 to approximately $98.4 million in FY 2018, representing a CAGR of 3.4 percent.

- 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 represent less than 1.0 percent of total Aviation Revenues, and vary from year to year based on a variety of factors, including fuel prices. Plane parking and fuel fee revenues are projected to increase from approximately $1.0 million in FY 2012 to approximately $1.3 million by FY 2018.
- 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.

4.6.2 CONCESSION REVENUES

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, budgeted FY 2013 revenues, future Airport passenger activity, assumed inflation, assumed impacts of the Bradley West Core and Concourse projects (referred to herein as the Bradley West Project), and current and assumed future lease terms and provisions.

Between FY 2002 and FY 2012, concession revenues increased from $148.0 million in FY 2002 to $278.8 million in FY 2012, representing a CAGR of 6.5 percent. Enplaned passengers between FY 2002 and FY 2012 grew at a CAGR of 1.1 percent.

As shown on Table 4-6, Concession revenues are projected to increase from $278.8 million in FY 2012 to approximately $424.9 million in FY 2018, representing a CAGR of 7.3 percent. 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 May 2014. Parking rates at the Airport were last changed in November 2009 and are currently $30.00 maximum per day for Central Terminal Area garages (at $3.00 for the first hour and $2.00 for each additional 30 minutes) and $12.00 per day in Lot C. 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 the Report, it was assumed that (1) the current effect of off-Airport competition on the demand for

Airport parking facilities would not change materially during the Projection Period and (2) parking facilities at the airport would be operated under similar contract terms following the completion of the current parking management contract in May 2014 through the Projection Period.

Auto parking revenues, the largest source of concession revenues at the Airport, were approximately $69.9 million in FY 2012, accounting for 25.1 percent of total concession revenues. Parking revenues increased at a CAGR of 4.6 percent between FY 2002 and FY 2012.

Parking transactions in the Central Terminal Area remained relatively flat from FY 2010 to FY 2012 at approximately 5.9 million (or, approximately 0.30 transactions per O&D passenger). Total parking revenues per transaction grew from approximately $10.16 in FY 2010 to approximately $11.41 in FY 2012 (a 12.3 percent increase). For purposes of projecting public parking revenues, it was assumed that (1) the number of parking transactions per O&D passenger would remain constant through FY 2018 and (2) the amount of parking revenues per transaction would increase 1.0 percent per year. Currently, the Department has no specific plans to increase parking rates in the near future. As shown on Table 4-6, parking revenues are projected to increase from approximately $69.9 million in FY 2012 to approximately $84.1 million in FY 2018, representing a CAGR of 3.1 percent.

- The Department has entered into agreements with 10 rental car companies that expire in January 2015. These agreements provide for a concession fee equal to the greater of (1) 10.0 percent of gross rental car receipts or (2) a MAG. The MAG shall be equal to the greater of amounts specified in the agreements or 90.0 percent of the concession fees paid to LAWA during the previous year, but never less than the current MAG set under the agreement, as amended. Historically, rental car companies have paid the Department 10.0 percent of gross revenues as these amounts have been higher than the MAG. In FY 2013, MAGs with these agencies total approximately $57.2 million, and the Department's FY 2013 budget estimates approximately $68.0 million in FY 2013 concession fees will be received from rental car companies.

  Car rental revenues to the Department (referred to as car rental revenues hereafter) increased from approximately $34.4 million in FY 2002 to approximately $64.4 million in FY 2012, representing a CAGR of 6.5 percent. Car rental revenues on a per O&D enplaned passenger basis increased at a CAGR of 5.3 percent between FY 2002 and FY 2012.

  Projections of car rental revenues were based on the assumption that the business terms of the future rental car agreements (subsequent to January 2015) will be similar to terms in the current agreements, and, more specifically, that car rental revenues per O&D enplaned passenger will increase 3.0 percent annually for FY 2014 to FY 2018. Car rental revenues are projected to increase from approximately $64.4 million in FY 2012 to approximately $86.8 million in FY 2018, representing a CAGR of 5.1 percent.

  The Department currently collects a rental car customer facility charge (CFC) but CFC collections are not included in the definition of Pledged Revenues and are not incorporated in the Report.

- 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 increased in November 2010. As shown on Table 4-6, bus, limo, and taxi revenues increased from approximately $14.2 million in FY 2010 to approximately $15.5 million in FY 2011 and $18.3 million in FY 2012 (representing a 9.1 percent increase in FY 2011 and an 18.2 percent increase in FY 2012). Projections of bus, limo, and taxi revenues assume a 3.0 percent annual increase from the FY 2013 budget amount. As shown on Table 4-6, bus, limo, and taxi revenues are projected to increase from approximately $17.7 million in FY 2013 to approximately $22.5 million in FY 2018.

- 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. (DFS), which has been the duty free concessionaire at the Airport since 1982. In August 2012, after the completion of a competitive process, the Airport Commission awarded DFS a new duty free contract through ten years after the date the Bradley West primary core area of TBIT opens for passenger travel as determined by the Department's Executive Director. The Department has the right to extend the DFS contract for three 1-year options. The agreement with DFS Group L.P. provides that DFS pay the Department the greater of (1) a minimum annual guarantee (MAG) or (2) a concession fee based on the application of certain percentages to gross sales of various categories of products plus 10.0 percent of any gross sales over $175.0 million. The MAG is equal to the greater of (1) $30.0 million to be increased based on the consumer price index, (2) a percentage of the prior year payment (unless international enplaned passengers at the airport have decreased below certain thresholds), or (3) commencing in the third year of the DFS agreement, $6.25 per international enplaned passenger, subject to annual consumer price index increases.

  Between FY 2002 and FY 2012, duty free revenues increased at a CAGR of 6.6 percent. Duty free revenues on a per international enplaned passenger basis, grew at a CAGR of 5.4 percent for the same period. Duty free revenues were approximately $45.4 million in FY 2012 and are projected to increase to $48.2 million in FY 2013 and $67.8 million in FY 2014 as a result of both the terms of the new duty free agreement and the opening of Bradley West. Duty free revenue projections were based on an average of future gross sales estimates provided to the Department by various duty free bidders assuming approximately 30.0 percent of gross sales is received by the Department. On a per international enplaned passenger basis, duty free revenues to the Department are assumed to increase from approximately $5.50 in FY 2013 to approximately $7.50 in FY 2014. Duty free revenues are projected to increase from approximately $45.4 million in FY 2012 to approximately $87.3 million in FY 2018, representing a CAGR of 11.5 percent.

- The Department has entered into two terminal commercial manager concession agreements with Westfield Concession Management, LLC (Westfield), for concession development at TBIT, Terminals 1, 2, 3 and 6 and the LAX Theme Building (the Westfield Concession Agreements). Pursuant to the Westfield Concession Agreements, Westfield serves as a developer and manager of retail, specialty retail, food and beverage and other passenger services in the applicable terminals and space, including selecting concessionaires, subject to Department approval. Under the Westfield Concession Agreements, Westfield is required to develop concession and related spaces, market and promote the concessionaires, negotiate and administer contracts with each concessionaire, and monitor and manage concessionaire performance. The term of each Westfield Concession Agreement is 17 years, comprised of a two year development period and a 15 year operational period and both Westfield Concession Agreements are scheduled to expire on June 30, 2029. Under the Westfield Concession Agreements, Westfield and its concessionaires are required to make certain capital investments to related premises. The Department is to receive from Westfield the greater of an aggregate MAG of approximately $34.7 million or percentage rent comprised of base percentage rent (a percentage of Westfield's revenues less certain allowances for improvements and management fees) and contingent percentage rent (a certain percentage of Westfield's revenues in excess of certain benchmarks). Beginning in January 2014, each MAG is subject to increase based on the consumer price index and a percentage of the prior year's percentage rent and to decrease based on certain reductions in passenger enplanements. See assumptions below regarding projections of food and beverage revenues and gifts and news revenues.

The Department has also entered into concession agreements with a number of food and beverage concessionaires for concessions at Terminals 4, 5, 7, 8 and the commuter facilities at LAX (the Food and Beverage Concession Agreements). The Food and Beverage Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a MAG or a percentage of gross receipts. The aggregate MAG under the Food and Beverage Concession Agreements is approximately $12.9 million. Under the Food and Beverage Concession Agreements, each concessionaire is required to make certain capital investments to related premises. The Food and Beverage Concession Agreements are scheduled to terminate in June 2021 and 2023. See assumptions below regarding projections of food and beverage revenues.

The Department has also entered into concession agreements with a number of retail concessionaires for concessions at Terminals 4, 5, 7 and 8 at LAX (the Retail Concession Agreements). The Retail Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a MAG or a percentage of gross receipts. The aggregate MAG under the Retail Concession Agreements is approximately $7.5 million. Under the Retail Concession Agreements, each concessionaire is required to make certain capital investments to related premises. See assumptions below regarding projections of gifts and news revenues.

Food and beverage revenues received by the Department increased from approximately $17.3 million in FY 2002 to approximately $33.0 million in FY 2012, representing a CAGR of 6.7 percent. Food and beverage revenues on a per enplaned passenger basis increased at a CAGR of 5.5 percent between FY 2002 and FY 2012. Projections of food and beverage revenues were based on the assumption that food and beverage revenues per enplaned passenger will increase 2.5 percent annually with an additional increase in FY 2014 for the new contracts described above and for new and improved terminal facilities at the Airport (such as Bradley West and the planned modernization of other terminals included in the Series 2012 Projects and the Other Incorporated Projects)--food and beverage revenues per enplaned passenger are assumed to increase from approximately $1.10 in FY 2013 to approximately $1.40 in FY 2014. Food and beverage revenues are projected to increase from approximately $33.0 million in FY 2012 to approximately $60.2 million in FY 2018.

Gifts and News revenues received by the Department increased from approximately $15.1 million in FY 2002 to approximately $17.3 million in FY 2012, representing a CAGR of 1.4 percent. Gifts and News revenues on a per enplaned passenger basis have remained flat between FY 2002 and FY 2012 (at a CAGR of 0.21 percent). Projections of Gifts and News revenues were based on the assumption that gifts and news revenues per enplaned passenger will remain constant with an additional increase in FY 2014 for the new contracts described above and for new and improved terminal facilities at the Airport (such as Bradley West and the planned modernization of other terminals included in the Series

2012 Projects and the Other Incorporated Projects)—gifts and news revenues per enplaned passenger are assumed to increase from approximately $0.65 in FY 2013 to approximately $0.85 in FY 2014. Gifts and news revenues are projected to increase from approximately $17.3 million in FY 2012 to approximately $34.6 million in FY 2018.

- The Department began collecting advertising revenues in April 2007, under an agreement between the Department and JCDecaux Airport, Inc. The agreement's expiration date of April 2013 was recently extended through April 7, 2014 with three 1-year extension options. JCDecaux pays the Department the greater of a MAG or 70 percent of gross sales.

  The Department has also commenced a competitive process to identify and select a Terminal Media Operator for LAX. The scope of the Terminal Media Operator concession has not been determined by the Department but may include, among other things, traditional airport advertising, sponsorship, electronic media management and maintenance in the Terminals, digital activation sales and promotions, enhanced Wi-Fi services and digital passenger information and navigation services.

  Advertising revenues received by the Department are expected to increase starting in FY 2014 following the expected implementation of the Terminal Media Operator in TBIT/Bradley West and in other terminals in FY 2015 to FY 2018. Advertising revenues to the Department were approximately $17.4 million in FY 2012 and are budgeted to increase to $20.1 million in FY 2013. Advertising revenues are projected to increase to approximately $27.2 million in FY 2014 and then increase gradually to $30.6 million by FY 2018.

- Other concession revenues shown on Table 4-6 include revenues from luggage carts, ATMs, and telecommunications. These other concession revenues were approximately $5.5 million in FY 2012 and are projected to increase to approximately $7.9 million in FY 2018.

4.6.3 AIRPORT SALES AND SERVICES REVENUES

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. Airport sales and services revenues have varied year to year and increased approximately 14.3 percent in FY 2012. In FY 2012, Airport sales and services revenues represented less than 1.0 percent of total FY 2012 Nonairline Revenues. Airport sales and services revenues are projected to increase from approximately $2.2 million in FY 2012 to approximately $2.9 million in FY 2018.

4.6.4 MISCELLANEOUS REVENUES

Miscellaneous revenues at the Airport include Build America Bond tax credits, revenue from refunds and reimbursements, litigation settlements, sale of property and equipment, tickets and impound fees, and other miscellaneous revenues. In FY 2012, miscellaneous revenues were approximately $9.6 million, representing approximately 2.2 percent of total FY 2012 Nonairline Revenues. Miscellaneous revenues are projected to remain relatively flat between FY 2012 and FY 2018, increasing from $9.6 million in FY 2012 to $9.8 million in FY 2018. For purposes of the Report, it was assumed that Build America Bond tax credits would not be decreased during the Projection Period pursuant to potential cuts to federal programs as part of the Federal Budget Control Act of 2011 (see Section 2.5.7 of the Report for more information).

4.7 Airline Revenues

Projections of airline terminal rentals, landing fees, and apron fees incorporated in the Report are calculated pursuant to the methodologies contained in the LAX Passenger Terminal Tariff (the Airport Terminal Tariff), terminal Rate Agreements (the Rate Agreements), prior terminal leases, and the Air Carrier Operating Permit. The following sections present greater detail with regard to each specific document and relevant rate calculations.

4.7.1 LAX PASSENGER TERMINAL TARIFF

Airlines and businesses involved in aeronautical activities other than governmental activities or concessions (each, an Aeronautical User) use terminal space at the Airport under the terms of the LAX Passenger Terminal Tariff (the Airport Terminal Tariff) unless the Aeronautical User is party to a lease. The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. After consultation with airline representatives regarding the Department's rates and charges, on September 17, 2012, the Board approved certain changes to the Airport Terminal Tariff, as described below, which will become effective on January 1, 2013, in all terminals at the Airport, provided however, that the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space used by Aeronautical Users. All references herein to the Airport Terminal Tariff are to the Airport Terminal Tariff as it will become effective January 1, 2013. Under the Airport Terminal Tariff, Aeronautical Users are required to pay to the Department:

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

4.7.2 TERMINAL RATE AGREEMENT

In connection with the negotiation of the terms of the Airport Terminal Tariff, to resolve certain pending and potential future litigation regarding the Department's rate setting methodology, and to provide phase-in of the new terminal rates and charges for airlines, the Department has offered the airlines a Rate Agreement. The Department expects that most airlines will execute Rate Agreements. Airlines that do not enter into a

Rate Agreement will not participate in the discounts, fixed charges and credits for concession revenues described below. See Section 4.7.4 below regarding assumptions incorporated in the projection of terminal rentals during the Projection Period.

Pursuant to the Rate Agreements, the applicable airlines (a "Signatory Airline") consent and waive rights to challenge the application of the Airport Terminal Tariff terminal rate methodology approved by the Board in September 2012. Under the Rate Agreement, the rates and charges under the Airport Terminal Tariff are phased in over five years, with the initial Terminal Buildings Rate set at $75.00 per rentable square foot for calendar year 2013. In calendar years 2014 through 2017 the calculated Terminal Buildings Rate will be discounted by 20 percent, 15 percent, 10 percent and 5 percent, respectively (for example, in CY 2014, if the calculated rate is hypothetically $100.00, then the Terminal Buildings Rate charged under the Rate Agreement would be $80.00). After calendar year 2017, the Terminal Building Rate will be charged pursuant to the Airport Terminal Tariff without discount.

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

Beginning in calendar year 2014, the Department will provide Signatory Airlines a credit for a portion of the concession revenues generated in the terminals at the Airport. Pursuant to formulas stated in the Rate Agreement, a portion of terminal concession revenues (referred to as Tier One Terminal Buildings Revenue Sharing) will be applied by the Signatory Airlines to reduce amounts owed in connection with the Terminal Buildings Rate (and all rates derived from it) and a portion (referred to as Tier One FIS Concession Revenue) will be applied to reduce amounts owed in connection with the FIS rate.

Under the Rate Agreement, the Department is required to establish a Terminal Renewal and Improvement Fund (the "TRIF"). The TRIF is required to be funded from annual net revenues in the Terminal cost center from the application of the Airport Terminal Tariff. Amounts deposited in the TRIF are required to be used by the Department to fund, together with debt and grant funding, terminal related capital improvements. Deposits into the TRIF may not exceed $125.0 million annually or a maximum unused fund balance amount of $500.0 million. These limits are subject to annual Consumer Price Index increases. The Department is permitted to collect and amortize charges associated with capital projects funded from TRIF deposits, however, such collection and amortization is required to be deferred for five years after the projects are placed in service.

Under the Rate Agreement, beginning in calendar year 2014, 50 percent of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above are required to be deposited in a Revenue Sharing Fund. The remaining excess funds may be used by the Department for any lawful purpose. Amounts deposited in the Revenue Sharing Fund are required to be distributed to the Signatory Airlines as a credit against amounts due to the Department.

4.7.3 TERMINAL LEASES

Prior to establishing its rate methodology, the Department has entered into a number of terminal leases with airlines with varying rent and cost recovery terms, including the tariff terminal leases and non-tariff terminal leases described below.

Tariff Terminal Leases

A number of airlines, including United Airlines, Hawaiian Airlines, Air Canada, Alaska Airlines and Delta, have entered into terminal leases for the use of certain terminal space at the Airport with cost recovery terms substantially similar to the Airport Terminal Tariff.

Non-Tariff Terminal Leases

The Department has entered into leases for the use of certain terminal space at the Airport with Continental Airlines (now merged with United Airlines) and Delta with cost recovery of operation and maintenance charges similar to the rates and charges under the Airport Terminal Tariff, but with other cost recovery terms on a base rate with negotiated increases. These leases expire in December 2017.

The Department has entered into a lease for the use of terminal space in Terminal 4 with American Airlines that expires in December 2024. Under this lease, rental rates are not charged pursuant to the Airport Terminal Tariff, rather rental rates on terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. American is required to pay operation and maintenance charges. In December 2006, the Department approved increased operation and maintenance charges that included all direct and indirect terminal maintenance and operations costs retroactive to January 1, 2006. American has disputed the right of the Department to make these changes and is currently in bankruptcy. This lease was entered into in connection with the issuance of certain conduit financings by the RAIC and provides the Department with the right under certain circumstances to defease the third-party debt that financed terminal improvements. Any early termination of this lease may require payment or provision for payment by the Department of some or all of the related conduit financings.

4.7.4 ASSUMPTIONS FOR PROJECTION OF AIRLINE TERMINAL RENTALS

For purposes of the financial projections incorporated in the Report, the following assumptions regarding airline terminal rental payments were incorporated:

(1) All airlines will pay terminal rentals subject to their existing leases or the Airport Terminal Tariff rate methodology through December 2012 (before changes recently adopted for the Airport Terminal Tariff become effective on January 1, 2013);

Beginning January 1, 2013:

(2) American Airlines will continue to pay rents pursuant to its prior lease (throughout the Projection Period);

(3) all other airlines will pay rents for certain terminal space based on the Rate Agreement (at rates lower than those to be charged under the Airport Terminal Tariff);

(4) Air Canada and Hawaiian Airlines will also continue to pay certain fixed rent amounts through June 2013 for certain terminal space pursuant to prior leases; and

(5) United Airlines and Delta will also continue to pay for certain terminal space (in Terminal 6) pursuant to prior leases expiring in CY 2017.

It should be noted that certain airlines are assumed to pay for certain amounts of space under prior terminal leases and certain amounts of space under the Rate Agreement.

The final resolution of the ongoing negotiations and/or legal matters related to terminal rentals at the Airport (as discussed in sections above) could result in terminal rental revenues different than as reflected in the Report for the Projection Period 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.

4.7.5 PROJECTED AIRLINE TERMINAL RENTALS

Table 4-7 presents a summary of projected airline terminal payments based on assumptions outlined above in Section 4.7.4. As shown on Table 4-7, terminal rents are charged on a CY basis. At the bottom of Table 4-7, projected airline terminal rentals are also reflected on a FY basis for purposes of being incorporated into the overall Airport financial projections (which are completed on a FY basis).

Table 4-7 reflects the various types of terminal fees estimated to be paid by airlines, as well as Tier One Terminal Buildings Revenue Sharing and Tier One FIS Concession Revenue amounts described above in Section 4.7.2. As shown on Table 4-7, total airline terminal payments are projected to increase from approximately $229.8 million in calendar year 2013 to approximately $545.8 million in calendar year 2018. On a Fiscal Year basis, airline terminal payments are projected to increase from approximately $275.3 million in FY 2014 to approximately $495.5 million in FY 2018, representing a CAGR of 15.8 percent.

4.7.6 AIR CARRIER OPERATING PERMIT

Airlines at the Airport operate under a 10-year Air Carrier Operating Permit (with a 10-year extension option) for the use of Landing and Apron 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 and Apron Facilities, including, but not necessarily limited to, insurance requirements, indemnification provisions, and responsibility for the use and disposal of hazardous substances. Section 4.7.7 below describes how landing and apron fees are calculated by the Department and discusses current and projected landing and apron fees. For purposes of the Report, it has been assumed that any Air Carrier Operating Permits expiring during the Projection Period will be renewed under the same general business terms.

4.7.7 AIRLINE LANDING AND APRON FEES

Table 4-8 presents the calculation of Landing Fee and Apron Fee requirements and rates for FY 2013 through FY 2018, 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.

Table 4-7 Summary of Airline Terminal Payments

Calendar Years (with Fiscal Year Total)

	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Terminal Buildings Rents						
Demised Premises	$ 88,419,000	$ 137,014,650	$ 178,184,503	$ 195,045,347	$ 215,461,379	$ 288,223,932
Common Use Holdroom Fees	20,135,000	40,613,000	49,489,000	53,968,000	58,908,000	78,328,000
Bag Claim Fees	5,704,000	8,578,000	10,453,000	11,399,000	12,442,000	16,544,000
Outbound Bag System Fees	11,568,000	17,396,000	21,198,000	23,116,000	25,232,000	33,550,000
Common Use Ticket Counter Fees	1,260,000	1,895,000	2,309,000	2,518,000	2,748,000	3,654,000
Tier One Terminal Buildings Revenue Sharing	-	(97,650)	(11,341,503)	(13,103,347)	(13,837,379)	(14,496,932)
	$ 127,086,000	$ 205,399,000	$ 250,292,000	$ 272,943,000	$ 300,954,000	$ 405,803,000
FIS Fees	$ 61,693,000	$ 71,022,000	$ 80,462,000	$ 113,515,000	$ 113,574,000	$ 111,882,000
Tier One FIS Concession Revenue	-	-	-	(19,836,000)	(21,154,000)	(22,253,000)
Terminal Special Charges	18,901,000	19,698,000	23,462,000	24,564,000	25,723,000	26,942,000
Prior Lease Payments	22,131,185	24,701,900	26,784,542	27,632,037	26,107,781	23,400,171
TOTAL TERMINAL PAYMENTS	**$ 229,811,185**	**$ 320,820,900**	**$ 381,000,542**	**$ 418,818,037**	**$ 445,204,781**	**$ 545,774,171**
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Fiscal Year Basis	$ 214,906,000	$ 275,316,000	$ 350,911,000	$ 399,909,000	$ 432,012,000	$ 495,490,000

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

Table 4-8 Landing and Apron Fees

Fiscal Years Ending June 30

	BUDGET	PROJECTED				
	FY 2013 1/	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Landing Fee						
Operating Expense	$ 135,179,984	$ 141,794,550	$ 148,884,278	$ 156,328,492	$ 164,144,916	$ 172,352,162
Amortization Expense	12,812,901	12,480,376	12,720,874	12,830,146	23,282,946	32,721,949
Senior Lien Debt Service	1,382,579	680,201	1,112,401	2,213,470	2,214,149	2,215,054
Subordinate Lien Debt Service	47,065,286	50,638,597	50,151,758	59,507,340	62,749,969	67,620,204
Credit for Build America Bonds subsidy (Series 2009C)	(6,862,233)	(6,862,233)	(6,862,233)	(6,862,233)	(6,711,809)	(6,556,222)
Credit for Build America Bonds subsidy (Series 2010C)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)
Debt Service Coverage 2/	-	-	-	-	-	-
M&O Reserve	1,549,749	3,618,833	1,904,590	2,387,307	2,119,232	3,055,392
Van Nuys Reliever Net Costs	3,830,581	3,891,333	3,834,255	3,774,609	3,712,279	3,647,144
TOTAL AIRFIELD REQUIREMENT	$ 193,493,516	$ 204,776,325	$ 210,280,592	$ 228,713,800	$ 250,046,352	$ 273,590,351
Total Landed Weight (000's) 3/	51,463,746	52,162,542	53,137,886	54,079,446	54,926,836	55,746,608
Landing Fee Rate	$ 3.77	$ 3.93	$ 3.96	$ 4.23	$ 4.55	$ 4.91
Apron Fee						
Operating Expense	$ 26,753,030	$ 31,912,088	$ 33,507,693	$ 35,183,078	$ 36,942,231	$ 38,789,343
Amortization Expense	2,893,177	3,026,424	3,133,035	3,296,643	3,192,520	3,446,594
Senior Lien Debt Service	251,166	141,971	252,802	608,998	609,084	609,222
Subordinate Lien Debt Service	885,505	1,722,555	6,192,934	19,121,172	20,495,677	27,379,765
Debt Service Coverage 2/	-	-	-	-	34,103	812,676
M&O Reserve	306,706	814,450	428,644	537,284	476,952	687,642
TOTAL APRON REQUIREMENT	$ 31,089,583	$ 37,617,488	$ 43,515,108	$ 58,747,175	$ 61,750,567	$ 71,725,243
Passenger Landed Weight (000's) 3/ 4/	44,863,993	45,194,344	46,067,716	46,908,967	47,661,144	48,387,013
Apron Fee Rate	$ 0.69	$ 0.83	$ 0.94	$ 1.25	$ 1.30	$ 1.48
COMBINED RATE	**$ 4.46**	**$ 4.76**	**$ 4.90**	**$ 5.48**	**$ 5.85**	**$ 6.39**

NOTES:
1/ With the exception of Amortization and Debt Service in FY 2013, amounts reflected in this table are as reflected in FY 2013 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 2013 is budgeted amount; thereafter it is as projected in this report.
4/ Excludes certain passenger airline landed weight treated as cargo airline landed weight for rates and charges purposes. Passenger airline landed weight here is lower than passenger airline landed weight reflected on Table 2-27.

SOURCES: City of Los Angeles, Department of Airports, September 2012; Ricondo & Associates, Inc., October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

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:

- LAX 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 O&M Reserve requirement attributable to the Airfield
- The net costs attributable to operating Van Nuys Airport

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 4-8, the Landing Fee is projected to increase from the FY 2013 Budget rate of $3.77 per thousand pound unit to $4.91 per thousand pound unit in FY 2018. Overall, Landing Fees are projected to increase from approximately $193.5 million in FY 2013 to approximately $273.6 million in FY 2018.

The Apron Fee is projected to increase from the FY 2013 Budget rate of $0.69 per thousand pound unit to $1.48 per thousand pound unit in FY 2018. Overall, Apron Fees are projected to increase from approximately $31.1 million in FY 2013 to approximately $71.7 million in FY 2018.

The combined Landing and Apron Fee is projected to increase from the FY 2013 Budget rate of $4.46 per thousand pound unit to $6.39 per thousand pound unit in FY 2018, representing a CAGR of 7.5 percent.

4.7.8 PASSENGER AIRLINE COST PER ENPLANED PASSENGER

Table 4-9 presents passenger airline cost per enplaned passenger estimated for FY 2010 through FY 2012, and projected for FY 2013 through FY 2018.

Table 4-9 Passenger Airline Cost Per Enplaned Passenger

Fiscal Years Ending June 30

	ESTIMATED	ESTIMATED	ESTIMATED	PROJECTED					
AIRLINE REVENUES	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
Airline Terminal Rentals	$ 160,089,050	$ 171,310,959	$ 196,707,758	$ 214,906,000	$ 275,316,000	$ 350,911,000	$ 399,909,000	$ 432,012,000	$ 495,490,000
Signatory Airline Landing and Apron Fees	169,022,701	191,205,754	205,418,189	224,583,000	242,394,000	253,796,000	287,461,000	311,797,000	345,316,000
Airline Terminal Rentals and Signatory Airline Landing and Apron Fees	$ 329,111,751	$ 362,516,713	$ 402,125,947	$ 439,489,000	$ 517,710,000	$ 604,707,000	$ 687,370,000	$ 743,809,000	$ 840,806,000
Non-Signatory landing fees	659,850	100,459	506,901	500,000	522,000	548,000	574,000	601,000	628,000
Airline Terminal Rentals, Landing Fees, and Apron Fees	$ 329,771,601	$ 362,617,172	$ 402,632,848	$ 439,989,000	$ 518,232,000	$ 605,255,000	$ 687,944,000	$ 744,410,000	$ 841,434,000
Less: Landing Fees - Cargo	(17,929,617)	(21,153,864)	(20,297,966)	(21,874,000)	(23,100,000)	(23,606,000)	(25,568,000)	(27,873,000)	(30,424,000)
Total Passenger Airline Revenues	$ 311,841,984	$ 341,463,308	$ 382,334,882	$ 418,115,000	$ 495,132,000	$ 581,649,000	$ 662,376,000	$ 716,537,000	$ 811,010,000
Enplaned Passengers	29,003,142	30,280,571	31,519,124	32,298,200	33,006,100	33,682,300	34,376,500	34,975,900	35,561,400
Passenger Airline Cost Per Enplaned Passenger	**$10.75**	**$11.28**	**$12.13**	**$12.95**	**$15.00**	**$17.27**	**$19.27**	**$20.49**	**$22.81**

SOURCES: City of Los Angeles, Department of Airports, September 2012; Ricondo & Associates, Inc., October 2012.
PREPARED BY: Ricondo & Associates, Inc., October 2012.

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplaned passenger (in future dollars) is estimated to increase from $12.13 in FY 2012 to $22.81 in FY 2018. This increase can be attributed to increases in terminal, airfield, and apron-related capital costs (associated with the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects); assumed growth in base LAX M&O Expenses allocable to airline-related Cost Centers; and incremental LAX M&O Expenses associated with various terminal improvements.

4.8 Application of Pledged Revenues and Debt Service Coverage

Table 4-10 presents projected cash flow and debt service coverage ratios, respectively, for the Airport for FY 2013 through FY 2018. Included in this cash flow are Airline Revenues, other aviation revenues, various nonairline revenues, Investment Earnings, LAX M&O Expenses, Debt Service, O&M Reserve deposits, and capital lease payments. Assumptions included in this table include the following:

- Total Pledged Revenues include investment earnings from available 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 not included in Pledged Revenues.
- Debt Service Coverage ratios as required by the Indentures are also presented in Table 4-10. Net Pledged Revenues together with any Transfer which shall not exceed 25% of Senior Aggregate Annual Debt Service are required to be at least 1.25 times Senior Aggregate Annual Debt Service and Net Subordinate Pledged Revenues are required to be at least 1.15 times Subordinate Aggregate Annual Debt Service (which includes debt service on Subordinate Commercial Paper Notes). 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 requirement in each year of the Projection Period. [1] No Transfers were assumed for purposes of the analysis reflected in the Report.

[1] In Table 4-10, 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, separate certifications and/or Consultant Certifications were developed.

Table 4-10 Airport Cash Flow and Debt Service Coverage

Fiscal Years Ending June 30

		PROJECTED					
		FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**
PLEDGED REVENUES							
Airline Terminal Rentals, Landing Fees, and Apron Fees	*Table 4-9*	$ 439,988,691	$ 518,231,805	$ 605,254,406	$ 687,944,107	$ 744,409,542	$ 841,433,470
Aviation Revenues	*Table 4-6*	142,736,264	149,321,588	156,898,928	163,341,822	167,576,923	172,725,634
Concession Revenues	*Table 4-6*	291,324,000	349,682,642	369,346,559	386,618,251	402,695,971	424,936,420
Airport Sales & Services	*Table 4-6*	2,451,000	2,540,190	2,629,641	2,722,664	2,811,606	2,901,853
Miscellaneous Revenues	*Table 4-6*	9,701,564	9,770,264	9,842,399	9,918,141	9,847,246	9,775,165
Investment Earnings		16,349,731	25,307,258	34,021,314	37,092,127	40,806,721	47,902,039
Total Pledged Revenues	[A]	$ 902,551,251	$ 1,054,853,748	$ 1,177,993,247	$ 1,287,637,113	$ 1,368,148,008	$ 1,499,674,581
LAX M&O EXPENSES	[B]	$ 605,738,980	$ 669,920,929	$ 703,417,226	$ 745,516,587	$ 782,792,516	$ 836,779,492
NET PLEDGED REVENUES	[C]=[A]-[B]	$ 296,812,271	$ 384,932,819	$ 474,576,022	$ 542,120,526	$ 585,355,492	$ 662,895,088
DEBT SERVICE							
Senior Debt Service		$ 86,715,449	$ 160,503,650	$ 216,244,496	$ 265,337,347	$ 283,787,771	$ 337,043,425
Less PFC Revenues Used to Pay Senior Debt Service		(34,403,945)	(99,970,135)	(89,891,630)	(134,881,612)	(166,561,737)	(199,562,814)
Senior Aggregate Annual Debt Service 1/	[D]	$ 52,311,504	$ 60,533,515	$ 126,352,866	$ 130,455,735	$ 117,226,034	$ 137,480,610
Subordinate Aggregate Annual Debt Service	[E]	61,074,558	71,445,415	62,987,437	83,420,012	88,036,596	99,792,719
Senior and Subordinate Aggregate Annual Debt Service	[F]=[D]+[E]	$ 113,386,062	$ 131,978,930	$ 189,340,303	$ 213,875,747	$ 205,262,630	$ 237,273,330
M&O Reserve	[G]	6,795,697	15,960,263	8,399,879	10,528,825	9,346,524	13,475,300
NET FUNDS REMAINING	[H]=[C]-[F]-[G]	176,630,512	236,993,625	276,835,839	317,715,953	370,746,338	412,146,459
DEBT SERVICE COVERAGE							
Senior Bond Debt Service Coverage 2/	**= [C] / [D]**	**5.67**	**6.36**	**3.76**	**4.16**	**4.99**	**4.82**
SUBORDINATE PLEDGED REVENUES	[I]=[C]-[D]	$ 244,500,767	$ 324,399,304	$ 348,223,156	$ 411,664,790	$ 468,129,458	$ 525,414,478
Subordinate Bond Debt Service Coverage 2/	**= [I] / [E]**	**4.00**	**4.54**	**5.53**	**4.93**	**5.32**	**5.27**
Total Debt Service Coverage 2/	**= [C] / [F]**	**2.62**	**2.92**	**2.51**	**2.53**	**2.85**	**2.79**

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, October 2012; Ricondo & Associates, Inc., October 2012.

PREPARED BY: Ricondo & Associates, Inc., October 2012.

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APPENDIX B

ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

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Annual Financial Report

Fiscal year ended June 30, 2013

Los Angeles World Airports

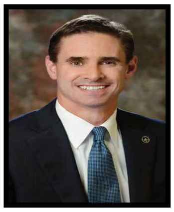
(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Annual Financial Report

Fiscal Year Ended June 30, 2013

BOARD OF AIRPORT COMMISSIONERS, ELECTED CITY OFFICIALS, AND LOS ANGELES WORLD AIRPORTS STAFF



Sean O. Burton
President

Valeria C. Velasco
Vice President

Gabriel L. Eshaghian
Commissioner

Jackie Goldberg
Commissioner

Beatrice C. Hsu
Commissioner

Matthew M. Johnson
Commissioner

Cynthia A. Telles
Commissioner

CITY OF LOS ANGELES

Eric Garcetti
Mayor

Mike Feuer
City Attorney

Ron Galperin
City Controller

LOS ANGELES CITY COUNCIL

Herb J. Wesson, Jr.
President
District 10

Mitchell Englander
President Pro Tempore
District 12

Tom LaBonge
Assistant President Pro Tempore
District 4

Gilbert A. Cedillo
District 1

Paul Krekorian
District 2

Bob Blumenfield
District 3

Paul Koretz
District 5

Nury Martinez
District 6

Felipe Fuentes
District 7

Bernard C. Parks
District 8

Curren D. Price, Jr.
District 9

Mike Bonin
District 11

Mitch O'Farrell
District 13

José Huisar
District 14

Joe Buscaino
District 15

LOS ANGELES WORLD AIRPORTS

Gina Marie Lindsey
Executive Director

Stephen Martin
Chief Operating Officer

Debbie Bowers
Deputy Executive Director
Commercial Development

Michael Feldman
Deputy Executive Director
Facilities Management

Roger A. Johnson
Deputy Executive Director
Airports Development

Samson Mengistu
Deputy Executive Director
Administration

Dominic Nessi
Deputy Executive Director
Information Management
and Technology

Arif Alikhan
Deputy Executive Director
Law Enforcement and
Homeland Security

Wei Chi
Deputy Executive Director
Comptroller

Ted Maslin
Deputy Executive Director
Real Estate Services

David Shuter
Deputy Executive Director
Facilities Engineering and
Maintenance

Jacqueline Yaft
Deputy Executive Director
Operations and Emergency
Management

Ryan Yakubik
Interim Chief Financial Officer

Raymond Ilgunas
General Counsel

Silveria Silva
Accounting Operations

Jess Romo
Airport Manager, ONT/VNY

Barry Rondinella
Airport Operation

Intissar Durham
Airports Development

Janet Hackney
Airports Development Contracts
and Budget

Sandy Miller
Board Office

Joyce Sloss
Business and Job Resources

Patrick Gannon
Chief, Airports Police

Maria Tesoro-Fermin
Community Relations

Robert Loya
Construction Inspection

John Kinney
Emergency Management

Jeffrey Smith
Engineering and Facilities
Management

Robert Freeman
Environmental Services

Celine Cordero
External Affairs

Cynthia Guidry
Facilities Planning

Kathy Van Ness
Financial Management Systems

Mark Adams
Government Affairs

Paula Adams
Human Resources

Micaela LeBlanc
Information Management and
Technology Business
Application and Support

Nathan Look
Information Management and
Technology Infrastructure

Tony Chen
Information Management and
Technology Planning and
Architecture

Bob Cheong
Information Management and
Technology Security

Amanda Dyson
Internal Audit

Ralph Morones
Maintenance Services

Karen Tozer
Procurement Services

Barbara Yamamoto
Project LiftOff/Customer Service

Mary Grady
Public and Media Relations

Bruce Brown
Risk Management
Liability, Property and OCIP

James McGuirk
Risk Management
Workers' Compensation, Safety
and Insurance Compliance

Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2013.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2013 and 2012, were fairly presented in conformity with generally accepted accounting principles (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a material effect on its passenger facility charge program for the fiscal year ended June 30, 2013. MGO's report is on pages 65 and 66.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2013. MGO's report is on pages 71 and 72.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 3 through 24.

The financial condition of LAX depends primarily upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area. LAX is the dominant airport in the Air Trade Area, is the third busiest airport in the United States and sixth in the world offering 680 daily flights to 96 destinations in the U.S. and over 900 weekly nonstop flights to 59 international destinations on 63 carriers.

Passenger traffic and air freight at LAX have shown encouraging growth. Passenger traffic increased by 3.2% in fiscal year 2013 as compared to the prior fiscal year, while air freight tonnage increased by 1.9% during the same comparative period. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

Gina Marie Lindsey

Gina Marie Lindsey
Executive Director

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Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Annual Financial Report
Fiscal Year Ended June 30, 2013

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2013 ANNUAL FINANCIAL REPORT

Financial Section

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MGO Certified Public Accountants.

Los Angeles
777 S. Figueroa Street, Suite 2500
Los Angeles, CA 90017
213.408.8700

Sacramento

Walnut Creek

Oakland

Century City

Newport Beach

San Diego

Seattle

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the fiscal years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LAWA's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of LAX as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of LAX are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the financial position of the City as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 24 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of LAX. The accompanying supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 67 to 70 and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 73 to 74 (collectively Information) are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Information is fairly stated in all material respects in relation to the financial statements as a whole.

The accompanying Schedules of Funding Progress – Prorated Data for Los Angeles World Airports Defined Benefit Pension Plan and Other Postemployment Benefit Healthcare Plan (Non-GAAP Basis) on page 63 have not been subjected to the auditing procedures applied in the audits of the financial statements and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of LAWA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2013. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAWA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
October 28, 2013

2013 ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis

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Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City). LAWA is an enterprise fund that owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). Under a lease agreement, LAWA operated Palmdale Regional Airport (PMD) until February 2009. Subsequent to the discontinuance of operations of PMD, LAWA returned its certification to operate the airport to the Federal Aviation Administration. In March 2013, the Board of Airport Commissioners terminated the joint use agreement with the United States Air Force (USAF) and reassigned the lease to the City of Palmdale. LAWA owns approximately 17,750 acres of land located east of USAF Plant 42 in the City of Palmdale. LAWA retains the rights for future development of the Palmdale property.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 25.

Using This Financial Report

LAX's financial report consists of this management's discussion and analysis (MD&A), and the financial statements that follow after the MD&A. The financial statements include:

The *Statements of Net Position* present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2013 and 2012. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. There were no deferred outflows of resources and deferred inflows of resources as of June 30, 2013 and 2012. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses, and Changes in Net Position* present the results of LAX's operations and information showing the changes in net position during the two fiscal years. These statements can be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

The *Statements of Cash Flows* relate to the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. Consequently, only transactions that affect LAX's cash and cash equivalents accounts were recorded in these statements. At the end of the statements, a reconciliation is provided to assist in understanding the difference between operating income and cash flows from operating activities.

The *Notes to the Financial Statements* present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of LAX's financial activities.

Passenger and Other Traffic Activity Highlights

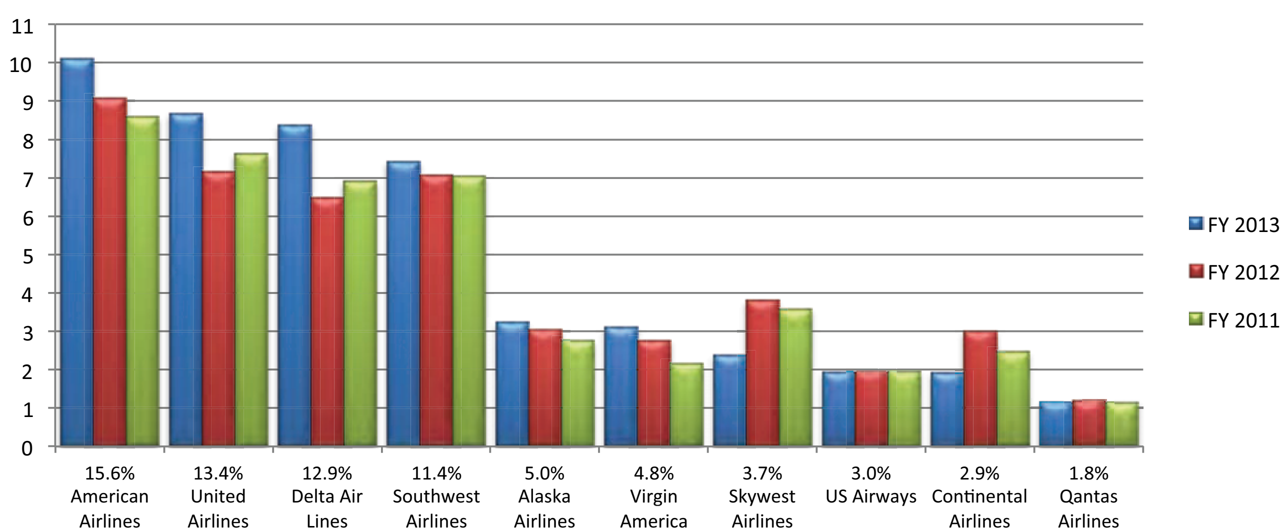
The following table presents a summary of passenger and other traffic for the last three fiscal years:

				% Change	
	FY 2013	FY 2012	FY 2011	FY 2013	FY 2012
Total passengers	64,969,102	62,930,683	60,606,560	3.2%	3.8%
Domestic passengers	47,641,025	45,957,270	44,352,850	3.7%	3.6%
International passengers	17,328,077	16,973,413	16,253,710	2.1%	4.4%
Departing passengers	32,524,178	31,519,124	30,280,539	3.2%	4.1%
Arriving passengers	32,444,924	31,411,559	30,326,021	3.3%	3.6%
Passenger flight operations					
Departures	273,193	276,980	265,110	-1.4%	4.5%
Arrivals	273,297	277,083	265,212	-1.4%	4.5%
Landing weight					
(thousand lbs)	50,206,827	49,997,632	48,422,352	0.4%	3.3%
Air cargo (tons)					
Mail	81,953	90,450	79,831	-9.4%	13.3%
Freight	1,863,508	1,828,409	1,825,420	1.9%	0.2%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2013 and the comparative passengers for fiscal years 2012 and 2011.

FY 2013 Top Ten Carriers and Percentage of Market Share (passengers in millions)



Passenger Traffic, Fiscal Year 2013

Passenger traffic increased by 3.2% in fiscal year 2013 as compared to fiscal year 2012. Of the 65 million passengers that moved in and out of LAX, domestic passengers accounted for 73.3%, while international passengers accounted for 26.7%. American Airlines ferried the most number of passengers at 10.1 million. Delta Air Lines, ranked third with 8.4 million passengers posted a 29.2% increase in passenger traffic. United Airlines (8.7 million), Southwest Airlines (7.4 million), and Alaska Airlines (3.2 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked tenth overall.

Passenger Traffic, Fiscal Year 2012

Passenger traffic increased by 3.8% in fiscal year 2012 as compared to fiscal year 2011. Of the 62.9 million passengers that moved in and out of LAX, domestic passengers accounted for 73%, while international passengers accounted for 27%. American Airlines ferried the most number of passengers at 9.1 million, an increase of 5.8% from the prior fiscal year. American Eagle, ranked tenth with 1.7 million passengers posted a 47.6% increase in passenger traffic. United Airlines (7.2 million), Southwest Airlines (7.1 million), Delta Air Lines (6.5 million), and Skywest Airlines (3.8 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked eleventh overall.

Flight Operations, Fiscal Year 2013

Departures and arrivals had a decrease of 7,573 flights or 1.4% during fiscal year 2013 when compared to fiscal year 2012. Scheduled and charter were up 40,004 flights, while commuter flights were down 47,577. Revenue landing pounds were slightly up 0.4%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 34.9% of the total revenue pounds.

Flight Operations, Fiscal Year 2012

Departures and arrivals had an increase of 23,741 flights or 4.5% during fiscal year 2012 when compared to fiscal year 2011. Scheduled and commuter flights were up 23,879, while charter flights were down 138. Revenue landing pounds were up 3.3%. The top three carriers in terms of landing pounds were American Airlines, United Airlines, and Delta Air Lines. In total, these three airlines contributed 31.4% of the total revenue pounds.

Air Cargo Operations, Fiscal Year 2013

Mail and freight cargo increased by 1.4% in fiscal year 2013 as compared to fiscal year 2012. Freight was up 35,099 tons while mail was down 8,497 tons. Domestic cargo was higher by 7,047 tons or 0.9% while international cargo was higher by 19,555 tons or 1.8%. Federal Express was the top air freight carrier accounting for 20% of total freight cargo, followed by American Airlines with 4.8%. Delta Air Lines was the top mail carrier accounting for 25.3% of total mail cargo.

Air Cargo Operations, Fiscal Year 2012

Mail and freight cargo increased by 0.7% in fiscal year 2012 as compared to fiscal year 2011. Mail was up 10,619 tons while freight was up 2,989 tons. Domestic cargo was higher by 15,777 tons or 2% while international cargo was lower by 2,169 tons or 0.2%. Federal Express was the top air freight carrier accounting for 20.1% of total freight cargo, followed by Polar Air Cargo with 5.4%. United Airlines was the top mail carrier accounting for 21.9% of total mail cargo.

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2013

- Assets exceeded liabilities at June 30, 2013 by $4.1 billion.
- Bonded debt had a net increase of $216.3 million.
- Operating revenue totaled $865.5 million.
- Operating expenses (including depreciation and amortization of $134.5 million) totaled $723.9 million.
- Net nonoperating revenue (including passenger facility charges of $124.6 million) was $71.2 million.
- Federal and other grants totaled $12.3 million.
- Net position increased by $222.9 million.

Financial Highlights, Fiscal Year 2012

- Assets exceeded liabilities at June 30, 2012 by $3.8 billion.
- Bonded debt had a decrease of $48.6 million.
- Operating revenue totaled $822.1 million.
- Operating expenses (including depreciation and amortization of $123.9 million) totaled $704.1 million.
- Net nonoperating revenue (including passenger facility charges of $121.4 million) was $109.8 million.
- Federal and other grants totaled $59.9 million.
- Net position increased by $291.2 million.

Net Position Summary

A condensed net position summary for fiscal years 2013, 2012, and 2011 is presented below:

Condensed Net Position (amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Assets					
Unrestricted current assets	$ 742,825	$ 824,597	$ 948,107	$ (81,772)	$ (123,510)
Restricted current assets	1,597,470	2,256,270	2,725,618	(658,800)	(469,348)
Capital assets, net	5,888,002	4,819,209	3,925,536	1,068,793	893,673
Other noncurrent assets	36,176	36,522	93,045	(346)	(56,523)
Total assets	8,264,473	7,936,598	7,692,306	327,875	244,292
Liabilities					
Current liabilities payable from unrestricted assets	259,121	363,612	318,080	(104,491)	45,532
Current liabilities payable from restricted assets	97,108	104,754	158,736	(7,646)	(53,982)
Noncurrent liabilities	3,856,971	3,639,852	3,678,263	217,119	(38,411)
Total liabilities	4,213,200	4,108,218	4,155,079	104,982	(46,861)
Net Position					
Net investment in capital assets	2,283,641	1,965,592	1,600,882	318,049	364,710
Restricted for debt service	307,374	379,603	478,067	(72,229)	(98,464)
Restricted for capital projects	855,483	861,505	771,180	(6,022)	90,325
Restricted for operations and maintenance reserve	157,210	159,424	137,684	(2,214)	21,740
Restricted for other purposes	894	919	565	(25)	354
Unrestricted	446,671	461,337	548,849	(14,666)	(87,512)
Total net position	$ 4,051,273	$ 3,828,380	$ 3,537,227	$ 222,893	$ 291,153

Net Position, Fiscal Year 2013

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2013 and 2012, assets exceeded liabilities by $4.1 billion and $3.8 billion, respectively, representing a 5.8% increase or $222.9 million.

The largest portion of LAX's net position ($2.3 billion or 56.4%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.3 billion or 32.6%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $446.7 million (11%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets decreased by 9.9%, from $824.6 million at June 30, 2012 to $742.8 million at June 30, 2013. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2013) held in the City Treasury. Cash outflows were more than inflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral) held in the City Treasury for capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The drawdowns reduced the year-end investment portfolio held by fiscal agents from $1.2 billion in fiscal year 2012 to $560.9 million in fiscal year 2013.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 22.2%. Ongoing construction and improvements to modernize terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of $0.8 million and the offsetting net increase in unamortized bond issuance costs of $0.4 million were the primary reasons for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net decrease of $104.5 million or 28.7%. This was mainly due to the refinancing of commercial paper notes to longer term bonded obligations and the net settlement of the unrestricted portion of LAX's allocated share of the City Treasury's fiscal year-end pending investment trades. The recognition of the obligations under securities lending transactions resulted from the resumption of the City Treasury's securities lending program in December 2012, which is further discussed in Note 3 of the Notes to the Financial Statements.

Current liabilities payable from restricted assets had a net decrease of $7.6 million or 7.3%. The net decrease was mostly due to the restricted portion of LAWA's allocated share of the City Treasury's fiscal year-end pending investment trades. The recognition of the obligations under securities lending transactions resulted from the resumption of the City Treasury's securities lending program in December 2012, which is further discussed in Note 3 of the Notes to the Financial Statements.

The net increase in noncurrent liabilities was $217.1 million or 6%. Additional bond issuances during the year were the primary reason for the increase.

Net Position, Fiscal Year 2012

At the close of fiscal years 2012 and 2011, assets exceeded liabilities by $3.8 billion and $3.5 billion, respectively, representing an 8.2% increase or $291.2 million.

The largest portion of LAX's net position ($2 billion or 51.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.4 billion or 36.6%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $461.3 million (12.1%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets decreased by 13%, from $948.1 million at June 30, 2011 to $824.6 million at June 30, 2012. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2011) held in the City Treasury. Unrestricted cash inflows were from operating activities, interest income from investments, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for transfers to fiscal agents for debt service and capital asset acquisitions to be reimbursed by bond funds. In addition, the City temporarily suspended its securities lending program in May 2012 such that the cash collateral for securities lent were returned to the borrowers of securities. As discussed further in Note 3 of the notes to the financial statements, LAX participates in the City's securities lending program through the pooled investment fund.

Restricted current assets include cash and investments (including reinvested cash collateral in 2011) held in the City Treasury for capital projects funded by PFCs and CFCs. Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFCs and CFCs capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately $104 million in fiscal year 2012. Drawdowns from the amounts held by fiscal agents were used for capital improvement expenditures and for bond principal and interest payments. As noted above, the City temporarily suspended its securities lending program.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 22.8%. Ongoing construction and improvements to modernize terminals and facilities were the primary reasons for the increase.

The decrease of $56.5 million in other noncurrent assets from $93 million in fiscal year 2011 to $36.5 million in fiscal year 2012 was due primarily to the sale of long-term securities held by fiscal agents to purchase short-term securities. As previously discussed, drawdowns from amounts held by fiscal agents were used for ongoing capital expenditures.

Current liabilities payable from unrestricted assets had a net increase of $45.5 million or 14.3%. This is mainly due to the issuance of commercial paper notes for interim financing of the construction activities, increased contract retentions for ongoing capital improvements, and LAX's allocated share of the City Treasury's year-end investment trade. The offsetting decrease in obligations under securities lending transactions resulted from the temporary suspension of the securities lending program as referred to above.

Current liabilities payable from restricted assets had a net decrease of $54 million or 34%. The current maturities for bonded debt increased by $6.8 million, the restricted portion of the allocated year-end pending investment trade was $28 million, and securities lending obligations decreased by $88.5 million. The City Treasury's year-end pending investment trade is further discussed in Note 3 of the Notes to the Financial Statements.

The net decrease in noncurrent liabilities was $38.4 million or 1%. Accounts with significant fluctuations were noncurrent portion of bonded debt with a decrease of $55.4 million for scheduled principal maturities, and estimated claims payable with an increase of $14.9 million due to the increase in the actuarially determined workers' compensation liability at June 30, 2012.

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2013, 2012, and 2011 is presented below:

Condensed Changes in Net Position (amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Operating revenue	$ 865,473	$ 822,090	$ 767,844	$ 43,383	$ 54,246
Less- Operating expenses	589,430	580,160	541,228	9,270	38,932
Operating income before depreciation and amortization	276,043	241,930	226,616	34,113	15,314
Less- Depreciation and amortization	134,500	123,941	103,300	10,559	20,641
Operating income	141,543	117,989	123,316	23,554	(5,327)
Other nonoperating revenue, net	71,212	109,844	103,892	(38,632)	5,952
Federal and other grants	12,264	59,854	67,939	(47,590)	(8,085)
Interagency transfers	(2,126)	3,466	804	(5,592)	2,662
Changes in net position	222,893	291,153	295,951	(68,260)	(4,798)
Net position, beginning of year	3,828,380	3,537,227	3,241,276	291,153	295,951
Net position, end of year	$ 4,051,273	$ 3,828,380	$ 3,537,227	$ 222,893	$ 291,153

Operating Revenue

LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2013, 2012, and 2011:

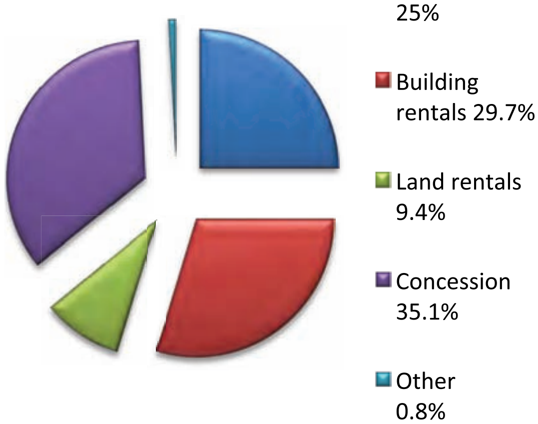
Summary of Operating Revenue
(amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Aviation revenue					
Landing fees	$ 216,359	$ 207,988	$ 191,307	$ 8,371	$ 16,681
Building rentals	257,251	247,940	220,940	9,311	27,000
Land rentals	81,010	80,629	87,225	381	(6,596)
Other aviation revenue	3,924	5,772	1,764	(1,848)	4,008
Total aviation revenue	558,544	542,329	501,236	16,215	41,093
Concession revenue	304,139	278,767	263,195	25,372	15,572
Other operating revenue	2,790	3,414	3,413	(624)	1
Operating revenue before reliever fee	865,473	824,510	767,844	40,963	56,666
Reliever airport fee (landing fees offset)	--	2,420	--	(2,420)	2,420
Total operating revenue	$ 865,473	$ 822,090	$ 767,844	$ 43,383	$ 54,246

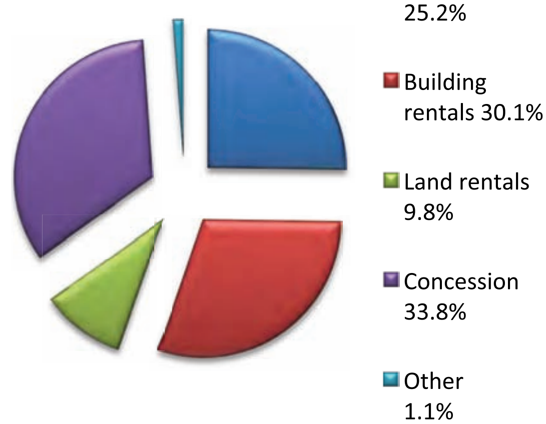
Operating Revenue, Fiscal Year 2013

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2013 and 2012. Other aviation and other operating revenue were added and labeled "other."

FY 2013



FY 2012



For the fiscal year ended June 30, 2013, total operating revenue was $865.5 million, a $41 million or 5% increase from the prior fiscal year. The growth in aviation related revenue was $16.2 million. Non-aviation revenue had a net increase of $24.8 million mostly from concessions.

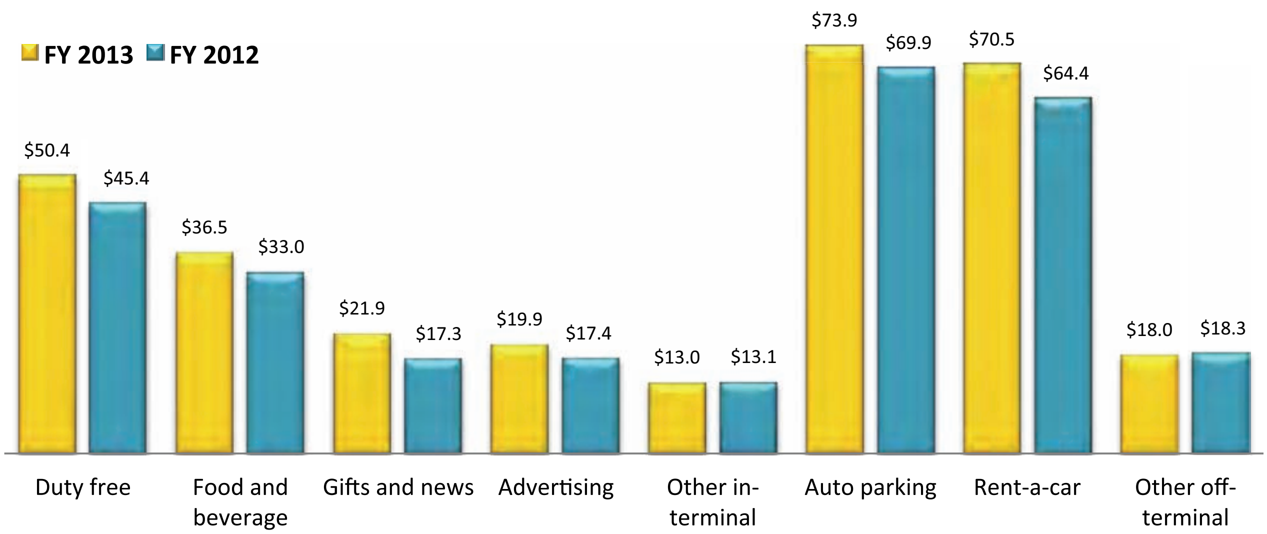
As described in the Notes to the Financial Statements (see page 36), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Landing fees for the fiscal year ended June 30, 2013 were $216.4 million, or $8.4 million higher than the previous year. $1.9 million of the increase is attributable to increase in landed weight that resulted from gains in passenger and cargo traffic; increase in landing rates contributed the remaining $6.5 million as passenger and cargo rates increased by 3.3% and 1.4%, respectively. Corollary to the improvements and refurbishments at the terminals as well as the adoption of the new rates and charges, building rental revenue posted growth of $9.3 million as new and renegotiated leases were signed with the airlines and other tenants. Land rental revenue had a slight increase of $0.4 million.

Revenue from concessions was $304.1 million in fiscal year 2013, a 9.1% growth from fiscal year 2012 figure of $278.8 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services.

In-terminal concession revenue during fiscal year 2013 had a net increase of $15.5 million or 12.3% as compared to fiscal year 2012. The concessions benefited from the increased passenger traffic such that revenue from sales over the minimum annual guarantee (MAG) posted a notable improvement. Off-terminal concession revenue in fiscal year 2013 was $162.4 million as compared to $152.6 million in fiscal year 2012, an increase of $9.8 million. Of the $9.8 million, $4 million was from auto parking, $6.1 million from rent-a-car (RAC), and offsetting net decrease of $0.3 million from bus service where the flyaway bus services had a decline in ridership.

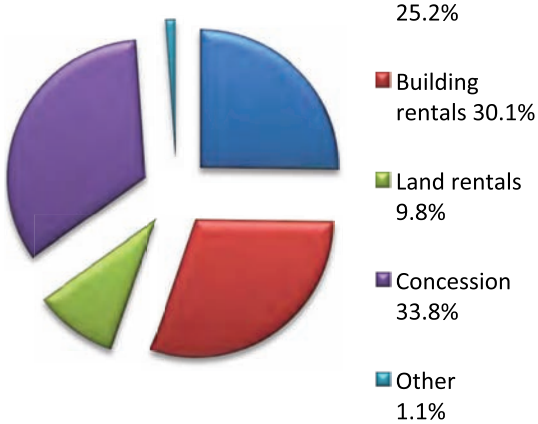
Comparative concession revenue by type for fiscal years 2013 and 2012 are presented in the following chart (amounts in millions).



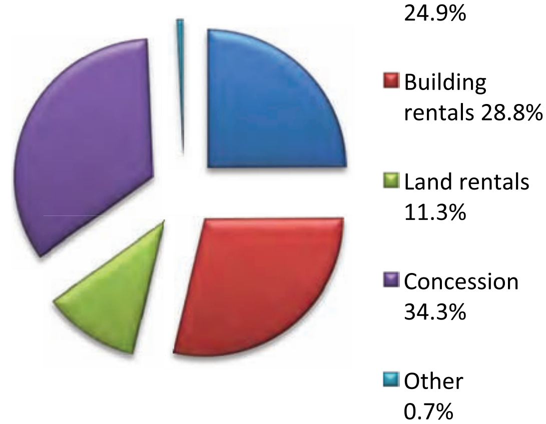
Operating Revenue, Fiscal Year 2012

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2012 and 2011. Other aviation and other operating revenue were added and labeled "other."

FY 2012



FY 2011



For the fiscal year ended June 30, 2012, total operating revenue was $824.5 million, a $56.7 million or 7.4% increase from the prior fiscal year. The growth in aviation related revenue was $41.1 million. Non-aviation revenue grew by $15.6 million mostly from concessions.

As described in the Notes to the Financial Statements (see page 36), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

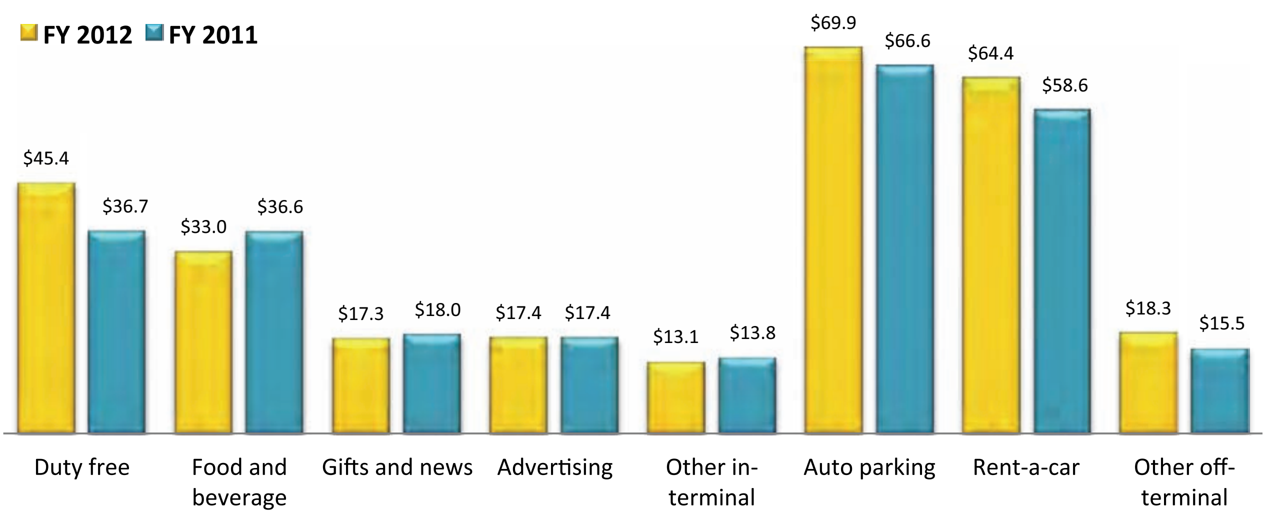
Landing fees for the fiscal years ended June 30, 2012 and 2011 were $208 million and $191.3 million, respectively, for an increase of $16.7 million or 8.7%. The offsetting airport reliever fee paid to VNY in fiscal year 2012 was $2.4 million. Of the $16.7 million, $7.5 million is attributable to increase in landed weight that resulted from gains in passenger and cargo traffic. Increase in landing rates contributed the remaining $9.2 million as passenger and cargo rates increased by 4.4% and 7.6%, respectively. Corollary to the improvements and refurbishments at the terminals, building rental revenue posted growth of $27 million as new leases and renegotiated leases were signed with the airlines and other tenants. Maintenance and operations charges as a component of the building rental also increased. Land rental rates increased 18% to 20% effective fiscal year 2011, with a retroactive application covering the period November 2008 through June 30, 2010. Additionally, a 17% increase in rental rates for properties 20 acres or less was effective fiscal year 2012. The decline in land rentals of $6.6 million was the result of offsetting the net retroactive payments of approximately $14.7 million against the actual year-to-year increase of $8.1 million.

Revenue from concessions was $278.8 million in fiscal year 2012, a 5.9% growth from fiscal year 2011 figure of $263.2 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services.

In-terminal concession revenue during fiscal year 2012 had a net increase of $3.7 million or 3% as compared to fiscal year 2011. Duty free concessions benefited from the increased passenger traffic posting revenue growth of $8.7 million mostly from sales over the minimum annual guarantee (MAG). The offsetting decrease of $5 million was due primarily to MAG reductions and waiver credits given to certain food and beverage, retail merchants, and telecommunications concessionaires.

Off-terminal concession revenue in fiscal year 2012 was $152.6 million as compared to $140.7 million in fiscal year 2011, an increase of $11.9 million. Of the $11.9 million, $3.3 million was from auto parking and $5.8 million from rent-a-car (RAC). The increase in sales over MAG for RAC was $3.4 million, while the increase in MAG was $2.3 million. MAG for RAC is adjusted annually based on the prior year's activities.

Comparative concession revenue by type for fiscal years 2012 and 2011 are presented in the following chart (amounts in millions).



Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2013, 2012, and 2011. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

Summary of Operating Expenses
(amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Salaries and benefits	$ 338,004	$ 339,551	$ 323,522	$ (1,547)	$ 16,029
Contractual services	162,661	162,071	143,684	590	18,387
Materials and supplies	47,908	35,986	32,699	11,922	3,287
Utilities	32,472	30,664	29,606	1,808	1,058
Other operating expenses	18,383	22,023	21,712	(3,640)	311
Operating expenses before depreciation	599,428	590,295	551,223	9,133	39,072
Depreciation	134,500	123,941	103,300	10,559	20,641
Total operating expenses	733,928	714,236	654,523	19,692	59,713
Less- allocation to ONT, VNY and PMD	9,998	10,135	9,995	(137)	140
Net operating expenses	$ 723,930	$ 704,101	$ 644,528	$ 19,829	$ 59,573

Operating Expenses, Fiscal Year 2013

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2013 and 2012. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

FY 2013

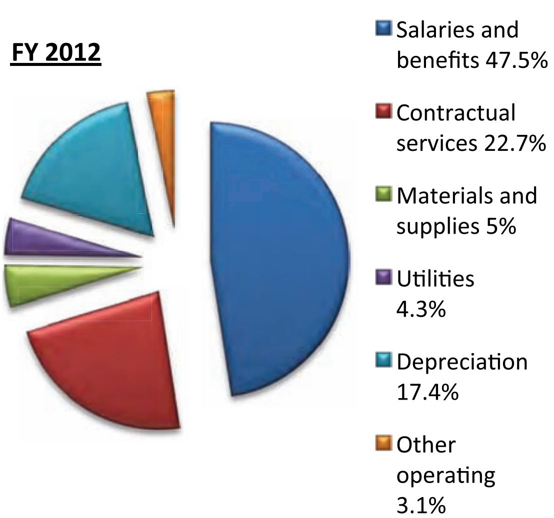
FY 2012

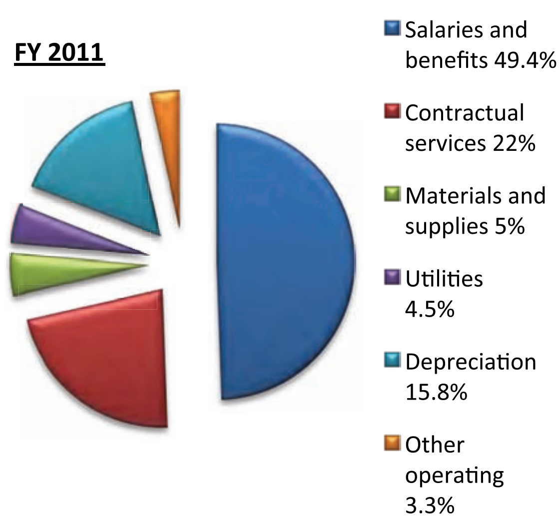
For the fiscal year ended June 30, 2013, operating expenses before allocation to other airports were $733.9 million, a $19.7 million or 2.8% increase from the prior fiscal year. Expense categories that posted significant fluctuations were materials and supplies, up by $11.9 million and depreciation, up by $10.6 million. The remaining expense accounts had an aggregate net decrease of $2.8 million. For materials and supplies, the primary reason was the increased costs for field paint, materials, supplies and services for the airfield marking rehabilitation project to comply with FAA regulations. The increase in depreciation charges to $134.5 million from $123.9 million in the prior fiscal year was due to the completion of certain major projects at the terminals and airfield. During fiscal year 2013, $252.9 million was reclassified from construction work in progress to depreciable capital asset categories. Salaries and overtime expenses before capitalized charges had an increase of $12.4 million due mainly to bargaining agreements with employee unions. Offsetting this increase in salaries is the increase in capitalized charges of $5.9 million related to the ongoing capital improvements. The increase in provision for workers' compensation liability for fiscal year 2013 was $14.5 million less than the prior year because in the prior year there was a reevaluation on the adequacy of case reserves, which resulted in a significant increase in case reserves from $14.7 million in fiscal year 2011 to $22.6 million in fiscal year 2012.The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $6.7 million. The increase in expenses for utilities was mainly due to increased electricity consumption. The decrease in provision for bad debts was the primary reason for the decline in other operating expenses.

Because of the decreases in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services.

Operating Expenses, Fiscal Year 2012

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2012 and 2011. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.





For the fiscal year ended June 30, 2012, operating expenses before allocation to other airports were $714.2 million, a $59.7 million or 9.1% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by $16 million; contractual services, up by $18.4 million; and depreciation, up by $20.6 million. The remaining expense accounts had an aggregate increase of $4.7 million. For salaries and benefits, the primary reason was the increase in the year-end accrual for workers' compensation. The liability for workers' compensation is actuarially determined and the difference over the prior year's valuation is booked at the end of the year, net of claims payments during the year. The medical expense component of the estimated workers' compensation liability had an increase of 59.6% over the prior year's figure. The increase in consulting costs for planning, engineering, environmental, and systems services was the primary driver of the increase in contractual services. These additional operating costs were incurred as a consequence of the capital improvement and modernization projects at the airport. The increase in depreciation charges to $123.9 million from $103.3 million in the prior fiscal year was due to the completion of certain major projects at the terminals and airfield.

A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services. The current year's allocation had a minimal increase over the prior year's amount.

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services and producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2013, 2012, and 2011.

Summary of Nonoperating Transactions (amounts in thousands)

	FY 2013	FY 2012	FY 2011	FY 2013 increase (decrease)	FY 2012 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 124,610	$ 121,443	$ 117,821	$ 3,167	$ 3,622
Customer facility charges	27,295	26,002	24,250	1,293	1,752
Interest income	25,231	27,554	29,896	(2,323)	(2,342)
Net change in fair value of investments	(22,793)	5,248	(832)	(28,041)	6,080
Other nonoperating revenue	11,487	13,910	13,380	(2,423)	530
	$ 165,830	$ 194,157	$ 184,515	$ (28,327)	$ 9,642
Nonoperating expenses					
Interest expense	$ 93,610	$ 83,068	$ 78,740	$ 10,542	$ 4,328
Other nonoperating expenses	1,008	1,245	1,883	(237)	(638)
	$ 94,618	$ 84,313	$ 80,623	$ 10,305	$ 3,690
Federal and other capital grants	$ 12,264	$ 59,854	$ 67,939	$ (47,590)	$ (8,085)
Interagency transfers	$ (2,126)	$ 3,466	$ 804	$ (5,592)	$ 2,662

Nonoperating Transactions, Fiscal Year 2013

For fiscal year 2013, the increase of $3.2 million in PFCs from the prior fiscal represents a 2.6% improvement aligned with the encouraging gain in passenger traffic. PFCs are imposed on enplaning passengers. The increase in CFCs followed the trend of rental car concession revenue. The decrease in interest income was reflective of the overall performance of the City's investment pool. The annualized rates of return of the Treasury Pool reserve and core portfolios for fiscal year 2013 were 0.15% and 0.23%, respectively, compared to the prior fiscal year rates of 2.38% and 0.21%. The net change in the investment rates was translated to the downward year-end net adjustment of the fair value of investment securities. A component of nonoperating revenue related to reimbursements for certain TSA programs was $3.6 million less in fiscal year 2013. The increase in interest expense was corollary to the additional issuances of revenue bonds to finance capital improvement projects. Eligible expenditures for capital grant related projects were less in fiscal year 2013 as compared to fiscal year 2012 because of decreasing activity related to airfield projects.

Nonoperating Transactions, Fiscal Year 2012

For fiscal year 2012, the increase of $3.6 million in PFCs from the prior fiscal year represents a 3.1% improvement that is aligned with the encouraging gains in passenger traffic during the fiscal year. PFCs are imposed on enplaning passengers. CFCs also posted an increase as rental car business is buoyed by passenger traffic. CFCs are imposed on each car rental transaction collected by rental car concessionaires and remitted to LAX. The increase in interest income was reflective of the improving interest rates. While the annualized rates of return of the Treasury Pool reserve and core portfolios for fiscal year 2012 of 2.38% and 0.21% were down from the prior fiscal year rates of 2.57% and 0.22%, respectively, there was an improvement in investment indices for the quarter ended June 30, 2012. That improvement was translated to upward adjustment of the fair value of investment securities. Build America Bonds subsidy, a component of other nonoperating revenue, was $8.3 million in fiscal year 2012 compared to $7.6 million in fiscal year 2011. Other nonoperating revenue had a minimal increase from the prior year's figure. The increase in interest expense was corollary to the additional issuances of revenue bonds to finance capital improvement projects. Eligible expenditures for capital grant related projects were less in fiscal year 2012 as compared to fiscal year 2011.

Long-Term Debt

As of June 30, 2013, LAX's outstanding bonded debt was $3.7 billion. The increase of $176.6 million from the June 30, 2012 balance resulted from the sale of $279.1 million revenue bonds less scheduled maturities of $38.2 million, redemption of $32.5 million, and advance refunding of $31.8 million.

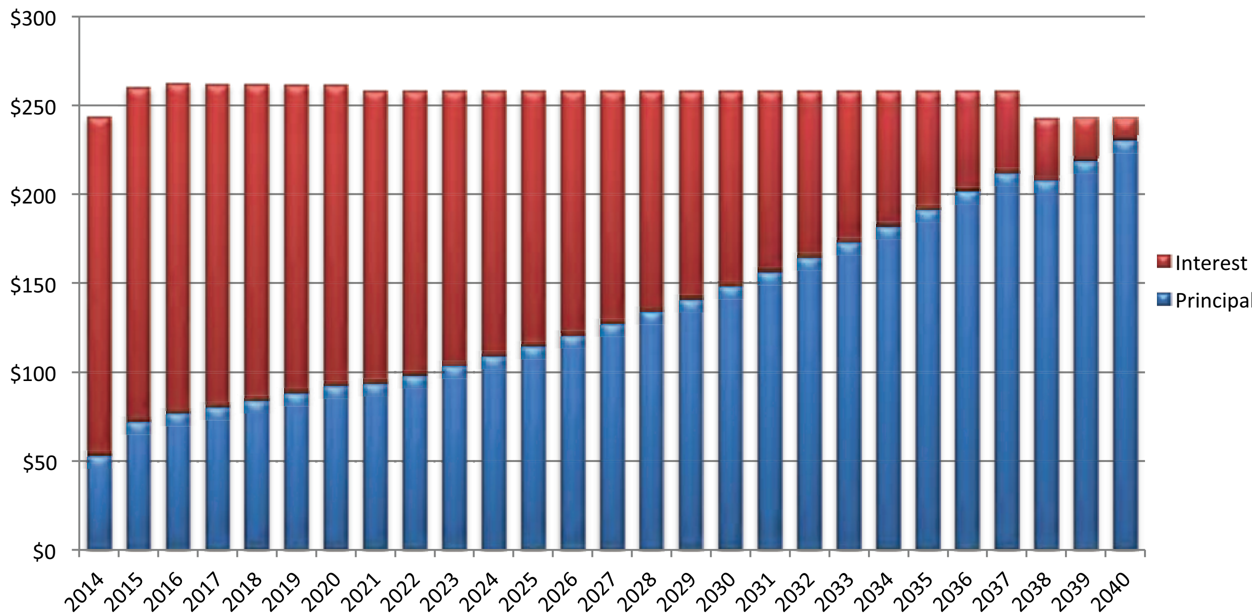
As of June 30, 2012, LAX's outstanding bonded debt was $3.5 billion. Scheduled principal maturities paid during the fiscal year reduced the June 30, 2011 balance by $45 million.

As of June 30, 2013 and 2012, LAX had $331.2 million and $402.5 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2013 and 2012, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA for Senior Bonds; AA-, A1, and AA- for Subordinate Bonds, respectively.

Additional information regarding LAX's bonded debt can be found in Note 6 of the Notes to the Financial Statements beginning on page 47.

Outstanding principal, plus scheduled interest as of June 30, 2013, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2013 and 2012 were $5.9 billion and $4.8 billion, respectively. This investment, which accounts for 71.2% and 60.7% of LAX's total assets as of June 2013 and 2012, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAWA's policy affecting capital assets can be found in Note 1(f) of the Notes to the Financial Statements on page 35. Additional information can be found on Note 4 on pages 44-45.

Capital Assets, Fiscal Year 2013

Major capital assets activities during fiscal year 2013 were as follows:

- $539.2 million improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- $195 million renovations at Terminals 2, 3, 5, 6, and 7.
- $125.6 million replacement of the Central Utility Plant and cogeneration facilities.
- $111.5 million purchase of Skyview Center land (including parking lots) and buildings.

- $29.9 million central terminal area development.
- $26.9 repairs and improvements of elevators and escalators.
- $20.2 million various IT network and systems projects.
- $11.3 million satellite concourse, runway and taxilane construction.
- $5.9 million residential acquisition, soundproofing and noise mitigation.
- $5.7 million security program

At June 30, 2013, the amounts committed for capital expenditures were as follows: $5 million for airfield and runways, $7 million for noise mitigation program, $83 million for terminals and facilities, and $38.3 million for various other projects.

Capital Assets, Fiscal Year 2012

Major capital assets activities during fiscal year 2012 were as follows:

- $579.5 million improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- $98.2 million replacement of the Central Utility Plant and cogeneration facilities.
- $69.4 million renovations at Terminals 5 and 6.
- $41.4 million residential acquisition, soundproofing, and noise mitigation.
- $31.6 million security program-in-line baggage screening.
- $27.9 million various IT network and systems projects.
- $15.8 million repairs and improvements of elevators and escalators.
- $5.8 million construction of new north/south crossfield taxiway and apron for overnight parking.

At June 30, 2012, the amounts committed for capital expenditures were as follows: $6 million for airfield and runways, $6.5 million for noise mitigation program, $84.1 million for terminals and facilities, and $17.8 million for various other projects.

Landing Fees, Fiscal Year 2014

The airline landing fees for fiscal year 2014, which became effective as of July 1, 2013 are as follows:

Permitted air carriers	Non-permitted air carriers	
$ 60.00	$ 75.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
115.00	144.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.78	4.73	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.60	5.75	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000

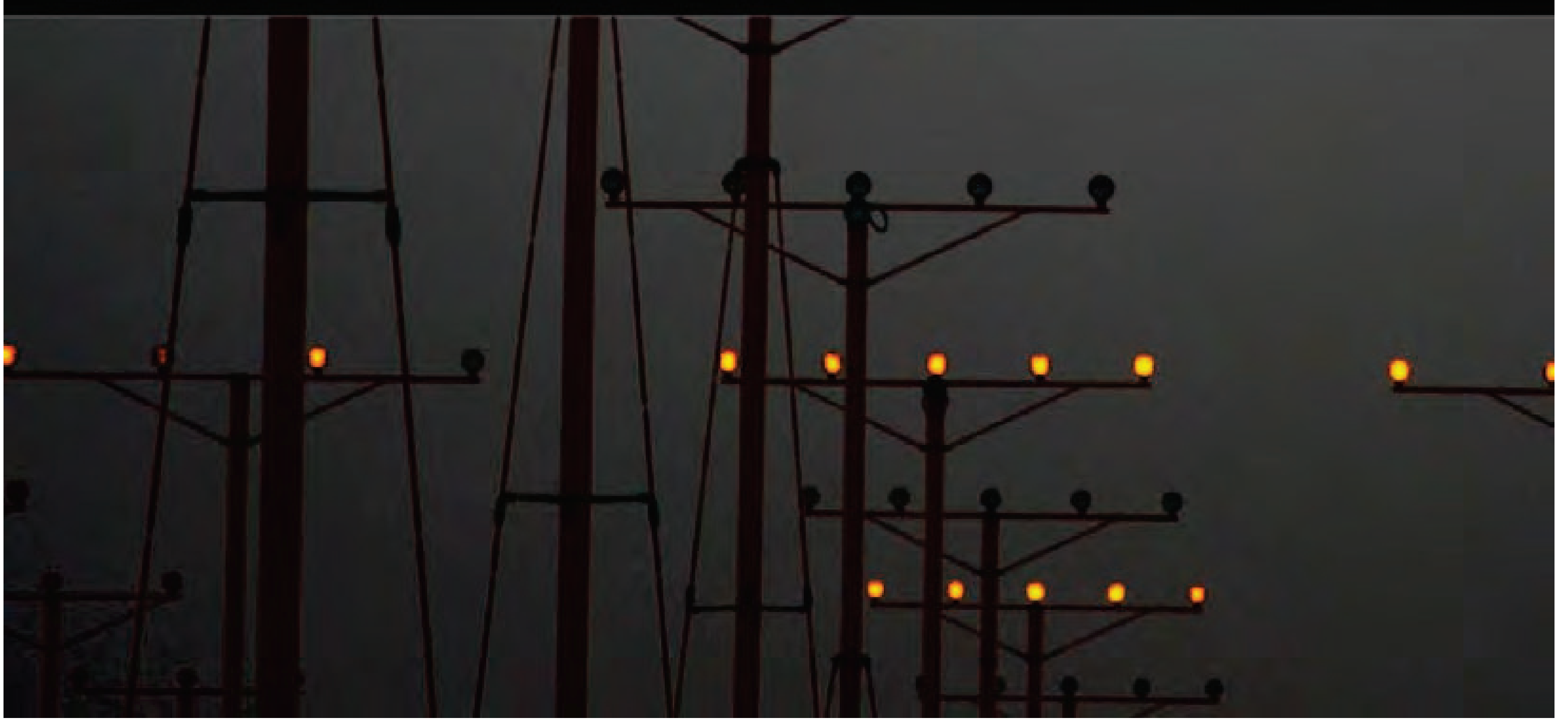
Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

This report is designed to provide a general overview of the Los Angeles International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ryan P. Yakubik, Interim Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

2013 ANNUAL FINANCIAL REPORT

Financial Statements



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Los Angeles World Airports
(Department of Airports of the City of Los Angeles)

Los Angeles International Airport

Statements of Net Position
June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	$ 607,976	$ 627,556
Investments with fiscal agents	55	61,764
Accounts receivable, net of allowance for uncollectible accounts: 2013 - $6,646; 2012 - $8,565	32,459	26,662
Unbilled receivables	32,897	30,071
Accrued interest receivable	2,946	3,387
Grants receivable	14,477	21,698
Receivable from City General Fund	816	793
Due from other agencies	49,524	48,285
Prepaid expenses	117	2,705
Inventories	1,558	1,676
Total unrestricted current assets	742,825	824,597
Restricted current assets		
Cash and pooled investments held in City Treasury	1,010,119	1,031,575
Investments with fiscal agents, includes cash and cash equivalents: 2013 - $560,860; 2012 - $1,144,798	560,860	1,199,535
Accrued interest receivable	2,796	2,894
Passenger facility charges receivable	20,934	19,954
Customer facility charges receivable	2,761	2,312
Total restricted current assets	1,597,470	2,256,270
Total current assets	2,340,295	3,080,867
Noncurrent Assets		
Capital assets		
Not depreciated	3,734,331	2,811,312
Depreciated, net	2,153,671	2,007,897
Total capital assets	5,888,002	4,819,209
Other noncurrent assets		
Receivable from City General Fund, net of current portion	13,841	14,657
Deferred bond issuance costs	22,335	21,865
Total other noncurrent assets	36,176	36,522
Total noncurrent assets	5,924,178	4,855,731
TOTAL ASSETS	$ 8,264,473	$ 7,936,598

Statements of Net Position (continued)
June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 149,141	$ 154,169
Accrued salaries	9,979	9,108
Accrued employee benefits	4,295	4,016
Estimated claims payable	6,264	5,854
Commercial paper	68,086	162,199
Unearned revenue	9,536	4,165
Obligations under securities lending transactions	2,350	--
Other current liabilities	9,470	24,101
Total current liabilities payable from unrestricted assets	259,121	363,612
Current liabilities payable from restricted assets		
Contracts and accounts payable	3,903	2,071
Current maturities of bonded debt	53,220	51,790
Accrued interest payable	23,791	22,873
Obligations under securities lending transactions	4,420	--
Other current liabilities	11,774	28,020
Total current liabilities payable from restricted assets	97,108	104,754
Total current liabilities	356,229	468,366
Noncurrent Liabilities		
Bonded debt, net of current portion	3,734,786	3,519,963
Accrued employee benefits, net of current portion	34,748	32,490
Estimated claims payable, net of current portion	61,401	59,480
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	9,462	9,474
Other long-term liabilities	3,791	5,662
Total noncurrent liabilities	3,856,971	3,639,852
TOTAL LIABILITIES	4,213,200	4,108,218
NET POSITION		
Net investment in capital assets	2,283,641	1,965,592
Restricted for:		
Debt service	307,374	379,603
Passenger facility charges funded projects	703,292	736,653
Customer facility charges funded projects	152,191	124,852
Operations and maintenance reserve	157,210	159,424
Other purposes	894	919
Unrestricted	446,671	461,337
TOTAL NET POSITION	$ 4,051,273	$ 3,828,380

See accompanying notes to the financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 216,359	$ 207,988
Reliever airport fee	--	(2,420)
Building rentals	257,251	247,940
Land rentals	81,010	80,629
Other aviation revenue	3,924	5,772
Total aviation revenue	558,544	539,909
Concession revenue	304,139	278,767
Other operating revenue	2,790	3,414
Total operating revenue	865,473	822,090
OPERATING EXPENSES		
Salaries and benefits	338,004	339,551
Contractual services	162,661	162,071
Materials and supplies	47,908	35,986
Utilities	32,472	30,664
Other operating expenses	18,383	22,023
Allocated administrative charges	(9,998)	(10,135)
Total operating expenses before depreciation and amortization	589,430	580,160
Operating income before depreciation and amortization	276,043	241,930
Depreciation and amortization	134,500	123,941
OPERATING INCOME	141,543	117,989
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	124,610	121,443
Customer facility charges	27,295	26,002
Interest income	25,231	27,554
Net change in fair value of investments	(22,793)	5,248
Interest expense	(93,610)	(83,068)
Other nonoperating revenue	11,487	13,910
Other nonoperating expenses	(1,008)	(1,245)
Total nonoperating revenue, net	71,212	109,844
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	212,755	227,833
Federal and other government grants	12,264	59,854
Inter-agency transfers	(2,126)	3,466
CHANGE IN NET POSITION	222,893	291,153
NET POSITION, BEGINNING OF YEAR	3,828,380	3,537,227
NET POSITION, END OF YEAR	$ 4,051,273	$ 3,828,380

See accompanying notes to the financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 862,106	$ 825,951
Payments to suppliers	(217,256)	(116,668)
Payments for employee salaries and benefits	(329,711)	(326,599)
Payments for City services	(74,700)	(77,289)
Inter-agency receipts for services, net	8,929	6,663
Net cash provided by operating activities	249,368	312,058
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	12,361	10,598
Inter-agency transfers in (out)	(3,365)	3,530
Net cash provided by noncapital financing activities	8,996	14,128
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	199,406	209,398
Principal paid on revenue bonds and commercial paper notes	(65,705)	(207,196)
Interest paid on revenue bonds and commercial paper notes	(186,203)	(184,717)
Revenue bonds and commercial paper notes issuance costs	(2,003)	--
Payments to escrow accounts for bond refunding and redemption	(5,980)	--
Acquisition and construction of capital assets	(1,089,650)	(933,501)
Proceeds from passenger facility charges	123,630	119,899
Proceeds from customer facility charges	26,846	26,232
Capital contributed by federal agencies	16,547	63,468
Net cash used for capital and related financing activities	(983,112)	(906,417)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	26,044	28,394
Net change in fair value of investments	(22,793)	5,248
Cash collateral received (paid) under securities lending transactions	6,770	(153,202)
Purchases (sales) of investments	(26,693)	44,728
Proceeds from maturities of investments held by fiscal agents	54,737	185,855
Net cash provided by investing activities	38,065	111,023
NET DECREASE IN CASH AND CASH EQUIVALENTS	(686,683)	(469,208)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,865,693	3,334,901
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,179,010	$ 2,865,693

	2013	2012
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 607,976	$ 627,556
Investments with fiscal agents- unrestricted	55	61,764
Cash and pooled investments held in City Treasury- restricted	1,010,119	1,031,575
Investments with fiscal agents- restricted	560,860	1,144,798
Total cash and cash equivalents	$ 2,179,010	$ 2,865,693
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 141,543	$ 117,989
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	134,500	123,941
Change in provision for uncollectible accounts	(1,919)	7,660
Other nonoperating revenue, net	1,629	123
Changes in assets and liabilities		
Accounts receivable	(3,878)	(20,638)
Unbilled receivables	(2,826)	9,323
Prepaid expenses and inventories	2,726	(2,334)
Contracts and accounts payable	(27,450)	52,864
Accrued salaries	871	1,397
Accrued employee benefits	2,537	(1,782)
Other liabilities	1,635	23,515
Total adjustments	107,825	194,069
Net cash provided by operating activities	$ 249,368	$ 312,058
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 80,111	$ 54,606
Net proceeds of refunding bonds deposited in escrow accounts to refund certain outstanding commercial paper notes	244,711	--
Net proceeds of commercial paper notes deposited in escrow accounts to refund certain outstanding bonds	59,926	--

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

The Notes to the Financial Statements include disclosures that are necessary for a better understanding of the accompanying financial statements. An index to the Notes follows:

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1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA owns property consisting of approximately 17,750 acres of land in the City of Palmdale.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop, and operate all property, plant, and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for the use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The accompanying financial statements present the net position and changes in net position and cash flows of LAX. These financial statements are not intended to present the financial position and the results of operations of LAWA or the City, or cash flows of LAWA or the City's enterprise funds.

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the three airports referred to above and the Palmdale property. As further discussed in Note 2, LAX applies all applicable GASB pronouncements as well as private sector pronouncements issued by the Financial Accounting Standards Board (FASB), unless such FASB pronouncements conflict or contradict GASB pronouncements.

c. Cash, Cash Equivalents, and Investments

LAX's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAX's portion of the pool is presented on the statements of net position as "Cash and Pooled Investments Held in City Treasury." LAX's investments, including its share in the City's investment pool, are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net position.

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents.

LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

d. Accounts Receivable and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

Unbilled receivables balances are the result of revenue accrued for services that exceed $5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal year period might not get processed through the billing system for up to sixty days into the next fiscal year.

e. Inventories

LAX's inventories consist primarily of general custodial supplies and are recorded at cost on a first-in, first-out basis.

f. Capital Assets

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of $5,000 for all capital assets other than internally generated computer software where the threshold is $500,000.

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 2013 and 2012 were $88.1 million and $95.6 million, respectively.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; landplane ports, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service. Also, no depreciation is taken on air easements and emission reduction credits because they are considered inexhaustible.

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

h. Operating and Nonoperating Revenues and Expenses

LAX distinguishes between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

i. 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. These fees are calculated using complex and unique allocation methods of relevant operating costs attributable to operational activities approved by the airlines. LAX applies the "*compensatory method*" in determining landing fees. Under this method, the fee charged for a facility or service is 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 year.

j. 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 and when revenue earned is recorded will determine when accruals are required for each tenant.

k. Rates and Charges

On September 17, 2012, the Board approved a new methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The new rates, which will recover the costs of acquiring, constructing, operating and maintaining terminal facilities, are as follows: (i) terminal building rate, (ii) federal inspection services area (FIS) rate, (iii) common use holdroom rate, (iv) common use baggage claim rate, (v) common use outbound baggage system rate, (vi) common use ticket counter rate, and (vii) terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The new rates shall apply beginning January 1, 2013 to airlines and airline consortia agreeing to the new methodology and executing a rate agreement with LAWA (signatory airlines) by December 15, 2012. Agreements executed after December 15, 2012 shall commence on the first day of the next month beginning no less than sixty days after the execution of the agreement. Agreements with signatory airlines terminate on December 31, 2022. The new rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period. In addition, signatory airlines will share in the concession revenue derived from the terminals based on prescribed two-tiered formulae. Tier One Revenue Sharing will have the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing will be distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.

Airlines with existing leases that opt not to sign an agreement under the new methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the new rate agreement. Airlines with no existing leases that opt not to sign the new rate agreement (non-signatory tariff airlines) will be charged with the new rates effective January 1, 2013. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.

l. Unearned Revenue

Unearned revenue consists of concessionaire rentals and payments received in advance, which will be amortized to revenue on the straight-line basis over the applicable period.

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leaves. Accrued employee benefits as of June 30, 2013 and 2012 are as follows (amounts in thousands):

Type of benefit	2013	2012
Accrued vacation leave	$ 20,664	$ 19,503
Accrued sick leave	18,379	17,003
Total	$ 39,043	$ 36,506

n. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

o. Bond Premiums, Discounts, Refunding Charges, and Issuance Costs

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment of debt are deferred and amortized over the life of the bonds. Bonds payable is reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as a component of other noncurrent assets and amortized over the term of the related debt.

p. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Position* – This category presents 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, 2013 and 2012, net position of $855.5 million and $861.5 million, respectively, are restricted by enabling legislation.

- *Unrestricted Net Position* – This category represents net position of LAX that is not restricted for any project or other purpose.

q. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes of which both restricted and unrestricted resources are available, LAX's policy is to apply restricted resources first.

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 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 2012 amounts in order to conform to the fiscal year 2013 presentation. Such reclassifications had no effect on the previously reported change in net position.

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2013.

Issued in November 2010, GASB Statement No. 60, "*Accounting and Financial Reporting for Service Concession Arrangements,*" addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement requires disclosures about SCAs including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. This statement had no impact on LAX's financial statements.

Issued in November 2010, GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34,*" modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. This statement had no impact on LAX's financial statements.

Issued in December 2010, GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,*" incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989 and does not conflict with or contradict GASB pronouncements: (a) Financial Accounting Standards Board (FASB) Statements and Interpretations, (b) Accounting Principles Board Opinions, and (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement had no material impact on LAX's financial statements.

Issued in June 2011, GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,*" provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting requirements in GASB Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. This statement had no material impact on LAX's financial statements.

LAX is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in March 2012, GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of this statement is effective fiscal year 2014.

Issued in March 2012, GASB Statement No. 66, "*Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62,*" resolves conflicting guidance that resulted from the issuance of previously issued pronouncements. Implementation of this statement is effective fiscal year 2014.

Issued in June 2012, GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions,*" replaces the requirements of previously issued statements as they relate to governments that provide pensions through pension plans administered by trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. Governments will report in their financial statements a net pension liability that represents the difference between the total pension liability and the pension plan's fiduciary net position. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including descriptive information about the types of benefits available, how to determine the amount of pension plan contributions, and assumptions and methods used in calculating the pension liability. This statement requires LAX to record a liability and expense equal to their proportionate share of the collective net pension liability and expense of the City's single-employer defined benefit pension plan. Implementation of this statement is effective fiscal year 2015.

Issued in January 2013, GASB Statement No. 69, "*Government Combinations and Disposals of Government Operations,*" establishes accounting and financial reporting standards related to mergers, acquisitions, transfers of operations, and disposal of operations applicable to state and local governmental entities. Implementation of this statement is effective fiscal year 2015.

Issued in April 2013, GASB Statement No. 70, "*Accounting and Financial Reporting for Nonexchange Financial Guarantees,*" requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability in its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. A nonexchange financial guarantee is a credit enhancement or assurance offered by a guarantor without receiving equal or approximately equal value in exchange. Implementation of this statement is effective fiscal year 2014.

3. Cash and Investments

a. Pooled Investments

Pursuant to the California Government Code and the Los Angeles City Council File No. 94-2160, the City Treasurer provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City's pooled investment practices with the following objectives, in order of priority, safety of capital, liquidity, and rate of return. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted under California law.

Each investment transaction and the entire portfolio must comply with the California Government Code and the Policy. Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of the Pool of $1.6 billion and $1.7 billion as of June 30, 2013 and 2012 represented approximately 22% and 24%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated share for fiscal years 2013 and 2012 were $18 million and $44.7 million, respectively. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash, U.S. government securities, and federal agency issued securities as collateral on loaned securities. The cash collateral is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. The City temporarily suspended its securities lending program in May 2012 and resumed in December 2012. At June 30, 2013, LAX's portion of the cash collateral and the related obligation in the City's program was $6.8 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2013 was $6.8 million. Such securities are stated at fair value. LAX's portion of the noncash collateral at June 30, 2013 was $144.1 million.

During the fiscal years, 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 years. There was no credit risk exposure to the City at June 30, 2013 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.

c. Investments with Fiscal Agents

The investment practices of the fiscal agents that relate to LAX's portfolio are similar as those of the City Treasurer's, and have similar objectives. LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	2013	2012
Unrestricted, current		
Commercial paper	$ 55	$ 61,764
Restricted, current and noncurrent		
Bond security funds	331,164	402,476
Construction funds	229,696	797,059
Subtotal	560,860	1,199,535
Total	$ 560,915	$ 1,261,299

The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

At June 30, 2013, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities
Money market mutual funds	$ 250,285	1 to 30 days
State of California LAIF	310,575	61 to 365 days
Bank deposit accounts	55	n/a
Total	$ 560,915	

At June 30, 2012, the investments and their maturities are as follows (amounts in thousands):

		Investment maturities		
	Amount	1 to 30 days	31 to 60 days	61 to 365 days
U.S. Treasury notes	$ 54,737	$ --	$ --	$ 54,737
Money market mutual funds	1,140,396	276,741	863,655	--
Subtotal	1,195,133	$ 276,741	$ 863,655	$ 54,737
Bank deposit accounts	66,166			
Total	$ 1,261,299			

Interest Rate Risk. LAX adopts the City's policy that limits the maturity of investments to five years for U.S. Treasury and government agency securities. The policy allows funds with longer term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2013 and 2012, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's. In August 2011, Standard and Poor's lowered its long-term credit rating on U.S. government debt from AAA to AA+. This downgrade relates to the credit risk associated with LAX's investments in U.S. Treasury notes held by the fiscal agents at June 30, 2012.

As of June 30, 2013, LAX's investments in the State of California Local Agency Investment Fund (LAIF) held by fiscal agents totaled $310.6 million. The total amount invested by all public agencies in LAIF at that date was $21.2 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2013, the investments in the PMIA totaled $58.8 billion, of which 98% is invested in non-derivative financial products and 2% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 278 days as of June 30, 2013. LAIF is not rated.

The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn anytime, is determined on a historical basis, which is different than the fair value of LAX's position in the pool.

The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2013 (amounts in thousands):

	Balance at July 1, 2012	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2013
Capital assets not depreciated					
Land and land clearance	$ 741,597	$ 66,255	$ --	$ 32,678	$ 840,530
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	2,019,451	1,076,961	--	(252,875)	2,843,537
Total capital assets not depreciated	2,811,312	1,143,216	--	(220,197)	3,734,331
Capital assets depreciated					
Buildings	574,217	45,209	--	14,149	633,575
Improvements	2,687,185	8,184	--	191,810	2,887,179
Computer software	--	--	--	2,466	2,466
Equipment and vehicles	182,438	6,902	(1,599)	11,772	199,513
Total capital assets depreciated	3,443,840	60,295	(1,599)	220,197	3,722,733
Less accumulated depreciation					
Buildings	(364,218)	(14,029)	--	--	(378,247)
Improvements	(935,215)	(112,172)	--	--	(1,047,387)
Equipment and vehicles	(136,510)	(8,299)	1,381	--	(143,428)
Total accumulated depreciation	(1,435,943)	(134,500)	1,381	--	(1,569,062)
Capital assets depreciated, net	2,007,897	(74,205)	(218)	220,197	2,153,671
Total capital assets	$ 4,819,209	$ 1,069,011	$ (218)	$ --	$ 5,888,002

LAX had the following activities in capital assets during fiscal year 2012 (amounts in thousands):

	Balance at July 1, 2011	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2012
Capital assets not depreciated					
Land and land clearance	$ 703,664	$ --	$ --	$ 37,933	$ 741,597
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	1,971,102	984,415	--	(936,066)	2,019,451
Total capital assets not depreciated	2,725,030	984,415	--	(898,133)	2,811,312
Capital assets depreciated					
Buildings	574,217	--	--	--	574,217
Improvements	1,765,362	31,299	--	890,524	2,687,185
Equipment and vehicles	178,429	2,490	(6,090)	7,609	182,438
Total capital assets depreciated	2,518,008	33,789	(6,090)	898,133	3,443,840
Less accumulated depreciation					
Buildings	(350,335)	(13,883)	--	--	(364,218)
Improvements	(834,044)	(103,764)	--	2,593	(935,215)
Equipment and vehicles	(133,123)	(6,294)	5,500	(2,593)	(136,510)
Total accumulated depreciation	(1,317,502)	(123,941)	5,500	--	(1,435,943)
Capital assets depreciated, net	1,200,506	(90,152)	(590)	898,133	2,007,897
Total capital assets	$ 3,925,536	$ 894,263	$ (590)	$ --	$ 4,819,209

5. Commercial Paper

As of June 30, 2013 and 2012, LAX had outstanding commercial paper (CP) notes of $68.1 million and $162.2 million, respectively. The respective average interest rates in effect as of June 30, 2013 and 2012 were 0.15% and 0.17%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

LAX entered into a letter of credit and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of America for $54.5 million to expire on March 6, 2015; Barclays Bank for $54.5 million to expire on March 7, 2014; Citibank for $109 million to expire on March 8, 2015; and Wells Fargo Bank for $163.5 million to expire on March 6, 2015.

LAX had the following CP activity for the fiscal years ended June 30, 2013 and 2012 (amounts in thousands):

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
Series A	$ --	$ --	$ --	$ --	$ 32,512	$ (32,512)	$ --
Series B	115,012	47,199	(115,012)	47,199	50,000	(97,199)	--
Series C	--	47,199	(47,199)	--	95,541	(27,455)	68,086
Series D	--	115,000	--	115,000	--	(115,000)	--
Total	$ 115,012	$ 209,398	$ (162,211)	$ 162,199	$ 178,053	$ (272,166)	$ 68,086

On October 23, 2012, LAX sold $59.9 million CP notes for the redemption of the outstanding Series 2002A bonds and advance refunding of the outstanding Series 2003B bonds. The net proceeds of the CP notes plus amounts available from the debt service fund accounts of the aforementioned bonds were deposited into escrow accounts as follows: $32.5 million Series 2002A Escrow Fund, and $33.4 million Series 2003B Escrow Fund. On November 1, 2012, the outstanding Series 2002A bonds with par amount of $32.5 million were redeemed. The amount deposited into the irrevocable Series 2003B Escrow Fund will provide for all future debt service on the bonds. Accordingly, the refunded bonds were considered defeased such that the corresponding liability was subsequently removed from LAX's books and the trust account assets were excluded. The above redemption and advance refunding transactions resulted in a net gain for accounting purposes of $0.4 million, which is credited to operations.

6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2013 and 2012 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal 2013	Outstanding principal 2012
Issue of 2002, Series A	12/19/02	4.100% - 5.250%	2019	$ 32,450	$ --	$ 32,450
Issue of 2003, Series B	5/07/03	4.000% - 5.000%	2015	103,625	--	31,775
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	602,075	540,770	551,545
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	2,665	3,905
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	222,440	227,080
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	297,520	303,260
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	307,350	307,350
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,815	15,535	22,755
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	27,955	31,325
Issue of 2010, Series A	4/08/10	3.000% - 5.000%	2040	930,155	930,155	930,155
Issue of 2010, Series B	11/04/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/04/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	867,545	871,735
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	105,610	--
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	144,555	--
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	27,870	--
Total principal amount				$ 3,957,810	3,684,010	3,507,375
Unamortized premium					112,779	73,924
Unamortized discount					(8,053)	(8,377)
Unamortized refunding charges					(730)	(1,169)
Net revenue bonds					3,788,006	3,571,753
Less current debt					(53,220)	(51,790)
Net noncurrent debt					$ 3,734,786	$ 3,519,963

b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that LAX's pledged revenues, as defined, shall be the security and source of payment for the bonds.

LAX has received approval from the Federal Aviation Administration to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2013 and 2012, the Board authorized the use of PFCs funds not to exceed \$35 million and \$25.2 million for this purpose, respectively. Of the authorized amounts, \$34.4 million and \$25.2 million were used for debt service in fiscal years 2013 and 2012, respectively.

The total principal and interest remaining to be paid on the bonds is \$6.9 billion. Principal and interest paid during fiscal year 2013 and the net pledged revenues (as defined and including the \$34.4 million PFCs funds discussed in the preceding paragraph), were \$224.2 million and \$322.5 million, respectively. Principal and interest paid during fiscal year 2012 and the net pledged revenues, (as defined and including the \$25.2 million PFCs funds discussed in the preceding paragraph), were \$229.4 million and \$302.4 million, respectively.

c. Fiscal Year 2013 Issuances

On December 18, 2012, LAX issued senior lien revenue bonds in the aggregate par amount of \$279.1 million broken down as follows: Series 2012A for \$105.6 million, Series 2012B for \$145.6 million, and Series 2012C for \$27.9 million. The premium for these issuances totaled \$46.9 million. The bonds were issued to pay for certain capital projects and to refund outstanding subordinate CP notes totaling \$244.7 million.

Of the \$244.7 million refunded CP notes, \$32.5 million was used for the interim redemption of the Series 2002A bonds (see page 46). Since the \$32.5 million CP notes were refunded by the Series 2012C bonds, effectively, Series 2002A bonds were refunded by Series 2012C bonds. These transactions resulted in a cash flow savings of \$6.6 million and economic gain of \$6 million.

d. Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

Fiscal year(s) ending	Principal	Interest	Total
2014	$ 53,220	$ 190,267	$ 243,487
2015	72,390	187,940	260,330
2016	77,425	184,739	262,164
2017	80,830	181,195	262,025
2018	84,425	177,445	261,870
2019 - 2023	477,315	820,619	1,297,934
2024 - 2028	607,020	684,163	1,291,183
2029 - 2033	784,895	506,291	1,291,186
2034 - 2038	996,500	278,753	1,275,253
2039 - 2040	449,990	35,158	485,148
Total	$ 3,684,010	$ 3,246,570	$ 6,930,580

e. Build America Bonds

LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of $307.4 million and $59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as “sequestration”) for the federal fiscal year ending September 30, 2013 reduced the subsidy. The interest subsidy on the BABs was $8 million for FY 2013 and $8.3 million for FY 2012. The subsidy is recorded as a noncapital grant, a component of other nonoperating revenue.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for the fiscal years ended June 30, 2013 and 2012 (amounts in thousands):

	Balance at July 1, 2012	Additions	Reduction	Balance at June 30, 2013	Current Portion
Revenue bonds	$ 3,507,375	$ 279,110	$ (102,475)	$ 3,684,010	$ 53,220
Add unamortized premium	73,924	46,881	(8,026)	112,779	--
Less unamortized discount	(8,377)	--	324	(8,053)	--
Less unamortized refunding charges	(1,169)	--	439	(730)	--
Net revenue bonds	3,571,753	325,991	(109,738)	3,788,006	53,220
Accrued employee benefits	36,506	6,553	(4,016)	39,043	4,295
Estimated claims payable	65,334	8,185	(5,854)	67,665	6,264
Unearned revenue	4,165	5,371	--	9,536	9,536
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,474	--	(12)	9,462	--
Other long-term liabilities	5,662	634	(2,505)	3,791	--
Total long-term liabilities	$ 3,705,677	$ 346,734	$ (122,125)	$ 3,930,286	$ 73,315

	Balance at July 1, 2011	Additions	Reduction	Balance at June 30, 2012	Current Portion
Revenue bonds	$ 3,552,360	$ --	$ (44,985)	$ 3,507,375	$ 51,790
Add unamortized premium	78,094	--	(4,170)	73,924	--
Less unamortized discount	(8,700)	--	323	(8,377)	--
Less unamortized refunding charges	(1,357)	--	188	(1,169)	--
Net revenue bonds	3,620,397	--	(48,644)	3,571,753	51,790
Accrued employee benefits	38,288	6,111	(7,893)	36,506	4,016
Estimated claims payable	48,892	20,773	(4,331)	65,334	5,854
Unearned revenue	--	4,165	--	4,165	4,165
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	10,013	--	(539)	9,474	--
Other long-term liabilities	5,099	563	--	5,662	--
Total long-term liabilities	$ 3,735,472	$ 31,612	$ (61,407)	$ 3,705,677	$ 65,825

8. Leases

a. Operating Leases

LAX has entered into numerous rental agreements with concessionaires for food and beverage, gift and news, duty-free, rental car facilities, and advertisements. In general, the agreements provide for cancellation on a 30-day notice by either party; however, they are intended to be long-term in nature with renewal options. Accordingly, these agreements are considered operating leases for purposes of financial reporting.

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2013 and 2012, revenues from such agreements were approximately $221.2 million and $199.1 million, respectively. The respective amounts over MAG were $61.4 million and $53.1 million.

Minimum future rents under these agreements over the next five years, assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2014	$ 142,053
2015	74,244
2016	18,499
2017	16,768
2018	14,935
Total	$ 266,499

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT), Terminal 2, and Theme Building for a term of 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $81.9 million in initial improvements and $16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 3-1-12 Agreement, Westfield shall pay LAX the minimum annual guaranteed rent (MAG) of $17.7 million ($210 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) $210 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $78.6 million in initial improvements and $15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 6-22-12 Agreement, Westfield shall pay LAX the minimum annual guaranteed rent (MAG) of over $17 million ($240 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) $240 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

Minimum future rents under these two agreements with Westfield over the next five years are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2014	$ 9,024
2015	26,794
2016	35,894
2017	36,612
2018	37,344
Total	$ 145,668

LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from 35 to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the fiscal years ended June 30, 2013 and 2012, revenues from these leases were $338.3 million and $328.6 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the following assumptions: (a) current agreements are carried to contractual termination, (b) airline agreements with no definitive expiry dates are carried over for the next five years, and (c) non-airline agreements with no definitive expiry dates are carried over for the next three years. The future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2014	$ 360,907
2015	355,828
2016	349,797
2017	339,606
2018	323,840
Total	$ 1,729,978

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2013 and 2012 are as follows (amounts in thousands):

	2013	2012
Buildings and facilities	$ 1,628,845	$ 1,532,645
Less- Accumulated depreciation	(476,096)	(424,620)
Net	1,152,749	1,108,025
Land	555,997	489,742
Total	$ 1,708,746	$ 1,597,767

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2013 and 2012 were $4.7 million and $4.2 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2014	$ 1,797
2015	1,797
2016	1,797
2017	1,797
2018	1,797
2019 - 2023	8,984
2024 - 2028	8,984
2029 - 2032	7,187
Total	$ 34,140

On June 25, 2013, LAX purchased a 17.6 acres commercial real estate property (known as Skyview Center) located adjacent to the airport. The $111.5 million acquisition includes the land, two 12 and 11 storey office buildings, a parking structure, and a 14.4 acres parking lot. Prior to the purchase of the property, LAX leased certain areas of one of the buildings for office space.

9. Passenger Facility Charges

PFCs are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. LAX has received approvals from FAA to impose PFCs for various projects. The current PFCs is $4.50.

As previously discussed, LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2013 and 2012, the Board authorized the use of PFCs funds not to exceed $35 million and $25.2 million, respectively. Of the authorized amounts, $34.4 million and $25.2 million were used for debt service in fiscal years 2013 and 2012, respectively.

The following project summary has been approved by FAA as of June 30, 2013 (amounts in thousands):

Terminal development	$ 1,632,304
Noise mitigation	822,539
Airfield development	82,645
Aircraft rescue and firefighting vehicles	975
Total	$ 2,538,463

PFCs collected and the related interest earnings through June 30, 2013 and 2012 were as follows (amounts in thousands):

	2013	2012
Amount collected	$ 1,674,348	$ 1,552,868
Interest earnings	177,204	165,902
FAA approved transfer to ONT	(126,090)	(126,090)
Total	$ 1,725,462	$ 1,592,680

As of June 30, 2013 and 2012, cumulative expenditures to date on approved PFCs projects, excluding the related expenditures on the transfer to ONT, totaled $1,014.7 million and $857.9 million, respectively.

10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charges (CFCs) from car rental agencies serving LAX. State law allows airports to collect a fee of $10 per on-airport rental car agency transaction to fund the development of consolidated car rental facility and common-use transportation system. CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2013 and 2012 were as follows (amounts in thousands):

	2013	2012
Amount collected	$ 144,106	$ 117,260
Interest earnings	7,997	6,318
Total	$ 152,103	$ 123,578

As of June 30, 2013 and 2012, cumulative expenditures to date on approved CFCs projects totaled $3 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $12.3 million and $59.9 million in fiscal years 2013 and 2012, respectively. Capital grant funds are used for the Airport Improvement Program and Transportation Security Administration capital projects.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for the fiscal years ended June 30, 2013 and 2012 were $81.6 million and $78.3 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2013 and 2012 were $7.3 million and $7 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD such as legal, human services, and financial services. In addition, LAX pays reliever airport fee to VNY. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2013 and 2012 was $1.069 million and $1.052 million, respectively. The details are as follows (amounts in thousands):

	FY 2013	FY 2012
Allocated administrative costs		
ONT	$ 7,907	$ 7,908
VNY	1,692	1,847
PMD	399	380
Total	9,998	10,135
Reliever airport fee	--	(2,420)
Land rental	(1,069)	(1,052)
Net	$ 8,929	$ 6,663

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43 million out of approximately $58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway.

The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling $17.7 million plus 3% interest for a total of $21.3 million. To effect payment, the installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2013 and 2012, the respective outstanding principal amount of $13.8 million and $14.7 million payable beyond one year were reported under Other Noncurrent Assets while the balance of $0.82 million and $0.79 million payable within one year were reported under Unrestricted Current Assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328.

As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City. Pension and other postemployment benefits are established pursuant to City ordinance. Employees with ten or more years of service may retire if they are at least 55 years old. 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. 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 health premium subsidy with a City-approved health carrier.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 24.14% in fiscal year 2013, 27.66% in fiscal year 2012, and 24.49% in fiscal year 2011. The required contribution rates were based on the June 30, 2011, June 30, 2010 and June 30, 2009 actuarial valuations, respectively. LAWA paid 100% of its annual contributions of which LAX's portions for fiscal years 2013, 2012 and 2011 were $54.7 million, $50.2 million and $49.2 million, respectively.

Effective July 1, 2011, members contribute 7%, 9% or 11% of pay, depending upon the bargaining group to which they belong. Most of the members who contribute 7% or 9% were required to contribute 11% effective July 1, 2012, and January 1, 2013, respectively. The City Charter and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation (NPO) to LAWA based upon its percentage of payroll benefit costs for all City employees. The allocated NPO at June 30, 2013 and 2012 was $9.5 million. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to the other two airports.

d. Funded Status of the Plans

The City issues a publicly available financial report that includes complete disclosures and required supplementary information on the funded status of the plans. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

14. Risk Management

The Risk Management Division (RMD) administers LAWA's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAWA's ability to meet its business goals and objectives.

LAWA maintains insurance coverage of $1.3 billion for general aviation liability and $1 billion for war and allied perils. Additional insurance coverage is carried for general all risk property insurance for $2 billion, that includes $250 million for boiler and machinery, and $25 million for earthquake. Deductibles for these policies are $10,000 per claim with a $400,000 annual aggregate for general liability, and $100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAX also maintains a separate owner controlled insurance program (OCIP) to cover risks associated with the Bradley West Improvement Project. The OCIP covers associated workers' compensation, general liability, and builder's risks exposures for the project and its contracted participants. The aggregate coverage level is $300 million with a $250,000 deductible per occurrence. The OCIP is in effect for the five-year construction period ending in 2014. Additionally, LAX maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2013, 2012, and 2011, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from these lawsuits. The liability for litigation and other claims at June 30, 2013 and 2012 was $11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liability at June 30, 2013 and 2012 were $56 million and $53.6 million, respectively.

The changes in LAX's estimated claims payable are as follows (amounts in thousands):

	June 30		
	2013	2012	2011
Balance at beginning of year	$ 65,334	$ 48,892	$ 47,877
Provision for current year's events and changes in provision for prior years' events	8,185	20,773	6,038
Claims payments	(5,854)	(4,331)	(5,023)
Balance at end of year	$ 67,665	$ 65,334	$ 48,892
Current portion	$ 6,264	$ 5,854	$ 4,331

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $140.4 million and $121.8 million as of June 30, 2013 and 2012, respectively. Significant amounts were committed for the following projects: TBIT improvements, elevator and escalator system upgrade, central utility plant replacement, information technology network expansion, and noise mitigation projects.

b. LAX Master Plan

The LAX Master Plan was adopted by the Board and approved by the City Council in 2004. It 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.

Settlement agreements were entered into by the City and several entities that filed lawsuits in connection with the LAX Master Plan. Among other things, the agreements require LAX to limit the number of terminal gates; involve the surrounding communities in project planning; provide funding for traffic and noise mitigation and abatement, job training and opportunities, street and street lighting improvements, and air quality and environmental programs; and develop a regional initiative to encourage passenger and cargo activity at other airports. LAX is continuing to perform its obligations pursuant to these agreements conditioned upon FAA's approval of expenditures and use of airport revenues for the specified purposes.

In connection with the approval of the LAX Master Plan, the City Council amended the City's general plan to include a component specific to LAX, the LAX Plan. Along with the approval of the LAX Master Plan in 2004, the City Council also adopted the LAX Specific Plan, an ordinance that establishes zoning and development regulations consistent with the LAX Plan. The LAX Specific Plan requires LAWA to initiate a Specific Plan Amendment Study (SPAS) to address, among other things, security, traffic, aviation activity, and corresponding environmental analysis consistent with the California Environmental Quality Act (CEQA).

On May 30, 2013, the Alliance for a Regional Solution to Airport Congestion filed a petition for writ of mandate in the California Superior Court (Court) against the City alleging that the SPAS final environmental impact report (SPAS Final EIR) was not completed in compliance with CEQA and requested, among other things, the Court to set aside all approvals based upon the SPAS Final EIR. Lawsuits on similar grounds have been filed by the City of Inglewood, Culver City, City of Ontario, County of San Bernardino, and the SEIU United Service Workers West. No hearing date has been set. The parties are currently engaged in settlement discussions.

c. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns. Intensified security precautions have been instituted by government agencies, airlines, and airport operators since the September 11, 2001 terrorist attacks. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot as well as a potential terrorist target. LAX is unable to predict: (a) the likelihood of future incidents of terrorism and other airline travel disruptions; (b) the impact of the aforementioned security issues on its operations and revenues; and (c) financial impact to the airlines operating at LAX.

d. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy.

As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2013 and 2012 was $12.8 million. LAX does not expect any recoveries reducing this obligation.

The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates eight USTs at LAX. The NOV did not specify any particular violations but the SWRCB subsequently identified a number of alleged violations that are under review along with continued improvement of LAWA's overall UST compliance program.

e. Terminal Leases

In January 2007, American Airlines, Continental Airlines, and United Airlines (the Plaintiffs) filed a complaint in Federal District Court alleging that LAWA has imposed new M&O charges in violation of their leases at LAX.

In January 2008, the Board approved interim settlement agreements with the Plaintiffs. Thereafter, a joint stipulation for dismissal of the entire action filed by the parties was granted by the Court without prejudice to renew. United Airlines and Continental Airlines have since settled their claims with LAX relating to this matter.

The interim settlement with American Airlines (AA) was subsequently extended until December 31, 2010 and the action has not been reinitiated. AA continued to pay M&O charges, based on the already expired interim settlement agreement, that is lower than LAX's interpretation of the lease.

In November 2011, AA's parent company filed for Chapter 11 bankruptcy protection. Pursuant to bankruptcy laws, AA has a certain period of time to assume or reject the lease and must cure any defaults if it assumes the lease. AA has assumed the lease, but has put aside the "cure" issue for future court hearing. LAWA views the underpayment as a default under the lease. At this time AA and LAWA are negotiating the cure amount.

f. AMR Corporation Bankruptcy Filing

In November 2011, AMR Corporation, the parent company of AA, filed for Chapter 11 bankruptcy protection. AA is the top airline, by number of passengers, operating at LAX. Although AA's operations at the airport remain as usual, LAX cannot predict the outcome of the bankruptcy filing.

16. Other Matter

City Financial Challenges

Faced with projected gaps in the General Fund budget, the City implemented various measures and considering others to attain a balanced budget. Such measures include hiring freeze for civilian positions, implementing an early retirement incentive program, mandating unpaid days off for certain employees, consolidating City departments, leasing of City parking facilities, and eliminating and laying off General Fund positions.

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect LAX's operations. However, auxiliary services provided to LAX by other City departments may be impacted. In addition, the City's budget challenges may have an adverse effect on the trading value of LAX's outstanding and future bond issues.

17. Subsequent Event

Revenue Bonds Issuance

On October 15, 2013, the Board authorized the issuance of the Series 2013 LAX revenue bonds in an aggregate par amount not to exceed $350 million. The proceeds of the issuance will be used to provide ongoing funding for the Terminal 4 Connector, Bradley West Core Renovations, and various capital projects.

2013 ANNUAL FINANCIAL REPORT

Supplemental Information

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Los Angeles City Retirement System
Schedules of Funding Progress

Prorated Data for Los Angeles World Airports
(Non-GAAP Basis – Unaudited)
(dollar amounts in thousands)

Defined Benefit Pension Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2010	$ 1,248,131	$ 1,645,405	$ 397,274	76%	$ 237,458	167%
6/30/2011	1,186,475	1,639,552	453,077	72%	224,463	202%
6/30/2012	1,285,854	1,862,970	577,116	69%	235,463	245%

Other Postemployment Benefit Healthcare Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2010	$ 186,256	$ 291,832	$ 105,576	64%	$ 237,458	44%
6/30/2011	189,386	241,030	51,644	79%	224,463	23%
6/30/2012	212,568	296,699	84,131	72%	235,463	36%

Notes to the Schedules

1. LAWA's portions of the actuarial assets and liabilities were prorated based on covered payroll. Such prorated data is not indicative of the results of an actuarial valuation of LAWA on a stand-alone basis.

2. The multiyear trend information presented above is those of LAWA and is not allocated to LAWA's three airports.

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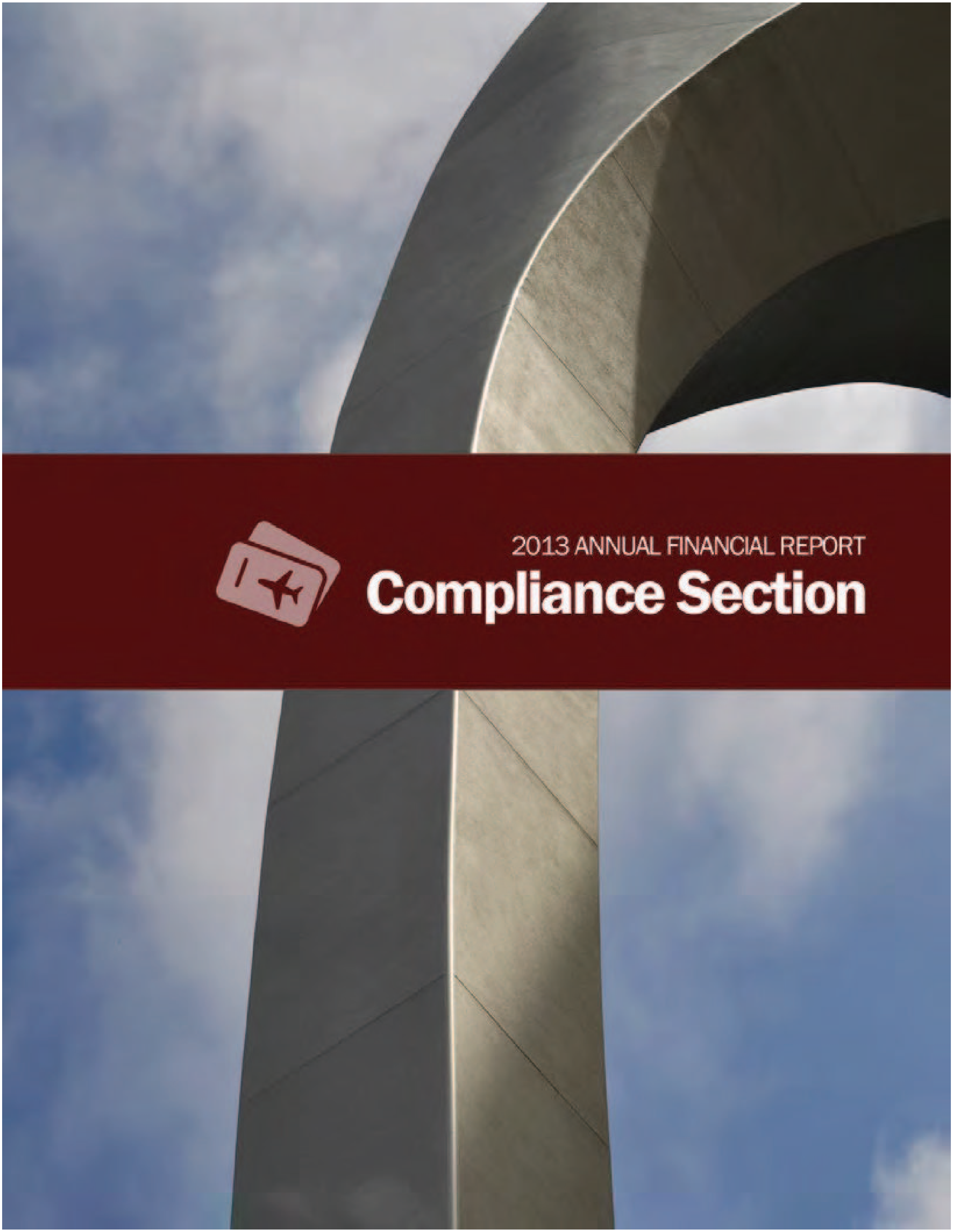

2013 ANNUAL FINANCIAL REPORT

Compliance Section

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE PASSENGER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise und of the City of Los Angeles, with compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the fiscal year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the fiscal year ended June 30, 2013.

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the Guide. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
October 28, 2013

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over (under) revenues collected on approved projects
Program to date as of June 30, 2011	$ 1,431,567	$ 155,102	$ 1,586,669	$ 927,874	$ 658,795
Fiscal year 2011-12 transactions					
Quarter ended September 30, 2011	30,383	1,599	31,982	2,248	29,734
Quarter ended December 31, 2011	29,731	1,551	31,282	16,745	14,537
Quarter ended March 31, 2012	27,476	4,237	31,713	11,909	19,804
Quarter ended June 30, 2012	33,711	3,413	37,124	27,116	10,008
Program to date as of June 30, 2012	1,552,868	165,902	1,718,770	985,892	732,878
Fiscal year 2012-13 transactions					
Quarter ended September 30, 2012	30,571	2,170	32,741	1,771	30,970
Quarter ended December 31, 2012	29,628	2,691	32,319	(8,751)	41,070
Quarter ended March 31, 2013	31,119	3,144	34,263	3,979	30,284
Quarter ended June 30, 2013	30,162	3,297	33,459	159,805	(126,346)
Unexpended passenger facility charge revenues and interest earned June 30, 2013	$ 1,674,348	$ 177,204	$ 1,851,552	$ 1,142,696	$ 708,856

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
June 30, 2013 and 2012

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects.

The current PFCs rate is $4.50. The PFCs collection authority approved to date by FAA is $2.5 billion. The details are as follows (amounts in thousands):

Application number	Charge effective date	Approval of use date	Amount approved for use
96-02-U-00-LAX, closed 6/2/03	03/26/93	05/06/96	$ 116,371
96-03-C-00-LAX, closed 10/1/08	05/10/96	05/10/96	50,223
97-04-C-02-LAX	11/28/97	11/28/97	610,000
97-04-C-02-LAX	10/31/98	10/31/98	90,000
05-05-C-00-LAX	12/01/05	12/01/05	229,750
05-05-C-01-LAX	12/01/05	12/01/05	468,030
07-06-C-00-LAX	01/01/08	01/01/08	85,000
10-07-C-00-LAX	06/01/12	06/01/12	855,000
11-08-C-00-LAX	03/01/19	03/01/19	34,089
Total			$ 2,538,463

In May 1996, FAA approved LAWA's request to transfer a portion of PFCs revenues collected at LAX to fund certain projects at ONT. Accordingly, PFCs revenues totaling $126.1 million collected at LAX were transferred to ONT.

In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to $468 million to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Project. The amounts used for this purpose were $34.4 million and $25.2 million in fiscal years 2013 and 2012, respectively.

The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date June 30 2013	Expenditures to date June 30 2012
ONT- Terminal Development Program	$ 116,371	$ 116,371	$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	78,576	44,176
Implementation of IT Security Master Plan	56,573	33,063	28,790
Noise Mitigation - Land Acquisitions	485,000	348,312	360,292
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	29,710	25,575
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	38,067	34,091
Bradley West	855,000	122,000	--
Lennox Schools Soundproofing Program	34,089	11,215	11,215
Total	$ 2,538,463	$ 1,142,696	$ 985,892

2. Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (Schedule) represents amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports. The Schedule was prepared using the cash basis of accounting.

3. Excess Project Expenditures

The expenditures for Aircraft Noise Monitoring and Management System project were in excess of the authorized amount. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15% or less.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE CUSTOMER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, for its customer facility charge program for the fiscal year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2013.

Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance
(continued)

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *California Civil Code Section 1936, as amended by SB 1192*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
October 28, 2013

Los Angeles International Airport

Schedule of Customer Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2013 and 2012
(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of June 30, 2011	$ 91,029	$ 4,945	$ 95,974	$ 3,026	$ 92,948
Fiscal year 2011-12 transactions					
Quarter ended September 30, 2011	6,750	392	7,142	--	7,142
Quarter ended December 31, 2011	6,579	407	6,986	--	6,986
Quarter ended March 31, 2012	6,002	391	6,393	--	6,393
Quarter ended June 30, 2012	6,900	183	7,083	--	7,083
Program to date as of June 30, 2012	117,260	6,318	123,578	3,026	120,552
Fiscal year 2012-13 transactions					
Quarter ended September 30, 2012	7,120	464	7,584	--	7,584
Quarter ended December 31, 2012	6,825	431	7,256	--	7,256
Quarter ended March 31, 2013	5,855	374	6,229	--	6,229
Quarter ended June 30, 2013	7,046	410	7,456	--	7,456
Unexpended customer facility charge revenues and interest earned June 30, 2013	$ 144,106	$ 7,997	$ 152,103	$ 3,026	$ 149,077

See accompanying notes to the schedule of customer facility charge revenues and expenditures.

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures
June 30, 2013 and 2012

1. General

Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) (Code) authorized the imposition of Customer Facility Charges (CFCs) and use of CFC revenue to plan, finance, design, and construct on-airport consolidated rental car facilities (CRCF).

On March 5, 2007, the Board found that the CRCF proposed by management was sufficiently definitive and authorized the collection of CFCs of $10 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

The proposed CRCF at LAX will enhance efforts to reduce traffic congestion while also providing an efficient, secure, safe, and reliable transportation system.

CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2013	2012
Amount collected	$ 144,106	$ 117,260
Interest earnings	7,997	6,318
Subtotal	152,103	123,578
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	$ 149,077	$ 120,552

2. Basis of Accounting – Schedule of Customer Facility Charge Revenues and Expenditures

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the cash basis of accounting.

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Los Angeles World Airports
Administrative Offices
1 World Way
Los Angeles, CA 90045-5803
Mail: PO Box 92216
Los Angeles, CA 90009-2216
Telephone: (310) 646-5252
Internet: www.lawa.aero

Los Angeles International Airport
1 World Way
Los Angeles, CA 90045-5803
Telephone: (310) 646-5252

LA/Ontario International Airport
1923 East Avion Street
Ontario, CA 91761
Telephone: (909) 937-2700

Van Nuys Airport
16461 Sherman Way, Suite 300
Van Nuys, CA 91406
Telephone: (818) 442-6500

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, the Fourteenth Supplemental Senior Indenture, the Master Subordinate Indenture and the Eighth Supplemental Subordinate Indenture found in Appendices C-2 through C-5.

"*Accreted Value*" means (a) with respect to any Capital Appreciation Senior Bonds or Capital Appreciation Subordinate Obligations, as the case may be, as of any date of calculation, the sum of the amount set forth in a Supplemental Senior Indenture or a Supplemental Subordinate Indenture, as the case may be, as the amount representing the initial principal amount of such Capital Appreciation Senior Bonds or Capital Appreciation Subordinate Obligations, as the case may be, 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 or Original Issue Discount Subordinate Obligations, as the case may be, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Senior Bonds or Original Issue Discount Subordinate Obligations, as the case may be, 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 or Supplemental Subordinate Indenture, as the case may be, authorizing the issuance of such Capital Appreciation Senior Bond or Original Issue Discount Senior Bond or Capital Appreciation Subordinate Obligation or Original Issue Discount Subordinate Obligation, as the case may be.

"*Aggregate Required Deposits*" means, for any month, the sum of the Required Deposits under all Supplemental Subordinate Indentures becoming due in such month.

"*Airport Revenue Fund*" means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

"*Airport System*" means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, LA/Ontario International Airport, Van Nuys Airport and LA/Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

"*Authorized Representative*" means the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer or such other officer or employee of the Board or the Department or other person which other officer, employee or person has been designated by the Board or the Department as an Authorized Representative by written notice delivered by the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Senior Trustee or the Subordinate Trustee, as the case may be.

"*Balloon Indebtedness*" means, with respect to any Series of Senior Bonds or Subordinate Obligations, as the case may be, 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 or Subordinate Obligations, as the case may be, 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 or Subordinate Obligations, as the case may be, 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. A Subordinate Commercial Paper Program and the Commercial Paper constituting part of such Subordinate Program will not be Balloon Indebtedness.

"*Board*" means the Board of Airport Commissioners of the City of Los Angeles, California, created under the provisions of the Charter, and any successor to its function.

"*Bond Counsel*" means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Senior Indenture and the Subordinate Indenture, as the case may be, and which are acceptable to the Department.

"*Bondholder,*" "*holder*," "*owner*" or "*registered owner*" means (a) for purposes of the Senior Indenture, 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; and (b) for purposes of the Subordinate Indenture, the person in whose name any Subordinate Obligation or Subordinate Obligations are registered on the books maintained by the Subordinate Registrar and will include any Credit Provider or Liquidity Provider to which a Subordinate Repayment Obligation is then owed, to the extent that such Subordinate Repayment Obligation is deemed to be a Subordinate Obligation under the provisions of the Subordinate Indenture.

"*Business Day*" means a day on which banks located in New York, New York, in Los Angeles, California and in the city in which the principal corporate trust office of the Senior Trustee or the Subordinate Trustee, as the case may be, 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 or any specified Series of Subordinate Obligations if so provided by Supplemental Subordinate 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.

"*Capital Appreciation Subordinate Obligations*" means Subordinate Obligations all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Subordinate Indenture and is payable only upon redemption or on the maturity date of such Subordinate Obligations. Subordinate Obligations which are issued as Capital Appreciation Subordinate Obligations, but later convert to Subordinate Obligations on which interest is paid periodically will be Capital Appreciation Subordinate Obligations until the conversion date and from and after such conversion date will no longer be Capital Appreciation Subordinate Obligations, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

"*Charter*" means the Charter of the City of Los Angeles, as amended from time to time, and any other article or section of the Charter of the City of Los Angeles, as amended from time to time, in which the provisions relating to the Board and the Department are set forth or may hereafter be set forth, and any predecessor provisions thereof which will be deemed to continue in force.

"*Chief Financial Officer*" means the person at a given time who is the chief financial officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

"*Chief Operating Officer*" means the person at a given time who is the chief operating officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

"*City*" means The City of Los Angeles, California.

"*City Attorney*" means legal counsel to the Board and staff of the Department who otherwise acts as provided for in the Charter.

"*City Treasury*" means the official depository of the City established pursuant to the Charter which is under the control of the Treasurer.

"*Code*" means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

"*Commercial Paper*" means notes of the Department with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Senior Program or a Subordinate Program, as the case may be, 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 or the Subordinate Indenture, as the case may be.

"*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 and Subordinate Obligations, costs of Credit Facilities, Liquidity Facilities, Senior Capitalized Interest, Subordinate Capitalized Interest, the Senior Reserve Fund, any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund), any Subordinate Debt Service Reserve Fund, Senior Trustee's fees and expenses, and Subordinate 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, or any Subordinate Swap Termination Payments due in connection with a Series of Subordinate Obligations or the failure to issue such Series of Subordinate Obligations, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. Costs of a Project will also include 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.

"*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), a Subordinate Debt Service Reserve Fund Surety Policy, or other financial instrument which obligates a third party to make payment of or provide funds to the Senior Trustee or the Subordinate Trustee, as the case may be, for the payment of the principal of and/or interest on Senior Bonds or Subordinate Obligations, as the case may be, 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 or the Subordinate Obligations, as the case may be, under a Credit Facility.

"*Customer Facility Charges*" means all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

"*Department*" means the Department of Airports of the City of Los Angeles, or any successor thereto performing the activities and functions of the department under the Charter.

"*Eighth Supplemental Subordinate Indenture*" means the Eighth Supplemental Subordinate Trust Indenture, to be dated as of November 1, 2013, by and between the Department and the Subordinate Trustee.

"*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 and the Subordinate Trustee by the Department.

"*Facilities Construction Credit*" and "*Facilities Construction Credits*" means the amounts further described in the Master Senior Indenture and the Master Subordinate Indenture resulting from an arrangement embodied in a written agreement of the Department and another person or entity pursuant to which the Department permits such person or entity to make a payment or payments to the Department which is reduced by the amount owed by the Department to such person or entity under such agreement, resulting in a net payment to the Department by such person or entity. The "Facilities Construction Credit" will be deemed to be the amount owed by the Department under such agreement which is "netted" against the payment of such person or entity to the Department. "Facilities Construction Credits" will include any credits extended to airlines or other users of LAX Airport Facilities related to RAIC projects.

"*Fiscal Year*" means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Department designates as its fiscal year.

"*Fitch*" means Fitch, Inc., 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).

"*Fourteenth Supplemental Senior Indenture*" means the Fourteenth Supplemental Trust Indenture, to be dated as of November 1, 2013, by and between the Department and the Senior Trustee.

"*Fourth Supplemental Subordinate Indenture*" means the Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008, by and between the Department and the Subordinate Trustee.

"*Government Obligations*" means (A) with respect to the Senior Bonds and the Senior Indenture (1) United States Obligations (including obligations issued or held in book-entry form), (2) prerefunded 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; and (B) (A) with respect to the Subordinate Obligations and the Subordinate Indenture, (a) United States Obligations (including obligations issued or held in book-entry form); (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Subordinate Obligations and such Rating Agencies are then maintaining a rating on any of the Subordinate Obligations; and (c) any other type of security or obligation which the Rating Agencies then maintaining ratings on the Subordinate Obligations to be defeased have determined to be permitted defeasance securities.

"*Implemented*" means, (a) when used with respect to a Senior Program, 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; and (b) when used with respect to a Subordinate Program, a Subordinate Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Subordinate Program, the provisions of the Master Subordinate Indenture have been complied with.

"*Independent*" means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Department or the City, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Department, the City or the Board as an official, officer or employee.

"*LAX Airport Facilities*" or "*LAX Airport Facility*" means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

"*LAX Maintenance and Operation Expenses*" means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

"*LAX Maintenance and Operation Reserve Account*" means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173,232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

"*LAX Revenue Account*" means the account established pursuant to the Master Senior Indenture and Section 23.10(a) of the Los Angeles Administrative Code.

"*LAX Revenues*" means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Department from the Los Angeles International Airport, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (1) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at Los Angeles International Airport, (2) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at Los Angeles International Airport, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of Los Angeles International Airport (or any LAX Airport Facilities or activities and undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto, all of which is required to be deposited in the Airport Revenue Fund pursuant to the Charter and the LAX Revenue Account pursuant to the Master Senior Indenture. "LAX Revenues" include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Senior Construction Fund or Subordinate Construction Fund allowed to be pledged by the terms of a Supplemental Senior Indenture, the Senior Reserve Fund, any Senior Debt Service Reserve Fund, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

"*LAX Special Facilities*" or "*LAX Special Facility*" means, with respect to Los Angeles International Airport, a facility or group of facilities or improvements or category of facilities or improvements which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Senior Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

"*LAX Special Facilities Revenue*" means the contractual payments and all other revenues derived by or available to or receivable by the Department from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

"*LAX Special Facility Obligations*" means bonds or other debt instruments issued pursuant to an indenture other than the Senior Indenture or the Subordinate Indenture to finance LAX Special Facilities and which, except as otherwise provided in the Master Senior Indenture, are not secured by nor payable from a lien on and pledge of the

Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

"*Liquidity Facility*" means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Senior Bonds or Subordinate Obligations, as the case may be.

"*Liquidity Provider*" means the entity, including the Credit Provider, which is obligated to provide funds to purchase Senior Bonds or Subordinate Obligations, as the case may be, under the terms of a Liquidity Facility.

"*Los Angeles International Airport*" and "*LAX*" means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Department at such location or in which the Department has other rights or from which the Department derives revenues at such location.

"*Mail*" means by first-class United States mail, postage prepaid.

"*Maintenance and Operation Expenses of the Airport System*" means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

"*Maintenance and Operation Reserve Fund*" means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and the provisions of the Master Senior Indenture.

"*Master Senior Indenture*" means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department and the Senior Trustee, as amended.

"*Master Subordinate Indenture*" means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Subordinate Trustee, as amended.

"*Moody's*" means Moody's Investors Service, 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 or the Subordinate Trustee, as the case may be) incurred in the collection of such proceeds or award.

"*Non-Qualified Swap*" means any Swap which is not a Senior Qualified Swap or a Subordinate Qualified Swap.

"*Ordinance No. 173,232*" means the City of Los Angeles Ordinance No. 173,232 which became effective on June 19, 2000.

"*Original Issue Discount 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.

"*Original Issue Discount Subordinate Obligations*" means Subordinate Obligations which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Subordinate Obligations by the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued.

"*Outstanding*" means:

(1) when used with respect to Senior Bonds 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;

(2) when used with respect to Subordinate Obligations means all Subordinate Obligations which have been authenticated and delivered under the Subordinate Indenture, except:

(a) Subordinate Obligations cancelled or purchased by the Subordinate Trustee for cancellation or delivered to or acquired by the Subordinate Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Subordinate Obligations deemed to be paid in accordance with the Master Subordinate Indenture;

(c) Subordinate Obligations in lieu of which other Subordinate Obligations have been authenticated under the provisions of the Master Subordinate Indenture;

(d) Subordinate Obligations that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Subordinate Trustee or a Subordinate Paying Agent;

(e) Subordinate Obligations which, under the terms of the Supplemental Subordinate Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Subordinate Repayment Obligations deemed to be Subordinate Obligations under the Master Subordinate Indenture to the extent such Subordinate Repayment Obligations arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Subordinate Obligations acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Subordinate Obligations under the Master Subordinate Indenture, Subordinate Obligations held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Subordinate Obligations are pledged to secure a debt to an unrelated party.

"*Passenger Facility Charges*" or "*PFCs*" means all or a designated portion of charges collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) and 14 CFR Part

158, all as amended from time to time, or any other applicable federal law, in respect of any component of LAX and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

"*Payment Date*" means, with respect to any Senior Bonds or Subordinate Obligations, as the case may be, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

"*Pledged Revenues*" means, except to the extent specifically excluded herein or under the terms of any Supplemental Senior Indenture (only with respect to the Series of Senior Bonds issued pursuant to such Supplemental Senior Indenture), LAX Revenues. "Pledged Revenues" will also include such additional revenues, if any, as are designated as "Pledged Revenues" under the terms of any Supplemental Senior Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Department from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of "LAX Revenues" which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from "Pledged Revenues," unless designated as "Pledged Revenues" under the terms of a Supplemental Senior Indenture: (a) any Senior Swap Termination Payments paid to the Department pursuant to a Senior Qualified Swap or any Subordinate Swap Termination Payments paid to the Department pursuant to a Subordinate Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture, (d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Customer Facility Charges in respect of LAX may be so pledged), (e) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (f) Released LAX Revenues. Further, interest earnings or other investment earnings on any Senior or Subordinate Construction Fund established by any Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be, are specifically excluded from "Pledged Revenues," unless otherwise provided for in such Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be.

"*President*" or "*President of the Board*" means the president of the Board or such other title as the Board may from time to time assign for such position.

"*Project*" means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Senior Bonds or Subordinate Obligations.

"*RAIC*" means the Regional Airports Improvement Corporation, a California nonprofit corporation.

"*Rating Agency*" and "*Rating Agencies*" means Fitch, Moody's or S&P, or any other nationally recognized rating agency of municipal obligations, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds or the Subordinate Obligations, as the case may be, and such Rating Agencies are then maintaining a rating on any of the Senior Bonds or the Subordinate Obligations, as the case may be.

"*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 or a Supplemental Subordinate Indenture, as the case may be, in connection with the issuance of the Senior Bonds or any Series of Senior Bonds or the Subordinate Obligations or any Series of Subordinate Obligations, as the case may be, 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 or Subordinate Obligations, as the case may be, the record date as specified in the Supplemental Senior Indenture which provides for the issuance of such Series of Senior Bonds or the Supplemental Subordinate Indenture which provides for the issuance of such Series of

Subordinate Obligations, as the case may be. With respect to the Series 2013 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, any Subordinated Obligation or any Third Lien Obligation.

"*Refunding Subordinate Obligations*" means any Subordinate Obligations issued pursuant to the Master Subordinate Indenture to refund or defease all or a portion of any Series of Outstanding Subordinate Obligations, any Senior Bonds or any Third Lien Obligations.

"*Regularly Scheduled Swap Payments*" means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

"*Released LAX Revenues*" means LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption 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 SECOND through EIGHTH 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 Net Pledged Revenues.

Additionally, the Department will give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Senior Bonds and S&P is then maintaining a rating on any of the Senior Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of the Master Senior Indenture as proved in this definition of "*Released LAX Revenues*."

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Senior Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Senior Indenture pursuant to a Supplemental Senior Indenture.

"*Required Deposits*" means, with respect to any Series of Subordinate Obligations, the amount determined in accordance with the terms of the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued and/or incurred, required to be deposited into funds and accounts created under such Supplemental Subordinate Indenture for the purpose of paying principal and interest on Subordinate Obligations or accumulating funds from which to make such payments and to pay other obligations specifically secured by the Subordinate Pledged Revenues under such Supplemental Subordinate Indenture. On or before the Payment Date, if any, in each month, the Subordinate Trustee will determine the aggregate Required Deposits from the Required Deposits described under each Supplemental Subordinate Indenture.

"*Responsible Officer*" means an officer or assistant officer of the Senior Trustee assigned by the Senior Trustee to administer the Senior Indenture, or an officer or assistant officer of the Subordinate Trustee assigned by the Subordinate Trustee to administer the Subordinate Indenture.

"*S&P*" means Standard & Poor's Ratings 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, then, for purposes of determining Senior Aggregate Annual Debt Service, Senior Tender Indebtedness will be treated as if (a) 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, provided, however, notwithstanding the previous provisions of this clause (a), any principal amortization schedule set forth in a Supplemental Senior Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) will be applied to determine the principal amortization of such Senior Bonds; (b) 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 (c) 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 Senior 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 Senior Tender Indebtedness or subsection (viii)(a) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate 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 Aggregate Annual Debt Service of Senior Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, 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 will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Master 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;

(b) for purposes of computing the Senior Aggregate Annual Debt Service of Senior Bonds with respect to which a 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 Senior Bonds to which such Swap pertains will be included in the calculation of Senior Aggregate Annual Debt Service, and the interest rate with respect to such Senior Bonds will be the sum of that rate as determined in accordance with subsection (v) relating to Variable Rate Senior Indebtedness plus the difference between the interest rate on the Senior Designated Debt and the rate received from the Swap Provider;

(ix) if moneys, Senior 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 Senior Trustee or another fiduciary to pay 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, other amounts not include in Pledged Revenues or Senior Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Senior Aggregate Annual Debt Service;

(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; and

(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 Senior Trustee or another fiduciary and are to be 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 Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues or from earnings thereon will be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Senior Aggregate Annual Debt Service.

"*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*." Notwithstanding the provisions of this definition of "Senior Authorized Amount," in connection with clauses (a) and (b) set forth in the section entitled "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS—Senior Bonds—Additional Senior Bonds" in the forepart of this Official Statement and the calculation of Senior Maximum Aggregate Annual Debt Service and Senior Aggregate Annual Debt Service with respect to a Senior Commercial Paper Program, "Senior Authorized Amount" will mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Senior Commercial Paper Program and the total amount of Senior Commercial Paper Notes that may be issued pursuant to an Unenhanced Senior Commercial Paper Program.

"*Senior Bond*" or "*Senior Bonds*" means any debt obligation of the Department issued under and in accordance with the provisions of the Master Senior Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Senior Repayment Obligations to the extent provided in the Master Senior Indenture. The term "*Senior Bond*" or "*Senior Bonds*" does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Senior Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations or Third Lien Obligations will be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term "*Senior Bond*" and "*Senior Bonds*" includes Senior Program Bonds.

"*Senior 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. Except as otherwise provided in a Supplemental Senior Indenture, the entity providing such Senior Debt Service Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest long-term Rating Categories by 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 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) 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 Aggregate Annual Debt Service is being made; (c) 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; (d) 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 (e) 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, or (b) whose obligations under any Senior Qualified Swap are fully secured by obligations described in items (1) or (2) of the definition of Senior 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 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 on behalf of the Senior Trustee, and (iv) free and clear from all third-party liens..

"*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 2013 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 Fourteenth Supplemental Senior Indenture that the Series 2013 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.

"*Serial Subordinate Obligations*" means Subordinate Obligations for which no sinking installment payments are provided.

"*Series*" or "*series*" means (a) with respect to Senior Bonds, 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; and (b) with respect to Subordinate Obligations, Subordinate Obligations designated as a separate Series by a Supplemental Subordinate Indenture and, with respect to Subordinate Program Obligations or a Subordinate Commercial Paper Program, means the full Subordinate Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Subordinate Indenture, designated as a separate Series.

"*Series 2013 Bonds*" means, collectively, the Series 2013 Senior Bonds and the Series 2013 Subordinate Bonds.

"*Series 2013 Senior Bonds*" means the $170,685,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Fourteenth Supplemental Senior Indenture and designated "Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2013 Series A."

Series 2013 Subordinate Bonds" means the $71,175,000 original principal amount of Subordinate Obligations issued under the Master Subordinate Indenture and the Eighth Supplemental Subordinate Indenture and designated "Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B."

"*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 tests under the Master Senior Indenture and the Master Subordinate Indenture, as the case may be, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate described in the additional bonds tests under the Master Senior Indenture and the Master Subordinate Indenture, as the case may be.

"*State*" means the State of California.

"*Subordinate Aggregate Annual Debt Service*" means for any Fiscal Year the aggregate amount of Subordinate Annual Debt Service on all Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations. For purposes of calculating Subordinate Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(a) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations in accordance with any amortization schedule established by the governing documents setting forth the terms of such Subordinate Obligations, including, as a principal payment, the Accreted Value of any Capital Appreciation Subordinate Obligations or Original Issue Discount Subordinate Obligations maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Subordinate Obligations will be excluded to the extent such payments are to be paid from Subordinate Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Subordinate Obligations or Unissued Subordinate Program Obligations constitute Balloon Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Subordinate Obligations, Unissued Subordinate Program Obligations or Subordinate Program Obligations, only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (a) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Subordinate Program Obligations or Subordinate Program Obligations, or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (a) above or such other provision of this definition as will be applicable;

(c) any maturity of Subordinate Obligations which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Subordinate Aggregate Annual Debt Service is made, will be assumed to become due and payable on the stated maturity date and provision (b) above will not apply thereto unless there is delivered to the entity making the calculation of Subordinate Aggregate Annual Debt Service a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Subordinate Aggregate Annual Debt Service, provided that such assumption will not result in an interest rate lower than that which would be assumed under provision (b) above and will be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Subordinate Obligations (including Subordinate Program Obligations) or any Subordinate Obligations which are then proposed to be issued constitute Subordinate Tender Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, Subordinate Tender Indebtedness will be treated as if (i) the principal amount of such Subordinate Obligations were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Subordinate Annual Debt Service payments and extending not later than 30 years from the date such Subordinate Tender Indebtedness was originally issued, provided, however, notwithstanding the previous provisions of this clause (i), any principal amortization schedule set forth in a Supplemental Subordinate Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) will be applied to determine the principal amortization of such Subordinate Obligations; (ii); the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; and (iii) with respect to all principal and interest payments becoming due prior to the year in which such Subordinate Tender Indebtedness is first subject to tender, such payments will be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Subordinate Obligations constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Subordinate Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate

Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Subordinate Program Obligations or Unissued Subordinate Program Obligations (other than a Subordinate Commercial Paper Program) (i) debt service on such Subordinate Program Obligations then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (ii) with respect to Unissued Subordinate Program Obligations, it will be assumed that the full principal amount of such Unissued Subordinate Program Obligations will be amortized over a term certified by an Authorized Representative at the time the initial Subordinate Program Obligations of such Subordinate Program are issued to be the expected duration of such Subordinate Program or, if such expectations have changed, over a term certified by an Authorized Representative to the expected duration of such Subordinate Program at the time of such calculation, but not to exceed 30 years from the date of the initial issuance of such Subordinate Program Obligations and it will be assumed that debt service will be paid in substantially level Subordinate Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Subordinate Repayment Bonds, to the extent such obligations constitute Subordinate Obligations under the Master Subordinate Indenture, will be calculated as provided in the Master Subordinate Indenture;

(h) (i) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, if the Department elects, be that rate as provided for by the terms of the Subordinate Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Department does not elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Master Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(ii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Subordinate Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Obligations to which such Subordinate Swap pertains will be included in the calculation of Subordinate Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Obligations will be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Subordinate Swap Provider;

(i) with respect to any Subordinate Commercial Paper Program which has been Implemented and not then terminated or with respect to any Subordinate Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Subordinate Authorized Amount of such Implemented Subordinate Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Subordinate Commercial Paper Program is Implemented and with substantially level annual debt service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(j) if moneys, Subordinate Permitted Investments or any other amounts not included in Subordinate Pledged Revenues have been used to pay or have been irrevocably deposited with and are held by the Subordinate Trustee or another fiduciary to pay or Subordinate Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such moneys, Subordinate Permitted Investments, other amounts not included in Subordinate Pledged Revenues or Subordinate Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Subordinate Aggregate Annual Debt Service; and;

(k) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Subordinate Pledged Revenues have been irrevocably committed or are held by the Subordinate Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Subordinate Pledged Revenues or from earnings thereon will be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in Pledged Revenues) and not included in calculating Subordinate Aggregate Annual Debt Service.

"*Subordinate Aggregate Annual Debt Service For Reserve Requirement*" means the computation of Subordinate Aggregate Debt Service for a Subordinate Debt Service Reserve Fund with respect to all Outstanding Subordinate Obligations participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Obligations, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in a Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Obligations containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

"*Subordinate Annual Debt Service*" means, with respect to any Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Subordinate Qualified Swap is in effect for such Subordinate Obligation, plus the amount payable by the Department (or the Subordinate Trustee) under the Subordinate Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Subordinate Qualified Swap Provider pursuant to the Subordinate Qualified Swap, calculated using the principles and assumptions set forth in the definition of Subordinate Aggregate Annual Debt Service.

"*Subordinate Authorized Amount*" means, when used with respect to Subordinate Obligations, including Subordinate Program Obligations, the maximum Subordinate Principal Amount of Subordinate Obligations which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to the Master Subordinate Indenture to be Outstanding at any one time under the terms of such Subordinate Program or Supplemental Subordinate Indenture. If the maximum Subordinate Principal Amount of Subordinate Obligations or Subordinate Program Obligations authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to the Master Subordinate Indenture exceeds the maximum Subordinate Principal Amount of Subordinate Obligations set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such

Subordinate Obligations are issued or such Subordinate Program is established, the Subordinate Principal Amount of such Subordinate Obligations or Subordinate Program Obligations as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department will be deemed to be the "Subordinate Authorized Amount." Notwithstanding the provisions of this definition of "Subordinate Authorized Amount," in connection with the issuance of additional Subordinate Obligations and the calculation of Subordinate Maximum Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service with respect to a Subordinate Commercial Paper Program, "Subordinate Authorized Amount" means the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Subordinate Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Subordinate Commercial Paper Program.

"*Subordinate Capitalized Interest*" means the amount of interest on Subordinate Obligations, if any, funded from the proceeds of the Subordinate Obligations or other moneys that are deposited with the Subordinate Trustee in the Subordinate Debt Service Fund as will be described in a Supplemental Subordinate Indenture upon issuance of Subordinate Obligations to be used to pay interest on the Subordinate Obligations.

"*Subordinate Commercial Paper Notes*" means the commercial paper notes issued on parity with the other Subordinate Obligations from time to time under the terms of the Subordinate Indenture, designated the "Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity - AMT), Series C (Federally Taxable) and Series D (Private Activity – Non-AMT)," which may be issued from time to time pursuant to the Subordinate Indenture in an aggregate principal amount not to exceed $500,000,000 at any one time.

"*Subordinate Commercial Paper Program*" means a Subordinate Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Subordinate Program.

"*Subordinate Construction Fund*" means any of the Subordinate Construction Funds authorized to be created as provided by the Master Subordinate Indenture.

"*Subordinate Debt Service Fund*" or "*Subordinate Debt Service Funds*" means a Subordinate Debt Service Fund or any of the Subordinate Debt Service Funds required to be created as provided in the Master Subordinate Indenture.

"*Subordinate Debt Service Reserve Fund*" means any Subordinate Debt Service Reserve Fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of any Series of Subordinate Obligations and that is required to be funded for the purpose of providing additional security for such Series of Subordinate Obligations and under certain circumstances to provide additional security for such other designated Series of Subordinate Obligations issued pursuant to the terms of the Master Subordinate Indenture and as specified in any Supplemental Subordinate Indenture.

"*Subordinate Debt Service Reserve Fund Surety Policy*" means an insurance policy or surety bond, or a letter of credit, deposited with the Subordinate Trustee for the credit of the Subordinate Debt Service Reserve Fund created for one or more Series of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. Except as otherwise provided in a Supplemental Subordinate Indenture, the entity providing such Subordinate Debt Service Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

"*Subordinate Designated Debt*" means a specific indebtedness designated by the Department in which such debt will be offset with a Swap, such specific indebtedness to include all or any part of a Series or multiple Series of Subordinate Obligations.

"*Subordinated Obligation*" means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operations Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish 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 Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a "*Subordinated Obligation*" for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Department as a "*Subordinated Obligation*" in a Supplemental Senior Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in, 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 Event of Default*" means any occurrence or event specified as a "Subordinate Event of Default" in the Subordinate Indenture.

"*Subordinate Indenture*" means the Master Subordinate Indenture, together with all Supplemental Subordinate Indentures.

"*Subordinate Investment Agreement*" means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term Rating Category (if the term of the Subordinate Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Subordinate Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) and (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

"*Subordinate Maximum Aggregate Annual Debt Service*" means the maximum amount of Subordinate Aggregate Annual Debt Service with respect to all Subordinate Obligations, Unissued Subordinate Program Obligations, and the Subordinate Authorized Amount of all Subordinate Obligations then proposed to be issued in the then current or any future Fiscal Year.

"*Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement*" means the computation of Subordinate Maximum Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Subordinate Obligations participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Obligations the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in an identified Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Obligations containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

"*Subordinate Notes*" means Subordinate Obligations issued under the provisions of the Master Subordinate Indenture which have a maturity of one year or less from their original date of issue and which are not part of a Subordinate Commercial Paper Program.

"*Subordinate Obligation*" or "*Subordinate Obligations*" means any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Subordinate

Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Subordinate Repayment Obligations to the extent provided in the Master Subordinate Indenture. The terms "Subordinate Obligation" and "Subordinate Obligations" do not include any Third Lien Obligation; provided, however, the Department may provide in a Supplemental Subordinate Indenture that Third Lien Obligations may be issued thenceforth pursuant to the Master Subordinate Indenture having the terms applicable to the Subordinate Obligations, except that such Third Lien Obligations will be junior and subordinate in payment of such Third Lien Obligations from the Subordinate Pledged Revenues. The terms "Subordinate Obligation" and "Subordinate Obligations" include Subordinate Program Obligations.

"*Subordinate Paying Agent*" or "*Subordinate Paying Agents*" means, with respect to the Subordinate Obligations or any Series of Subordinate Obligations, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Subordinate Indenture or a resolution of the Department as the place where such Subordinate Obligations will be payable.

"*Subordinate Permitted Investments*" means to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

(a) Government Obligations;

(b) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;

(c) direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and by S&P if S&P then maintains a rating on any of the Subordinate Obligations;

(d) 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 Subordinate Obligations and by S&P if S&P then maintains a rating on any of the Subordinate Obligations;

(e) interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC") or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (i) continuously and fully insured by FDIC and with banks that are rated at least "P-1" or "Aa" by Moody's if any of the Subordinate Obligations are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Subordinate Obligations are then rated by S&P; or (ii) fully secured by obligations described in item (a) or (b) of this definition of Subordinate Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment; (B) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;

(f) long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody's and S&P in either of their two highest rating categories;

(g) repurchase agreements which are (i) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and from S&P if S&P then maintains a rating on any of the Subordinate Obligations; and (ii) fully secured by investments specified in paragraph (a) or (b) of this definition of Subordinate Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements; (B) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;

(h) prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and at least "A-1" by S&P if S&P then maintains a rating on any of the Subordinate Obligations;

(i) shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (i) a money market fund that has been rated in one of the two highest rating categories by Moody's or S&P, or (ii) a money market fund or account of the Subordinate 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 Subordinate Obligations and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Subordinate Obligations 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 Subordinate Obligations and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Subordinate Obligations or that has a combined capital and surplus of not less than $50,000,000;

(j) Subordinate Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Subordinate Trustee to invest; provided that there is delivered to the Subordinate Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Subordinate Obligations has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that such investment will not adversely affect the raring then assigned by such rating agency to any of the Subordinate Obligations.

"*Subordinate Pledged Revenues*" means for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Senior Indenture as described under the paragraph labeled THIRD under the caption APPENDIX C-2—"SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account."

"*Subordinate Principal Amount*" or "*Subordinate principal amount*" means, as of any date of calculation, (a) with respect to any Capital Appreciation Subordinate Obligations, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (b) with respect to any Original Issue Discount Subordinate Obligations, the Accreted Value thereof, unless the Supplemental Subordinate Indenture under which such Subordinate Obligation was issued will specify a different amount, in which case, the terms of the Supplemental Subordinate Indenture will control, and (c) with respect to any other Subordinate Obligations, the principal amount of such Subordinate Obligation payable at maturity.

"*Subordinate Program*" means a financing program identified in a Supplemental Subordinate Indenture, including but not limited to a Subordinate Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Subordinate Indenture have been filed with the Subordinate Trustee, (b) wherein the Board has authorized the issuance, from time to time, of notes, bonds, commercial paper or other indebtedness in a Subordinate Authorized Amount, and (c) the Subordinate Authorized Amount of which has met the additional bonds test set forth in the Master Subordinate Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Subordinate Authorized Amount.

"*Subordinate Program Obligations*" means Subordinate Obligations issued and Outstanding pursuant to a Subordinate Program, other than Unissued Subordinate Program Obligations.

"*Subordinate Qualified Swap*" means any Swap (a) whose Subordinate Designated Debt is all or part of a particular Series of Subordinate Obligations; (b) whose Swap Provider is a Subordinate Qualified Swap Provider or has been a Subordinate Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Subordinate Annual Debt Service or Subordinate Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Subordinate Designated Debt or to a specified mandatory tender or redemption of such Subordinate Designated Debt; (d) which has been designated in writing to the Subordinate Trustee by the Department as a Subordinate Qualified Swap with respect to such Subordinate Obligations; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Obligations, and Moody's, if Moody's has an outstanding rating on the Subordinate Obligations.

"*Subordinate Qualified Swap Provider*" means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Subordinate Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least "Aa," in the case of Moody's and "AA," in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) whose obligations under a Subordinate Qualified Swap are fully secured by obligations described in items (a) or (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

"*Subordinate Registrar*" means, with respect to the Subordinate Obligation or any Series of Subordinate Obligations, the bank, trust company or other entity designated in a Supplemental Subordinate Indenture or a resolution of the Board to perform the function of Subordinate Registrar under the Master Subordinate Indenture or any Supplemental Subordinate Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Subordinate Indenture. The Subordinate Trustee will act as the Subordinate Registrar with respect to the Series 2013 Subordinate Bonds.

"*Subordinate Repayment Obligatio*ns" means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Subordinate Obligations and all other amounts due and owing to a Credit Provider under a Credit Facility, or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Subordinate Obligations and all other amounts due and owing to a Liquidity Provider under a Liquidity Facility.

"*Subordinate Reserve Fund*" means the Subordinate Debt Service Reserve Fund of such designation created under the Fourth Supplemental Subordinate Indenture as security for any Subordinate Obligations which may participate in the Subordinate Reserve Fund as provided in Fourth Supplemental Subordinate Indenture. The Department will specify in the Eighth Supplemental Subordinate Indenture that the Series 2013 Subordinate Bonds will participate in the Subordinate Reserve Fund.

"*Subordinate Reserve Requirement*" means an amount equal to the least of (a) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Obligations participating in the Subordinate Reserve Fund, (b) 10% of the principal amount of the Subordinate Obligations that have been issued and are participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to such Subordinate Obligations if such original issue discount exceeded 2% on such Subordinate Obligations at the time of their original sale, and (c) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Obligations participating in the Subordinate Reserve Fund.

"*Subordinate Swap Termination Payment*" means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Subordinate Qualified Swap, to compensate the other party to the Subordinate Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Subordinate Qualified Swap.

"*Subordinate Tender Indebtedness*" means any Subordinate Obligations or portions of Subordinate Obligations a feature of which is an option and/or an obligation on the part of the holders, under the terms of such Subordinate Obligations, to tender all or a portion of such Subordinate Obligations to the Department, the Subordinate Trustee, the Subordinate Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Subordinate Obligations or portions of Subordinate Obligations be purchased if properly presented.

"*Subordinate Trustee*" means U.S. Bank National Association, also known as U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor

"*Supplemental Senior Indenture*" means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior Indenture.

"*Supplemental Subordinate Indenture*" means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Subordinate Obligations and entered into as provided in the Master Subordinate Indenture.

"*Swap*" means any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Senior Designated Debt or a Designated Debt, as the case may be, 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 or Subordinate Designated Debt, as the case may be, with a Senior Qualified Swap or a Subordinate Qualified Swap, respectively, 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 or Subordinate Obligations, as the case may be, 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 or Subordinate Obligations, as the case may be, 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.

"*Term Subordinate Obligations*" means Subordinate Obligations of a Series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Subordinate Indenture for such Series for that purpose and calculated to retire the Subordinate Obligations on or before their specified maturity dates.

"*Third Lien Obligation*" means any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Senior Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Senior Reserve Fund, any Senior Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. "*Third Lien Obligations*" are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Board may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations will be secured on a junior and subordinate basis to the Senior Bonds and the Subordinated Obligations from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a "*Third Lien Obligation*" for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Board as a "*Third Lien Obligation*" in a Supplemental Senior Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term "*Third Lien Obligation*" includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term "*Third Lien Obligations*" also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term "*Third Lien Obligation*" includes any Senior Swap Termination Payment under a Senior Qualified Swap with respect to any Senior Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

"*Transfer*" means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH described under the caption 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.

"*Unenhanced Commercial Paper Program*" will be a Senior Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Senior Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

"*Unenhanced Subordinate Commercial Paper Program*" will be a Subordinate Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Subordinate Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

"*Unissued Senior Program Bonds*" means the bonds, notes or other indebtedness authorized to be issued pursuant to a Senior Program and payable from Net 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.

"*Unissued Subordinate Program Obligations*" means the bonds, notes or other indebtedness authorized to be issued pursuant to a Subordinate Program and payable from Subordinate Pledged Revenues, issuable in an amount up to the Subordinate Authorized Amount relating to such Subordinate Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Subordinate Program the items required pursuant to the Master Subordinate Indenture have been filed with the Subordinate Trustee but which have not yet been authenticated and delivered pursuant to the Subordinate Program documents.

"*United States Bankruptcy Code*" means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

"*United States Obligations*" means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. "*United States Obligations*" will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

"*Variable Rate Indebtedness*" means any Senior Bond, Senior Bonds, Subordinate Obligation or Subordinate Obligations the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

APPENDIX C-2

SUMMARY OF THE MASTER SENIOR INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2013 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 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 Net 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 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 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 Net 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 Net 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 LAX Maintenance and Operation Expenses, 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 LAX Maintenance and Operation Expenses, 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 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 Senior Debt Service Funds as described in "—Deposits and Withdrawals from the Senior Debt Service Funds" below;

THIRD 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;

FOURTH To the payment of debt service on any indebtedness (other than Outstanding Senior 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 debt service on such indebtedness;

FIFTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Senior 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;

SIXTH To the payment of debt service on any indebtedness (other than Outstanding Senior 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;

SEVENTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Senior 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 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;

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

With respect to the application of Pledged Revenues described in subparagraphs 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 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 NINTH above from sources other than Pledged Revenues.

Deposits and Withdrawals from the Senior Debt Service Funds

Deposits into the Senior Debt Service Funds. The Senior Trustee will, at least fifteen 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 into account Senior Capitalized Interest, if any, on deposit in the Senior Debt Service Funds, required to be deposited with the Senior Trustee to make each required payment of principal and interest due 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.

So long as any of the Senior Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, at least ten Business Days prior to each Payment Date, as to each Series of Senior Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than five Business Days prior to each Payment Date, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each Series of Outstanding Senior Bonds the full amount required to pay the principal of and/or interest on Senior Bonds of that Series due on such Payment Date.

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 and any excess funds will be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from 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 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 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 two 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 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 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 Net 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 Net 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 Net 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 Net 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.

Senior Lien Obligations Prohibited

The Department has covenanted that so long as any Senior Bonds are Outstanding under the Senior 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 Senior Bonds. Notwithstanding the previous sentence, nothing in the Senior Indenture prohibits the Department from entering into agreements that provide for the granting of Facilities Construction Credits by the Department.

Subordinated Obligations and Third Lien Obligations

(a) 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 determines, provided that:

(i) Any Supplemental Senior Indenture authorizing the issuance of any Subordinated Obligations will 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 Senior Bonds; and

(ii) Payment of principal of and interest on such Subordinated Obligations will be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses and 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 Master Senior Indenture.

(b) The Department may, from time to time, incur indebtedness which is subordinate to the Senior Bonds and any Subordinated Obligations and which indebtedness is, in the Master Senior Indenture, referred to as Third Lien Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department determines, provided that:

(i) Any Supplemental Senior Indenture authorizing the issuance of any Third Lien Obligations will 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 Senior Bonds and the Subordinated Obligations; and

(ii) Payment of principal of and interest on such Third Lien Obligations will be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses, to the Senior Trustee to be used to pay debt service on the Senior Bonds and to replenish the Senior Reserve Fund or a Senior Debt Service Reserve Fund, and 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 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, (i) designate a separately identifiable existing facility or improvement or planned facility or improvement as an "LAX Special Facility," (ii) pursuant to an indenture other than the Senior Indenture and without a pledge of any Pledged Revenues (except as otherwise provided in (iv) below), incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility or improvement, (iii) provide that the contractual payments derived from or elated to such LAX Special Facility, together with other income and revenues available to the Department from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be "LAX Special Facilities Revenue" and not included as Pledged Revenues unless otherwise provided in any supplemental indenture, and (iv) 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 and the proceeds of such LAX Special Facility Obligation set aside exclusively to pay debt service on such LAX Special Facility Obligation (except the Department may, in its sole discretion, determine to make Pledged Revenues or such other moneys not included in Pledged Revenues available (through a specific pledge or otherwise and subject to any covenants or other provisions of the Master Senior Indenture (including, but not limited to, the additional bonds test and the rate covenant set forth in the Master Senior Indenture) or such other indentures or agreements of the Department) 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 Department). 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 (a) 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, (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 Department as provided in clause (iv) of the previous paragraph, if any.

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 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 Department pursuant to clause (iv) of the first paragraph of this section, 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 Department 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, 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 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 Net 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 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 90 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.

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Senior 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 a Senior Event of Default, will the Senior Trustee, the Holders of the Senior Bonds, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Senior Bonds Outstanding.

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 has occurred and is continuing, all amounts then held or any moneys received by the Senior Trustee, by any receiver or by any 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) 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 (b) 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.

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 Net 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 and Net 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 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 FOURTEENTH SUPPLEMENTAL SENIOR INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2013 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Fourteenth 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 Fourteenth Supplemental Senior Indenture.

Terms of the Bonds

The Fourteenth Supplemental Senior Indenture sets forth the terms of the Series 2013 Senior Bonds, most of which terms are described in the forepart of this Official Statement under "DESCRIPTION OF THE SERIES 2013 BONDS."

Establishment of Funds and Accounts

Pursuant to the Fourteenth Supplemental Senior Indenture the Senior Trustee will establish and maintain the following funds and accounts: the Series 2013 Senior Debt Service Fund (and within the Series 2013 Senior Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2013 Senior Construction Fund, the Series 2013 Senior Costs of Issuance Fund, the Series 2013 Senior Reserve Account to be established in the Senior Reserve Fund, and the Series 2013 Senior Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2013 Senior Bonds as described in the forepart of this Official Statement under "ESTIMATED SOURCES AND USES OF FUNDS."

Series 2013 Senior Debt Service Fund. The Senior Trustee will deposit into the Interest Account of the Series 2013 Senior Debt Service Fund a portion of the proceeds of the Series 2013 Senior Bonds representing capitalized interest on the Series 2013 Senior Bonds. Additionally, the Senior Trustee will deposit in the Interest Account of the Series 2013 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 2013 Senior Bonds. The Senior Trustee will also deposit into the Interest Account of the Series 2013 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 2013 Senior Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2013 Senior Bonds at maturity or mandatory sinking fund redemption, if any. The Senior Trustee will also deposit into the Principal Account of the Series 2013 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 2013 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 2013 Senior Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of mandatory sinking fund redemption, if any). Earnings on the Redemption Account will be retained in such account or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Senior Trustee by an Authorized Representative at the time of such deposit.

The Series 2013 Senior Debt Service Fund will be invested and reinvested in Senior Permitted Investments as directed by an Authorized Representative.

Series 2013 Senior Construction Fund. Amounts in the Series 2013 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 2013 Senior Bonds Projects for which the Series 2013 Senior Bonds were issued. While held by the Senior Trustee, amounts in the Series 2013 Senior Construction Fund will not secure the Outstanding Series 2013 Bonds. Amounts in the Series 2013 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 2013 Senior Costs of Issuance Fund. The proceeds of the Series 2013 Senior Bonds deposited into the Series 2013 Senior Costs of Issuance Fund will be disbursed by the Senior Trustee, from time to time, to pay costs of issuance of the Series 2013 Senior Bonds. Amounts in the Series 2013 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 2013 Senior Reserve Account. For a description of the Senior Reserve Fund and the Series 2013 Senior Reserve Account, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS—Senior Bonds—Senior Reserve Fund.”

Series 2013 Senior Rebate Fund. The Fourteenth Supplemental Senior Indenture creates the Series 2013 Senior Rebate Fund for the Series 2013 Senior Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Senior Trustee with respect to the Series 2013 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 2013 Senior Bonds. Such excess is to be deposited into the Series 2013 Senior Rebate Fund and periodically paid to the United States of America. The Series 2013 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 2013 Bonds.

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APPENDIX C-4

SUMMARY OF THE MASTER SUBORDINATE INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2013 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Subordinate Indenture.

Grant to Secure Subordinate Obligations; Pledge of Subordinate Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Subordinate Obligations and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Subordinate Indenture or contained in the Subordinate Obligations, the Department has pledged and assigned to the Subordinate Trustee and granted to the Subordinate Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provided that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Subordinate Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Subordinate Rebate Fund) held from time to time by the Subordinate Trustee under the Subordinate Indenture, and to the extent provided in any Supplemental Subordinate Indenture moneys and securities held in any Subordinate Construction Fund whether or not held by the Subordinate Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause, and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Subordinate Trustee as additional security under the Master Subordinate Indenture, for the equal and proportionate benefit and security of all Subordinate Obligations, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Subordinate Obligation over any other Subordinate Obligation or Subordinate Obligations, except as to the timing of payment of the Subordinate Obligations. Any Subordinate Debt Service Reserve Fund and any Subordinate Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Subordinate Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Subordinate Obligations, a specific Series of Subordinate Obligations or one or more Series of Subordinate Obligations may, as provided by a Supplemental Subordinate Indenture, secure only such specific Subordinate Obligations, Series of Subordinate Obligations or one or more Series of Subordinate Obligations and, therefore, will not be included as security for all Subordinate Obligations under the Master Subordinate Indenture unless otherwise provided by a Supplemental Subordinate Indenture and moneys and securities held in trust as provided in the Master Subordinate Indenture exclusively for Subordinate Obligations which have become due and payable and moneys and securities which are held exclusively to pay Subordinate Obligations which are deemed to have been paid under the Master Subordinate Indenture will be held solely for the payment of such specific Subordinate Obligations. All amounts held in the funds and accounts created under the Senior Indenture will not be included as security for any Subordinate Obligations under the Master Subordinate Indenture.

Subordinate Repayment Obligations Afforded Status of Subordinate Obligations

If a Credit Provider or Liquidity Provider makes payment of principal and/or interest on a Subordinate Obligation or advances funds to purchase or provide for the purchase of Subordinate Obligations and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department's Subordinate Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Subordinate Obligation issued under the Master Subordinate Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Holder of such Subordinate Obligation, and such Subordinate Obligation will be deemed to have been issued at the time of the original Subordinate Obligation for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Subordinate Indenture; provided, however, the payment terms of the Subordinate Obligation held by the Credit Provider or Liquidity Provider hereunder will be as follows (unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which the Subordinate Obligations are issued or in the agreement with the Credit Provider or Liquidity Provider): (a) interest will be due and payable semiannually and (b) principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(A) a term extending to the maturity date of the enhanced Subordinate Obligations or (B) if later, the final maturity of the Subordinate Repayment Obligation under the written agreement, and providing substantially level annual debt service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Subordinate Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Subordinate Repayment Obligation. Any amount which comes due on the Subordinate Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Obligation will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund). This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Subordinate Indenture. The Subordinate Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Subordinate Repayment Obligation is to be afforded the status of a Subordinate Obligation under the Master Subordinate Indenture.

Obligations Under Subordinate Qualified Swap; Nonqualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Subordinate Qualified Swap with respect to a Series of Subordinate Obligations may be on a parity with the obligation of the Department to make payments with respect to such Series of Subordinate Obligations and other Subordinate Obligations under the Master Subordinate Indenture, except as otherwise provided by Supplemental Subordinate Indenture and elsewhere in the Master Subordinate Indenture with respect to any Subordinate Swap Termination Payments. The Department may provide in any Supplemental Subordinate Indenture that Regularly Scheduled Swap Payments under a Subordinate Qualified Swap will be secured by a pledge of or lien on the Subordinate Pledged Revenues on a parity with the Subordinate Obligations of such Series and all other Subordinate Obligations, regardless of the principal amount, if any, of the Subordinate Obligations of such Series remaining Outstanding. The Subordinate Trustee will take all action consistent with the other provisions of the Master Subordinate Indenture as will be requested in writing by the Subordinate Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Subordinate Trustee either to exercise the remedies granted in the Master Subordinate Indenture or to institute any action, suit or proceeding in its own name, the Subordinate Qualified Swap Provider will provide to the Subordinate Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Subordinate Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Subordinate Qualified Swap, such Subordinate Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Deposits and Withdrawals from the Subordinate Debt Service Funds

Deposits into the Subordinate Debt Service Funds. The Subordinate Trustee will, at least fifteen Business Days prior to each Payment Date on any Subordinate Obligation, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Subordinate Capitalized Interest, if any, on deposit in the Senior Debt Service Funds, required to be deposited with the Subordinate Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

So long as any of the Subordinate Obligations are Outstanding, the Authorized Representative will deliver to the Treasurer, at least ten Business Days prior to each Payment Date, as to each Series of Subordinate Obligations Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than five Business Days prior to each Payment Date, transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each Series of Outstanding Subordinate Obligations the full amount required to pay the principal of and/or interest on Subordinate Obligations of that Series due on such Payment Date.

On any day on which the Subordinate Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Obligations, the Subordinate Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Subordinate Debt Service Funds for the Series of Subordinate Obligations for which such payments were made and any excess funds will be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Subordinate Debt Service Fund for any Series of Subordinate Obligations for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Subordinate Obligations on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series of Subordinate Obligations Outstanding, any amounts required to be transferred to and paid into a Subordinate Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Subordinate Debt Service Fund, and in that event any subsequently scheduled transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (a price not greater than par) prior to notice of redemption of such Series. Such Subordinate Obligations so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Subordinate Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Obligations of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Subordinate Obligations to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Subordinate Trustee in writing.

Money set aside and placed in a Subordinate Debt Service Fund for any Series of Subordinate Obligations will remain therein from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Subordinate Debt Service Fund may be temporarily invested as provided in the Master Subordinate Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Subordinate Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Obligations of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of a Subordinate Event of Default, such earnings will remain in the Subordinate Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Subordinate Debt Service Fund established to pay principal of and interest on any Series of Subordinate Obligations will be held by the Subordinate Trustee or any agent of the Subordinate Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Subordinate Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Subordinate Trustee or any agent of the Subordinate Trustee in the various Subordinate Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Subordinate Trustee or such agents as will be provided by the Supplemental Subordinate Indenture.

The moneys in each Subordinate Debt Service Fund established for any issue, Series will be held in trust and applied as provided in the Master Subordinate Indenture and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance with the Master Subordinate Indenture and with the provisions of such Supplemental Subordinate Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Obligations of such Series.

Withdrawals From Subordinate Debt Service Funds. On each Payment Date for any Outstanding Subordinate Obligations, the Subordinate Trustee will pay to the Owners of the Subordinate Obligations of a given Series from the appropriate Subordinate Debt Service Fund or Subordinate Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Subordinate Obligations.

On or before a mandatory redemption date from sinking installment payments for Term Subordinate Obligations of a Series of Subordinate Obligations, the Subordinate Trustee will transfer from the Subordinate Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Obligations of a Series are to be mandatorily redeemed from sinking installment payments, the Subordinate Trustee will pay to the Owners of Subordinate Obligations of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Subordinate Obligations of such Series to be mandatorily redeemed on such date.

On each date on which Subordinate Obligations of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Subordinate Indenture, the Subordinate Trustee will pay to the Owners of such Subordinate Obligations from the redemption account, an amount of interest and principal, and premium, if any, on such Subordinate Obligations to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Obligations are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Obligations on such redemption date.

The payments made by the Subordinate Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Subordinate Debt Service Fund.

All money remaining in a Subordinate Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Obligations of the Series for which that Subordinate Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Obligations of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Subordinate Trustee will, at least two Business Days prior to each Payment Date on any Subordinate Obligation, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Subordinate Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Obligation, in the event the amount then on deposit in any Subordinate Debt Service Fund is insufficient to pay the amounts due on any Series of Subordinate Obligations on such Payment Date. With respect to any Series of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

If, on any Payment Date, the Subordinate Trustee does not have sufficient amounts in the Subordinate Debt Service Funds (without regard to any amounts which may be available in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) to pay in full with respect to Subordinate Obligations of all Series all amounts of principal and/or interest due on such date, the Subordinate Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate

Obligations of any Series, in the order in which such interest came due, then to the payment of past due principal on Subordinate Obligations of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Subordinate Obligations of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Subordinate Obligations then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Subordinate Obligations and, if the amount available will not be sufficient to pay in full all principal on the Subordinate Obligations then due, then pro rata among the Series according to the Principal Amount then due on the Subordinate Obligations.

If the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Obligations secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Subordinate Obligations which have become due and payable have been paid in full, (b) the required payments to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund exceeds the amount available for such purpose, the payments made to the Subordinate Trustee for such purpose will be allocated among the Subordinate Reserve Fund or the various Subordinate Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Obligations secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series of Subordinate Obligations, provide for different provisions and timing of deposits with the Subordinate Trustee and different methods of paying principal of or interest on such Subordinate Obligations depending upon the terms of such Subordinate Obligations and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Subordinate Debt Service Fund created for the Series of Subordinate Obligations for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Obligations, the Department may, at its election, pay to the Subordinate Trustee funds from any available sources with the direction that such funds be deposited into the Subordinate Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Subordinate Pledged Revenues and the other security provided in the Granting Clauses of the Master Subordinate Indenture, secure all Subordinate Obligations issued under the terms of the Maser Subordinate Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Subordinate Obligations or Series of Subordinate Obligations with no obligation to provide such additional security or credit enhancement to other Subordinate Obligations.

Payment of Principal and Interest

The Department covenants and agrees that it will duly and punctually pay or cause to be paid from the Subordinate Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Subordinate Obligation at the place and on the dates and in the manner set forth herein, and in the Supplemental Subordinate Indentures and in the Subordinate Obligations specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Subordinate Indenture and in the Subordinate Obligations contained, provided that the Department's obligation to make payments of the principal of, premium, if any, and interest on the Subordinate Obligations will be limited to payment from the Subordinate Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Subordinate Indenture and any other source which the Department may specifically provide for such purpose and no Holder will have any right to enforce payment from any other funds of the Department.

Junior and Subordinated Obligations

The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that: (a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations (including, but not limited to, Third Lien Obligations) will specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Obligations; and (b) payment of principal of and interest on such subordinated obligations (including, but not limited to, Third Lien Obligations) will be permitted, provided that all deposits required to be made to the Subordinate Trustee to be used to pay debt service on the Subordinate Obligations and to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund, if any, are then current in accordance with the Master Subordinate Indenture.

Maintenance and Operation of LAX Airport Facilities

Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any part of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of the LAX Airport Facilities.

Investments

Moneys held by the Subordinate Trustee in the funds and accounts created in the Master Subordinate Indenture and under any Supplemental Subordinate Indenture will be invested and reinvested as directed by the Department, in Subordinate Permitted Investments subject to the restrictions set forth in the Master Subordinate Indenture and such Supplemental Subordinate Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Subordinate Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Subordinate Trustee will, to the extent practicable, invest in Subordinate Permitted Investments specified in (i) of the definition thereof.

The Subordinate Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Subordinate Permitted Investment is held.

The Subordinate Trustee may buy or sell any Subordinate Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Subordinate Obligations or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture except for the purposes of payment from moneys or Government Obligations held by the Subordinate Trustee or a Subordinate Paying Agent for such purpose. When all Subordinate Obligations which have been issued under the Master Subordinate Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Subordinate Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Subordinate Trustee, the Subordinate Registrar and the Subordinate Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues and the other assets pledged to secure the Subordinate Obligations under the Master Subordinate Indenture will thereupon cease, terminate and become void, and thereupon the Subordinate Trustee will cancel, discharge and release the Master Subordinate Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Subordinate Indenture which may then be in the Subordinate Trustee's possession, except funds or securities in which such funds are invested and are held by the Subordinate Trustee or the Subordinate Paying Agent for the payment of the principal of, premium, if any, and interest on the Subordinate Obligations.

A Subordinate Obligation will be deemed to be paid within the meaning of the Master Subordinate Indenture when payment of the principal, interest and premium, if any, either (a) has been made or caused to be made in accordance with the terms of the Subordinate Obligations and the Master Subordinate Indenture or (b) has been provided for by depositing with the Subordinate Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Subordinate Obligations will be deemed to be paid under the Master Subordinate Indenture, such Subordinate Obligations will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Subordinate Obligations. Once such deposit has been made, the Subordinate Trustee will notify all Holders of the affected Subordinate Obligations that the deposit required by (b) above has been made with the Subordinate Trustee and that such Subordinate Obligations are deemed to have been paid in accordance with the Master Subordinate Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Subordinate Indenture under which such Subordinate Obligations were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Subordinate Indenture under which such Subordinate Obligations were issued, modify or otherwise change the scheduled date for the redemption or payment of any Subordinate Obligation deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Subordinate Obligations or the Master Subordinate Indenture subject to (i) receipt of an approving opinion of Bond Counsel that such action will not adversely affect the tax-exemption of any Subordinate Obligation or Subordinate Obligations then Outstanding and (ii) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Subordinate Obligations. Notwithstanding anything in this section to the contrary, moneys from the trust or escrow established for the defeasance of Subordinate Obligations may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (i) and (ii) above are met prior to or concurrently with any such withdrawal.

Subordinate Events of Default and Remedies

Subordinate Events of Default. Each of the following events will constitute and is referred to as a "*Subordinate Event of Default*":

(a) a failure to pay the principal of or premium, if any, on any of the Subordinate Obligations, when the same will become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Subordinate Obligations when such interest will become due and payable;

(c) failure to pay the purchase price of any Subordinate Obligation when such purchase price will be due and payable upon an optional or mandatory tender date as provided in a Supplemental Subordinate Indenture;

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Subordinate Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under the rate covenant set forth in the Master Subordinate Indenture which will be controlled by the provisions set forth therein, will continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Subordinate Trustee, which notice may be given at the discretion of the Subordinate Trustee and will be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding, unless the Subordinate Trustee, or the Subordinate Trustee and the Holders of Subordinate Obligations in a Principal Amount not less than the Principal Amount of Subordinate Obligations the Holders of which requested such notice, agree in writing to an extension of such period prior to its expiration; provided, however, that the Subordinate Trustee or the Subordinate Trustee and the Holders of such principal amount of Subordinate Obligations will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution;

(f) the occurrence of any other Subordinate Event of Default as is provided in a Supplemental Subordinate Indenture; or

(g) a default in the payment of principal of or interest on any Senior Bonds.

Remedies.

(a) Upon the occurrence and continuance of any Subordinate Event of Default, the Subordinate Trustee in its discretion may, and upon the written direction of the Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Subordinate Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Subordinate Holders, and require the Department to carry out any agreements with or for the benefit of the Subordinate Holders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Subordinate Indenture;

(ii) bring suit upon the Subordinate Obligations;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Subordinate Holders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Holders.

(b) The Subordinate Trustee will be under no obligation to take any action with respect to any Subordinate Event of Default unless the Subordinate Trustee has actual knowledge of the occurrence of such Subordinate Event of Default.

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Subordinate Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider (subject to the prior lien on Pledged Revenues granted to the Senior Bonds pursuant to the Senior Indenture), in no event, upon the occurrence and continuation of a Subordinate Event of Default, will the Subordinate Trustee, the Holders of Subordinate Obligations, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Obligations Outstanding.

Holders' Right To Direct Proceedings. Anything in the Master Subordinate Indenture to the contrary notwithstanding, Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Subordinate Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Subordinate

Trustee under the Master Subordinate Indenture to be taken in connection with the enforcement of the terms of the Master Subordinate Indenture or exercising any trust or power conferred on the Subordinate Trustee by the Master Subordinate Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Subordinate Indenture and that there will have been provided to the Subordinate Trustee security and indemnity satisfactory to the Subordinate Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Subordinate Trustee.

Limitation on Right To Institute Proceedings. No Subordinate Holder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy under the Master Subordinate Indenture or on such Subordinate Obligations, unless such Subordinate Holder or Holders previously has given to the Subordinate Trustee written notice of a Subordinate Event of Default as hereinabove provided and unless also Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding has made written request of the Subordinate Trustee to do so, after the right to institute such suit, action or proceeding under the Master Subordinate Indenture will have accrued, and will have afforded the Subordinate Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Subordinate Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Subordinate Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Subordinate Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Subordinate Holders will have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Master Subordinate Indenture, or to enforce any right under the Master Subordinate Indenture or under the Subordinate Obligations, except in the manner provided in the Master Subordinate Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Subordinate Indenture and for the equal benefit of all Subordinate Holders.

Application of Moneys. If a Subordinate Event of Default will occur and be continuing, all amounts then held or any moneys received by the Subordinate Trustee, by any receiver or by any Subordinate Holder pursuant to any right given or action taken under the provisions of the Master Subordinate Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Subordinate Trustee (including attorneys' fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Obligations, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Subordinate Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Subordinate Obligations which have become due with interest on such Subordinate Obligations at such rate as provided in a Supplemental Subordinate Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Subordinate Obligations on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Subordinate Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Subordinate Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Subordinate Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Subordinate Holders and will not be required to make payment to any Subordinate Holder until such Subordinate Obligations will be presented to the Subordinate Trustee for appropriate endorsement or for cancellation if fully paid.

The Subordinate Trustee

Duties. If a Subordinate Event of Default has occurred and is continuing, the Subordinate Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Subordinate Trustee will perform the duties set forth in the Subordinate Indenture and no implied duties or obligations will be read into the Subordinate Indenture against the Subordinate Trustee. Except during the continuance of a Subordinate Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Subordinate Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Subordinate Trustee and conforming to the requirements of the Master Subordinate Indenture. However, the Subordinate Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Subordinate Indenture.

The Subordinate Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Subordinate Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Subordinate Trustee was negligent in ascertaining the pertinent facts; and (b) the Subordinate Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Subordinate Holders or the Department in the manner provided in the Master Subordinate Indenture.

The Subordinate Trustee will not, by any provision of the Master Subordinate Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Subordinate Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (a) a Subordinate Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be a Subordinate Event of Default and, with respect to such events for which notice to the Department is required before such events will become Subordinate Events of Default, such notice has been given, then the Subordinate Trustee will promptly, after obtaining actual notice of such Subordinate Event of Default or event described in (b) above, give notice thereof to each Subordinate Holder. Except in the case of a default in payment or purchase on any Subordinate Obligations, the Subordinate Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Subordinate Holders.

Eligibility of Subordinate Trustee. The Master Subordinate Indenture will always have a Subordinate Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least $100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Subordinate Trustee. The Subordinate Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may remove the Subordinate Trustee by notifying the removed Subordinate Trustee and may appoint a successor Subordinate Trustee with the Department's consent. The Department may remove the Subordinate Trustee, by notice in writing delivered to the Subordinate Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Subordinate Trustee during any time when a Subordinate Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Subordinate Event of Default.

No resignation or removal of the Subordinate Trustee will be effective until a new Subordinate Trustee has taken office and delivered a written acceptance of its appointment to the retiring Subordinate Trustee and to the Department. Immediately thereafter, the retiring Subordinate Trustee will transfer all property held by it as Subordinate Trustee to the successor Subordinate Trustee, the resignation or removal of the retiring Subordinate Trustee will then (but only then) become effective and the successor Subordinate Trustee will have all the rights, powers and duties of the Subordinate Trustee under the Subordinate Indenture.

If the Subordinate Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Subordinate Indenture, the Department will promptly appoint a successor Subordinate Trustee.

If a Subordinate Trustee is not performing its duties under the Subordinate Indenture and a successor Subordinate Trustee does not take office within 60 days after the retiring Subordinate Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Subordinate Trustee, the Department or the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may petition any court of competent jurisdiction for the appointment of a successor Subordinate Trustee.

Amendments and Supplements

Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations. The Department may, from time to time and at any time, without the consent of or notice to the Holders of the Subordinate Obligations, execute and deliver Supplemental Subordinate Indentures supplementing and/or amending the Master Subordinate Indenture or any Supplemental Subordinate Indenture, as follows:

(a) to provide for the issuance of a Series or multiple Series of Subordinate Obligations under the provisions of the Master Subordinate Indenture and to set forth the terms of such Subordinate Obligations and the special provisions which will apply to such Subordinate Obligations;

(b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Subordinate Indenture or any Supplemental Subordinate Indenture, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(c) to add to the covenants and agreements of the Department in the Master Subordinate Indenture or any Supplemental Subordinate Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Subordinate Holders;

(d) to confirm, as further assurance, any interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues or in and to the funds and accounts held by the Subordinate Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Subordinate Indenture or to otherwise add additional security for the Subordinate Holders;

(e) to evidence any change made in the terms of any Series of Subordinate Obligations if such changes are authorized by a Supplemental Subordinate Indenture at the time the Series of Subordinate Obligations is issued and such change is made in accordance with the terms of such Supplemental Subordinate Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(g) to provide for uncertificated Subordinate Obligations or for the issuance of coupons and bearer Subordinate Obligations or Subordinate Obligations registered only as to principal;

(h) to qualify the Subordinate Obligations or a Series of Subordinate Obligations for a rating or ratings from a Rating Agency;

(i) to accommodate the technical, operational and structural features of Subordinate Obligations which are issued or are proposed to be issued or of a Subordinate Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Subordinate Obligations or a specific Series of Subordinate Obligations, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Obligations, including, without limitation, the segregation of Pledged Revenues, Net Pledged Revenues and Subordinate Pledged Revenues into different funds; and

(l) to modify, alter, amend or supplement the Master Subordinate Indenture or any Supplemental Subordinate Indenture in any other respect which is not materially adverse to the Subordinate Holders.

Before the Department executes, pursuant to this section, any Supplemental Subordinate Indenture, there will be delivered to the Department and Subordinate Trustee an opinion of Bond Counsel to the effect that such Supplemental Subordinate Indenture is authorized or permitted by the Master Subordinate Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Subordinate Obligations which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations.

(a) Except for any Supplemental Subordinate Indenture entered into pursuant to the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above and any Supplemental Subordinate Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this section and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Subordinate Indenture or in a Supplemental Subordinate Indenture; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations then Outstanding or unless such change affects less than all Series of Subordinate Obligations and the following subsection (b) is applicable, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Obligations or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations or the rate of interest thereon; and provided that nothing contained in the Master Subordinate Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Subordinate Obligations then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Subordinate Indenture) upon or pledge of the Subordinate Pledged Revenues created by the Master Subordinate Indenture, ranking prior to or on a parity with the claim created by the Master Subordinate Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Subordinate Obligations, a preference or priority of any Subordinate Obligation or Subordinate Obligations over any other Subordinate Obligation or Subordinate Obligations with respect to the security granted therefor under the Granting Clauses of the Master Subordinate Indenture, or (v) a reduction in the aggregate Principal Amount of Subordinate Obligations the consent of the Subordinate Holders of which is required for any such Supplemental Subordinate Indenture. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Subordinate Holders of the execution of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above, including the granting, for the benefit of particular Series of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Subordinate Indenture which amends the provisions of an earlier Supplemental Subordinate Indenture under which a Series or multiple Series of Subordinate Obligations were issued. If such Supplemental Subordinate Indenture is executed for one of the purposes described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above, no notice to or consent of the Subordinate Holders will be required. If such Supplemental Subordinate Indenture contains provisions which affect the rights and interests of less than all Series of Subordinate Obligations Outstanding and the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations of all Series of Subordinate Obligations Outstanding which are affected by such changes will have the right from time to time to consent to any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Subordinate Indenture and affecting only the Subordinate Obligations of such Series; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations of all the affected Series then Outstanding, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Obligations of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations of such Series or the rate of interest thereon. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Holders of the adoption of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above, including the granting, for the benefit of particular Series of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

Amendments to the Senior Indenture

The Holders of the Subordinate Obligations have no right to consent to or reject any amendments to the Senior Indenture that require the consent of the holders of the Senior Bonds (as described under "APPENDIX C-2—SUMMARY OF THE MASTER SENIOR INDENTURE—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders), except for amendments to the flow of funds that require the consent of the holders of the Senior Bonds (as described under "APPENDIX C-2—SUMMARY OF THE MASTER SENIOR INDENTURE—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders).

Rights of Credit Provider

The Master Subordinate Indenture provides that if a Credit Facility is provided for a Series of Subordinate Obligations or for specific Subordinate Obligations, the Department may in the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued, provide any or all of the following rights to the Credit Provider as the Department deems to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Subordinate Trustee or to otherwise direct proceedings all as provided in the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Obligations which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Subordinate Obligations; (b) the right to act in place of the owners of the Subordinate Obligations which are secured by the Credit Facility for purposes of removing a Subordinate Trustee or appointing a Subordinate Trustee under the Subordinate Indenture; and (c) the right to consent to Supplemental Subordinate Indentures, which would otherwise require the consent of the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations, entered into pursuant to the provisions set forth under the caption "—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations" above, except with respect to any amendments described in subsections (a)(i) through (iv) and (b)(i) or (ii) under the caption "—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations" above, which consent of the actual Subordinate Holders will still be required, of the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Obligations which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Holder of such Subordinate Obligations.

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APPENDIX C-5

SUMMARY OF THE EIGHTH SUPPLEMENTAL SUBORDINATE INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2013 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Eighth Supplemental Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Eighth Supplemental Subordinate Indenture.

Terms of the Bonds

The Eighth Supplemental Subordinate Indenture sets forth the terms of the Series 2013 Subordinate Bonds, most of which terms are described in the forepart of this Official Statement under "DESCRIPTION OF THE SERIES 2013 BONDS."

Establishment of Funds and Accounts

Pursuant to the Eighth Supplemental Subordinate Indenture the Subordinate Trustee will establish and maintain the following funds and accounts: the Series 2013 Subordinate Debt Service Fund, (and within such Series 2013 Subordinate Debt Service Fund, an Interest Account, a Principal Account and a Redemption Account), the Series 2013 Subordinate Construction Fund, the Series 2013 Subordinate Costs of Issuance Fund, the Series 2013 Subordinate Reserve Account to be established in the Subordinate Reserve Fund and the Series 2013 Subordinate Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2013 Subordinate Bonds as described in the forepart of this Official Statement under "ESTIMATED SOURCES AND USES OF FUNDS."

Series 2013 Subordinate Debt Service Fund. The Subordinate Trustee will deposit into the Interest Account of the Series 2013 Subordinate Debt Service Fund a portion of the proceeds of the Series 2013 Subordinate Bonds representing capitalized interest on the Series 2013 Subordinate Bonds. Additionally, the Subordinate Trustee will deposit in the Interest Account of the Series 2013 Subordinate Debt Service Fund amounts received from the Department, as provided in the Master Subordinate Indenture, to be used to pay interest on the Series 2013 Subordinate Bonds. The Subordinate Trustee will also deposit into the Interest Account of the Series 2013 Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit in the Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the Interest Account will be withdrawn and paid to the Department on the Business Day following an Interest Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Subordinate Trustee will deposit into the Principal Account of the Series 2013 Subordinate Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2013 Subordinate Bonds at maturity or mandatory sinking fund redemption, if any. The Subordinate Trustee will also deposit into the Principal Account of the Series 2013 Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Account will be withdrawn and paid to the Department on the Business Day following an principal Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Subordinate Trustee will deposit into the Redemption Account of the Series 2013 Subordinate Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of and interest on the Series 2013 Subordinate Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of mandatory sinking fund redemption, if any). Earnings on the Redemption Account will be retained in such account or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Subordinate Trustee by an Authorized Representative at the time of such deposit.

The Series 2013 Subordinate Debt Service Fund will be invested and reinvested in Subordinate Permitted Investments as directed by an Authorized Representative.

Series 2013 Subordinate Construction Fund. Amounts in the Series 2013 Subordinate Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the Series 2013 Subordinate Bonds Projects for which the Series 2013 Subordinate Bonds were issued. While held by the Subordinate Trustee, amounts in the Series 2013 Subordinate Construction Fund will not secure the Outstanding Series 2013 Bonds. Amounts in the Series 2013 Subordinate Construction Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such funds.

Series 2013 Subordinate Costs of Issuance Fund. The proceeds of the Series 2013 Subordinate Bonds deposited into the Series 2013 Subordinate Costs of Issuance Fund will be disbursed by the Subordinate Trustee, from time to time, to pay costs of issuance of the Series 2013 Subordinate Bonds. Amounts in the Series 2013 Subordinate Costs of Issuance Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Subordinate Reserve Fund and Series 2013 Subordinate Reserve Account. For a description of the Subordinate Reserve Fund, reference is made to the Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS—Subordinate Obligations—Subordinate Reserve Fund."

Series 2013 Subordinate Rebate Fund. The Eighth Supplemental Subordinate Indenture creates the Series 2013 Subordinate Rebate Fund for the Series 2013 Subordinate Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Subordinate Trustee with respect to the Series 2013 Subordinate Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2013 Subordinate Bonds. Such excess is to be deposited into the Series 2013 Subordinate Rebate Fund and periodically paid to the United States of America. The Series 2013 Subordinate Rebate Fund while held by the Subordinate Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2013 Bonds.

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APPENDIX D

PROPOSED FORMS OF BOND COUNSEL'S OPINIONS

[Closing Date]

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

$170,685,000
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2013 Series A

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 $170,685,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2013 Series A (the "Series 2013 Senior Bonds"). The Series 2013 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 Fourteenth Supplemental Trust Indenture, dated as of November 1, 2013 (the "Fourteenth Supplemental Senior Indenture"), by and between the Department, acting through the Board, and the Senior Trustee. Issuance of the Series 2013 Senior Bonds has been authorized by Resolution No. 24919, adopted by the Board on September 24, 2012, and approved by the City Council of the City of Los Angeles on October 30, 2012, and Resolution No. 25255, adopted by the Board on October 15, 2013 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Senior Indenture and the Fourteenth Supplemental Senior Indenture.

In connection with the issuance of the Series 2013 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 Fourteenth 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 2013 Senior Bonds and other matters (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 2013 Senior Bonds.

2. The Master Senior Indenture and the Fourteenth Supplemental Senior Indenture have been duly authorized, executed and delivered by the Department and, assuming the 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 2013 Senior Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Senior Indenture and the Fourteenth Supplemental Senior Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2013 Senior Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Senior Trustee of the Net Pledged Revenues and certain funds and accounts created under the Master Senior Indenture and the Fourteenth 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 Net Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2013 Senior Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2013 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 2013 Senior Bond for any period during which such Series 2013 Senior Bond is held by a person who is a "substantial user" of the facilities financed or refinanced by the Series 2013 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 2013 Senior Bonds is a specific preference item 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 2013 Senior Bonds is exempt from present State of California personal income tax.

The opinion 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 Fourteenth Supplemental Senior Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2013 Senior Bonds to be included in gross income retroactive to the date of issue of the Series 2013 Senior Bonds. Although we are of the opinion that interest on the Series 2013 Senior Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2013 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 2013 Senior Bonds, the Master Senior Indenture and the Fourteenth 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 5, 2013, or any other offering material relating to the Series 2013 Senior Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2013 Senior Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

[Closing Date]

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

$71,175,000
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Revenue Bonds
2013 Series B

Ladies and Gentlemen:

We have acted as Bond Counsel to the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board"), in connection with the Department's issuance and sale of $71,175,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the "Series 2013 Subordinate Bonds"). The Series 2013 Subordinate Bonds are being issued under the terms of the Charter of the City of Los Angeles, relevant ordinances of the City of Los Angeles, and the Los Angeles Administrative Code (collectively, the "Charter"), the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association (also known as U.S. Bank, N.A.), as trustee (the "Subordinate Trustee"), and the Eighth Supplemental Subordinate Trust Indenture, dated as of November 1, 2013 (the "Eighth Supplemental Subordinate Indenture"), by and between the Department and the Subordinate Trustee. Issuance of the Series 2013 Subordinate Bonds has been authorized by Resolution No. 24919, adopted by the Board on September 24, 2012, and approved by the City Council of the City of Los Angeles on October 30, 2012, and Resolution No. 25255, adopted by the Board on October 15, 2013 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Subordinate Indenture and the Eighth Supplemental Subordinate Indenture.

In connection with the issuance of the Series 2013 Subordinate 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 Subordinate Indenture;

(d) an executed counterpart of the Eighth Supplemental Subordinate Indenture;

(e) an executed counterpart of the Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented, by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, as trustee;

(f) certifications of the Department and others;

(g) an executed copy of the Tax Compliance Certificate dated this date relating to the Series 2013 Subordinate Bonds and other matters (the "Tax Certificate");

(h) an opinion of the City Attorney; and

(i) 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 2013 Subordinate Bonds.

2. The Master Subordinate Indenture and the Eighth Supplemental Subordinate Indenture have been duly authorized, executed and delivered by the Department and, assuming the due authorization, execution and delivery by the Subordinate Trustee, represent valid and binding agreements of the Department enforceable in accordance with their terms.

3. The Series 2013 Subordinate Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Subordinate Indenture and the Eighth Supplemental Subordinate Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2013 Subordinate Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Subordinate Trustee of the Subordinate Pledged Revenues and certain funds and accounts created under the Master Subordinate Indenture and the Eighth Supplemental Subordinate 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 Subordinate Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2013 Subordinate Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2013 Subordinate Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2013 Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in the federal alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporation over the federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporation.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2013 Subordinate Bonds is exempt from present State of California personal income tax.

The opinion 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 Subordinate Indenture, the Eighth Supplemental Subordinate Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2013 Subordinate Bonds to be included in gross income retroactive to the date of issue of the Series 2013 Subordinate Bonds. Although we are of the opinion that interest on the Series 2013 Subordinate Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2013 Subordinate Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The obligations of the Department and the security provided therefor, as contained in the Series 2013 Subordinate Bonds, the Master Subordinate Indenture and the Eighth Supplemental Subordinate Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, 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 5, 2013, or any other offering material relating to the Series 2013 Subordinate Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2013 Subordinate Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption "—General" below has been provided by DTC. Neither the City nor the Department makes any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2013 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF THE CITY, THE DEPARTMENT, THE SENIOR TRUSTEE OR THE SUBORDINATE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2013 BONDS UNDER THE SENIOR INDENTURE OR THE SUBORDINATE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2013 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 2013 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2013 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 2013 Bonds. The Series 2013 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 2013 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Senior Trustee or Subordinate Trustee, as applicable.

DTC, the world's largest securities depository, is a limited–purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non–U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post–trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book–entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of Series 2013 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC may be found on its web sites. The Department undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC's website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 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 confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 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 2013 Bonds, except in the event that use of the book–entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 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 2013 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 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 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 2013 Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2013 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 2013 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 2013 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 2013 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, the Senior Trustee or the Subordinate Trustee, as applicable, 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 2013 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, the Senior Trustee or the Subordinate Trustee, as applicable, 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 2013 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department, the Senior Trustee or the Subordinate Trustee, as applicable, 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 2013 Bonds at any time by giving reasonable notice to the Department, the Senior Trustee or the Subordinate Trustee, as applicable. 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 2013 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2013 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2013 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 2013 Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2013 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 2013 Bonds, as applicable, will be governed by the provisions of the Senior Indenture or the Subordinate Indenture, as applicable.

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 2013 Bonds.

In addition, Beneficial Owners of the Series 2013 Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2013 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 2013 Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2013 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 2013 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 2013 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 F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Department of Airports of the City of Los Angeles, California acting by and of through the Board of Airport Commissioners of the City of Los Angeles, California (the "Department") in connection with the issuance by the Department of its Los Angeles International Airport, Senior Revenue Bonds, 2013 Series A (the "Series 2013 Senior Bonds") and the Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the "Series 2013 Subordinate Bonds" and collectively with the Series 2013 Senior Bonds, the "Series 2013 Bonds"). The Series 2013 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 and The Bank of New York Mellon Trust Company N. A., formerly known as The Bank of New York Trust Company, N. A., 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 Fourteenth Supplemental Trust Indenture dated as of November 1, 2013 (the "Fourteenth Supplemental Senior Indenture," and together with the Master Senior Indenture, the "Senior Indenture"), by and between the Department and the Senior Trustee. The Series 2013 Subordinate Bonds are being issued pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association , also known as U.S. Bank, N.A., as trustee (the "Subordinate Trustee"), and an Eighth Supplemental Trust Indenture dated as of November 1, 2013 (the "Eighth Supplemental Senior Indenture," and together with the Master Supplemental Indenture, the "Supplemental Indenture"), by and between the Department and the Subordinate Trustee. The Department hereby covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Senior Indenture and the Subordinate Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2013 Bonds (including persons holding Series 2013 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2013 Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any other successor Dissemination Agent designated in writing by the Department.

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

"Fiscal Year" shall mean the one-year period ending on June 30 of each year or such other period of 12 months designated by the Department as its Fiscal Year.

"GASB" shall mean the Governmental Accounting Standards Board.

"Listed Events" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any successor thereto.

"Official Statement" shall mean the final official statement of the Department relating to the Series 2013 Bonds.

"Owner" shall mean a registered owner of the Series 2013 Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Series 2013 Bonds required to comply with the Rule in connection with offering of the Series 2013 Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

Section 2. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Owners and Beneficial Owners of the Series 2013 Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent, if the Dissemination Agent is other than the Department, to, not later than 180 days following the end of each Fiscal Year of the Department (which Fiscal Year currently ends on June 30), commencing with the report for Fiscal Year ending June 30, 2013, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB and/or the Rule, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the Department changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) If in any year, the Department does not provide the Annual Report to the MSRB by the time specified above, the Department shall file a notice with the MSRB through the EMMA System in substantially the form attached as Exhibit A hereto.

(c) If the Dissemination Agent is not the Department. the Dissemination Agent shall:

1. file a report with the Department certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the date(s) of the filing(s); and

2. take any other actions mutually agreed to between the Dissemination Agent and the Department.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Department's audited financial statements for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB, provided however that the Department may from time to time, in order to comply with federal or State legal requirements, modify the basis upon which such financial statements are provided notice. Nothing of any such modification shall be provided to the MSRB and shall include a reference to the applicable law or requirement describing such accounting basis. If the Department's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information in form and substance similar to the following tables set forth in the Official Statement for the most recently completed Fiscal Year:

1. Table 1 – "Existing Senior Bonds";
2. Table 2 – "Existing Subordinate Bonds and Subordinate Commercial Paper Notes";
3. Table 3 – "Senior Bonds and Subordinate Bonds Debt Service Requirements" (only if such information changes);
4. Table 6 – "Air Carriers Serving LAX" (as of the first day of the current Fiscal Year);
5. Table 8 – "Air Traffic Data";
6. Table 9 – "Historical Total Enplanements by Airline";
7. Table 10 – "Total Revenue Landed Weight";
8. Table 11 – "Enplaned and Deplaned Cargo";
9. Table 14 – "Historical Operating Statements";
10. Table 15 – "Top Ten Revenue Providers";

11. Table 16 – "Top Ten Revenue Sources";

12. Table 18 – "Historical Debt Service Coverage"; and

13. The columns entitled "Department Carrying Value" and "LAX Carrying Value" in Table 20 – "City of Los Angeles Pooled Investment Fund"; and

14. Unless otherwise provided in "Historical Operating Statements," the total amount of PFC revenues received by the Department with respect to Los Angeles International Airport.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities that have been submitted to the MSRB through the EMMA System. In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reason therefore and the Department will provide comparable information if available.

Section 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Department;

Note: for the purposes of the event identified in Section 5(a)(9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Department, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Department.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds, if material, not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2013 Bonds or other material events affecting the tax status of the Series 2013 Bonds;
3. Modifications to rights of the Owners of the Series 2013 Bonds;
4. Series 2013 Bond calls;
5. Release, substitution or sale of property securing repayment of the Series 2013 Bonds;
6. The consummation of a merger, consolidation, or acquisition involving the Department or the sale of all or substantially all of the assets of the Department, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the

termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Department shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3.

(d) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Department shall determine if such event would be material under applicable federal securities laws.

(e) If the Department learns of an occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB through the EMMA System in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2013 Bonds pursuant to the Senior Indenture or the Subordinate Indenture, as applicable.

Section 6. Termination of Obligation. The Department's obligations under this Disclosure Certificate with respect to a Series of the Series 2013 Bonds shall terminate upon the maturity, legal defeasance, prior redemption or payment in full of all of such Series of the Series 2013 Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the Department with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the Department's obligations hereunder shall terminate to a like extent. If such termination occurs prior to the final maturity of a Series of the Series 2013 Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. Dissemination Agent. The Department may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not any other designated dissemination agent, the Department shall be the dissemination agent. The initial dissemination agent shall he the Department.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, without the consent of the Owners of the Series 2013 Bonds, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is not prohibited by the Rule. The Department shall give notice of any amendment in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Series 2013 Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate; provided that any such Owner or Beneficial Owner may not take any enforcement action without the consent of the Owners of not less than 25% (twenty-five percent) in aggregate principal amount of the Series 2013 Bonds that at the time are Outstanding. A default under this Disclosure Certificate shall not be deemed a default under the Senior Indenture or the Subordinate Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Department to comply with this Disclosure Certificate. No Owner or Beneficial Owner of the Series 2013 Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Department and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, if any, and the Owners and Beneficial Owners from time to time of the Series 2013 Bonds, and shall create no rights in any other person or entity. This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 13. Notices. Any notices or communications to the Department may be given as follows:

Los Angeles World Airports
One World Way
Los Angeles, California 90045
Attention: Ryan Yakubik
Fax: (310) 646-9223
Telephone: (424) 646-5251

Section 14. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Beneficial Owners of the Series 2013 Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 15. Governing Law. This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State of California. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State of California and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this ______ day of _____________, 2013.

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: ____
Executive Director

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Department of Airports of the City of Los Angeles, California
Name of Bond Issue:	[Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Senior Revenue Bonds, 2013 Series A (AMT)] [Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Subordinate Revenue Bonds, 2013 Series B (Non-AMT)]
Date of Issuance:	[________________]
CUSIP:	[______]

NOTICE IS HEREBY GIVEN that the Department of Airports of the City of Los Angeles, California (the "Department") has not provided an Annual Report with respect to the above referenced Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated [_______________], executed by the Department for the benefit of the Owners and Beneficial Owners of the above referenced Bonds. The Department anticipates that the Annual Report will be filed by ___________________________ , 20_.
Dated: _______________

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: ____
Authorized Representative

APPENDIX G

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

The information in Appendix G – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES" has been reproduced from relevant portions of Appendix A to the Official Statement of the City dated June 26, 2013 in connection with the City's 2013 Tax and Revenue Anticipation Notes, which is available from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system. The Department is relying upon, and has not independently confirmed or verified the accuracy or the completeness of, the information in Appendix G or the LACERS Reports, or other information incorporated by reference therein. See also "THE DEPARTMENT OF AIRPORTS – Retirement Plan" herein.

BUDGET AND REVENUES

Budget Pressures and Responses

As part of its adopted budgets and through various interim actions, the City implemented a number of ongoing and one-time budget solutions, including various transfers from special funds; the elimination of approximately 5,300 positions from its peak in 2007-08, through an early retirement program, transfers of employees to vacant special funded positions, and layoffs; the freezing of hiring for most civilian (non-safety) positions and the slowing of hiring of new police recruits; a modified deployment plan for fire department resources; elimination of several small departments; reduced overtime funding; and mandated unpaid furlough days for employees. In addition, the City negotiated deferrals of salary increases and increases in employee contributions for health care and retirement, which reduced City contributions. Specifically, the City negotiated bargaining agreements that secured a 4% active employee contribution toward retiree healthcare for approximately 95% of its civilian workforce, secured a 2% active employee contribution toward retiree healthcare for approximately 71% of its sworn workforce, restructured cost-of-living adjustments, decreased salaries by 1.5% or froze salaries for one-year for certain bargaining groups, reduced the starting salaries for sworn employees by 20%, and obtained voter approval of a new tier of retirement benefits for sworn employees hired after July 1, 2011. In addition, the City created a new tier of retirement benefits for civilian employees hired after July 1, 2013. For those civilian and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy was frozen at the rate in effect as of July 1, 2011 ($1,097 per month). See "**FINANCIAL OPERATIONS—Labor Relations", "—Retirement and Pension Systems" and "—Other Post-Employment Benefits"**, herein.

The City is required by law to maintain a balanced budget; however, expenditure growth consistently outpaced revenue growth, creating a structural imbalance that was addressed on a year-by year basis through both ongoing and one-time solutions. While the City's budget balancing attempted to address structural deficits through position elimination and increased employee retirement contributions, it also relied heavily on one-time solutions to close the budget gaps. These one-time solutions included the receipt of revenues earmarked for specific purposes and over a short period of time (e.g. grants), expenditure deferrals for capital improvements, the use of one-time revenues for ongoing programs, hiring freezes, and furloughs. Furthermore, even structural solutions such as the elimination of positions were not always based on a strategic plan that took into consideration the needs of departments and whether the impacted services were core services of the City. Rather, vacant positions were targeted for elimination to achieve the highest savings possible with the least layoff impact.

Over the last four years, the City has made significant progress in reducing its structural deficit. At one point, in November 2009, the City projected accumulated gaps as high as $1 billion in Fiscal Year 2013-14, assuming that a number of expenditure factors were left unchanged over the intervening years. As a result of the City's action in implementing the numerous fiscal reforms, as well as improved economic conditions and growth in a number of economically-sensitive revenues that during Fiscal Year 2012-13 have outperform original budget projections, the City is now on a path towards fiscal sustainability.

Budget Outlook

As part of its budget planning, the CAO prepares a multi-year Budget Outlook, based on the existing budget, known major future expenditure commitments 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 Budget Outlook is updated in connection with the City's budget process and, at times, with its periodic financial status reports.

The City's most recent Budget Outlook, which incorporates the Fiscal Year Adopted Budget, shows that the City would face a budget gap of $153 million in Fiscal Year 2014-15 without corrective action. This deficit would gradually decrease over the next two years until finally being eliminated by 2017-18, largely based on the City's continued discipline on expenditures and economic recovery.

While the expanding economy has led the City to expect a steady annual growth in ongoing revenues through 2017-18, the City has continued its focus on controlling expenditures and in particular employee salaries and benefits. After reducing its workforce by over 14.4 percent since 2007-08, the 2013-14 Budget only anticipates a 0.2 percent growth in the workforce despite the significant increases in revenue. Furthermore, new pension tiers for sworn personnel hired after July 1, 2011 and new civilian personnel hired after July 1, 2013 are expected to mitigate future increases in the City's pension contributions. Through continued economic recovery and discipline regarding expenditures, the City anticipates managing the structural deficit downward over the next three years and finally eliminating it by 2017-18.

Nevertheless, to reach this goal, the next Mayor and Council will need to maintain the same disciplined and measured approach exercised by the current leadership. Specifically, full implementation of the Fiscal Year 2013-14 Adopted Budget will require further labor concessions. Central to this plan to reach a zero deficit by 2017-18 is the elimination of the 5.5 percent pay increase to over 60 percent of the civilian workforce scheduled for January 1, 2014. In addition, those who already received this increase in the current year will be required reduce their salaries as well. This plan also assumes that City employees contribute 10 percent toward the cost of their health care benefits on an on-going basis. Lastly, the Budget Outlook assumes no additional raises for three years beyond July 1, 2014 are provided to any labor group. Sufficient funds within the Fiscal Year 2013-14 Adopted Budget are available to cover the related expenses in 2013-14 should the assumed saving not be achieved, most significantly the $21 million allocated as a Reserve for Economic Uncertainties in the Unappropriated Balance (See "**FINANCIAL OPERATIONS—Reserves and Contingencies**," herein). Nevertheless, if these savings stemming mostly from labor concessions are not achieved, the Outlook will no longer show a surplus in 2017-18 but rather a deficit of $83 million.

It is important to note that the Budget 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 must be balanced when enacted, as required by the City's Charter. The City generally accomplishes such balancing through a combination of revenue increases, expenditure reductions and transfers from reserves.

Table 12
GENERAL FUND BUDGET OUTLOOK
($ in millions)

	Adopted 2013-14	2014-15	2015-16	2016-17	2017-18
Estimated General Fund Revenue:					
General Fund Base (1)	$4,550.5	$4,866.9	$4,878.6	$5,014.4	$5,156.3
Revenue Growth (2)					
Property Related Taxes (3)	152.0	29.7	66.6	69.2	61.1
Sales and Business Taxes(4)	40.6	17.6	23.8	24.5	25.2
Utility Users' Tax(5)	19.0	10.3	10.7	11.2	9.3
License, Permits and Fees(6)	62.8	(49.6)	22.4	23.2	24.3
Other Fees, Taxes and Transfers (7)	31.5	9.9	16.2	16.8	17.5
SPRF Transfer (8)	2.6	(13.6)	-	-	-
Transfer from the Budget Stabilization Fund(9)	8.0	7.3	(3.8)	(2.9)	(8.6)
Transfer from Reserve Fund	-	-	-	-	-
Total Revenue	**$4,866.9**	**$4,878.6**	**$5,014.4**	**$5,156.3**	**$5,285.0**
General Fund Revenue Increase (Decrease) %	***7.0%***	***0.2%***	***2.8%***	***2.8%***	***2.5%***
General Fund Revenue Increase (Decrease) $	***316.4***	***11.7***	***135.8***	***141.9***	***128.7***
Estimated Expenditures:					
General Fund Base (10)	$4,550.5	$4,866.9	$5,032.0	$5,216.8	$5,252.0
Incremental Changes to Base: (11)					
Employee Compensation Adjustments (12)	89.6	36.5	21.2	2.8	2.8

Table 12
GENERAL FUND BUDGET OUTLOOK
($ in millions)

City Employees Retirement System (13)	25.6	35.757	41.2	24.9	(4.5)
Fire and Police Pensions (13)	69.9	67.1	40.5	37.6	(2.0)
Workers Compensation Benefits (14)	0.2	6.1	6.2	9.2	14.2
Health, Dental and Other Benefits (15)	11.1	17.0	29.6	30.4	30.4
Debt Service (16)	14.6	1.0	(24.8)	(6.1)	-
Delete Reso. Authority (17)	(39.7)	-	-	-	-
Add New and Continued Reso. Authorities	24.3	-	-	-	-
Delete One-Time Costs(18)	(32.4)	-	-	-	-
Add One-Time Costs(19)	36.1	(36.1)	-	-	-
Unappropriated Balance (20)	56.5	(42.2)	-	-	-
New Facilities (21)	0.4	0.02	0.03	-	-
City Elections (22)	(17.0)	17.5	(17.5)	18.0	(18.0)
CIEP (23)	33.8	42.5	(1.7)	8.4	4.1
Appropriation to the Reserve Fund(24)	(4.9)	-	-	-	-
Net - Other Additions and Deletions(25)	48.4	20.0	-	-	-
Subtotal Expenditures	**$4,866.9**	**$5,032.0**	**$5,126.8**	**$5,252.0**	**$5,279.1**
Expenditure Growth (Reduction) %	***7.0%***	***3.4%***	***1.9%***	***2.4%***	***0.5%***
Expenditure Growth (Reduction) $	***316.4***	***165.1***	***94.7***	***125.2***	***27.1***
TOTAL BUDGET GAP	**$ 0.0**	**($153.4)**	**($112.3)**	**($95.7)**	**$ 5.9**
Incremental Increase(Decrease) % in Gap			***(26.8%)***	***(14.8%)***	***(106.2%)***
Incremental Increase(Decrease) $ in Gap		***$(153.4)***	***$41.1***	***$16.6***	***$101.6***

Revenue:

(1) General Fund (GF) Base: The revenue base for each year represents the prior year's estimated revenues.

(2) Revenue Growth: Revenue projections reflect the consensus of economists that economic recovery will continue to be gradual and that economy-sensitive revenues will grow between 2 percent and 4 percent. Amounts represent projected incremental change to the base. Any one-time receipts are deducted from the estimated revenue growth for the following fiscal year.

(3) Property tax is projected to return to growth rates between 3 percent and 3.5 percent from 2013-14 to 2017-18. Included in this revenue line is tax increment revenue from the redirection of the former Community Redevelopment Agency. This revenue category was first received in June 2012. Ongoing revenue is projected at $24 million with increases tied to secured property tax growth.

(4) The projected revenue assumes above average growth in 2013-14, with a return to average growth from 2014-15 through 2017-18. No assumptions are made regarding policy changes to the business tax.

(5) Moderate growth is projected for the gas and electric users' tax. The telephone users' tax revenue is projected to continue to decline due to the changing makeup of the landline and mobile markets.

(6) One-time revenue including Transportation grant receipts ($45 million), California Assembly Bill AB678 ($23.6 million), and other revenues is included in the 2013-14 projection and removed from the base in 2014-15. The reduction is offset by a growth rate of 3 percent for 2014-15.

(7) California Senate Bill SB89 of 2011 eliminated, effective July 1, 2011, Vehicle License Fee (VLF) revenue allocated under California Revenue and Taxation Code 11005 to cities. The projected ongoing loss in City revenue is approximately $15 million. However, a special apportionment of approximately $2 million annually has been received for the last five years and is expected to continue.

(8) Revenue from the Special Parking Revenue Fund (SPRF) represents the projected surplus that may be available to transfer to the General Fund after accounting for debt service and other expenditures associated with the maintenance, upgrades, and repairs of parking structures, meters and related assets. A base-level surplus of about $21 million is projected in 2013-14 through 2017-18. Any amounts above this are considered one-time receipts and deducted from the estimated revenue growth for the following fiscal year.

(9) Transfer from the Budget Stabilization Fund (BSF) is subject to an available balance in the BSF. BSF transfers are considered one-time receipts are deducted from the estimated revenue growth for the following fiscal year.

Estimated General Fund Expenditures:

(10) Estimated Expenditure General Fund Base: Using the 2012-13 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.

(11) The 2013-14 incremental changes reflect funding adjustments to the prior fiscal year General Fund budget. The Five-Year Outlook expenditures included for 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

(12) Employee Compensation Adjustments: This includes cost of living adjustment ("COLA"), salary step adjustments, change in number of working days, salary step and turnover effect, and full funding for partially financed positions from the prior year. The Five-Year Outlook reflects existing labor agreements, Memoranda of Understanding ("MOUs"), with all City bargaining units as presented in Table 1 unless otherwise noted below.

Coalition of Los Angeles City Unions ("Coalition"): The term of the Coalition MOUs (with the exception MOU 9, Plant Equipment Operators) expires June 30, 2014. The Salary Adjustment scheduled for January 1, 2014 is not reflected in the Five-Year Outlook to account for anticipated permanent savings from Coalition MOU members beginning in 2013-14. No COLAs are assumed for 2014-15 and beyond.

MOU 09, Plant Equipment Operators: The term of MOU 09 expires June 30, 2013. No COLAs are assumed for 2014-15 and beyond.

($ in millions)

MOU 29, Deputy City Attorneys: The term of MOU 29 expires June 30, 2013. The Five-Year Outlook reflects salary adjustments in the Office of the City Attorney to account for anticipated permanent salary reductions from MOU 29 members beginning in 2013-14. No COLAs are assumed for 2014-15 and beyond.

MOUs 8, Professional Engineering and Scientific, and 17, Supervisory Professional Engineering & Scientific: The term of MOUs 8 and 17,, members of Service Employees International Union ("SEIU"), expires on June 30, 2014. No COLAs are assumed for 2014-15 and beyond.

MOU 32, Management Attorneys: The term of MOU 32 expires June 30, 2013. No COLAs are assumed for 2014-15 and beyond.

Engineers and Architects Association ("EAA"): The term of the City's contract with EAA expires on June 30, 2014. No COLAs are assumed for 2014-15 and beyond.

MOU 61, Senior Administrative and Administrative Analysts: The term of 61 will expire on June 30, 2013. No COLAs are assumed for 2014-15 and beyond.

MOU 05, Inspectors ("MCIA"): The term of MOU 05 expires on June 30, 2014. No COLAs are assumed for 2014-15 and beyond.

MOU 28, GSD Police Officers: The term of MOU 28 expires on June 30, 2014. No COLAs are assumed for 2014-15 and beyond.

Sworn Fire and Police Officers: The term of the City's contracts with the Los Angeles Police Protective League ("LAPPL") and the United Firefighters of Los Angeles ("UFLAC") expire on June 30, 2014. No COLAs are assumed for 2014-15 and beyond. It is assumed that a portion of overtime will be paid out, but that the practice of banking overtime will be continued with the new LAPPL contract. This is reflected in the 2014-15 Net – Other Additions and Deletions line.

Table 1
Highlights of MOUs
(Various Terms)

	2013-14	2014-15	2015-16	2016-17	2017-18
Coalition MOUs (except MOUs 09 and 29)					
COLA – July 1st	1.75%				
Salary Adjustment – Jan. 1st	5.5%[(a)]				
MOU 09 and 29					
COLA – July 1st	n/a				
MOUs 8 and 17 (SEIU):					
COLA – July 1st	0%				
MOU 32 Management Attorneys:					
COLA – July 1st	n/a				
EAA					
COLA – July 1st	1.5%				
MOU 61 FPPA					
COLA – July 1st	n/a				
MOU 00 and 05 (Non-Rep & MCIA):					
Contribution Offset	1.5%				
MOU 28 GSD Police Officers:					
COLA – July 1st	1%				
COLA – Jan. 1st	1%				
LAPPL and UFLAC:					
COLA – July 1st	1%				
COLA – Nov. 1st	1%				
COLA – March 1st	2%				

(a) The Salary Adjustment scheduled for January 1, 2014 is not reflected in the Five-Year Outlook to account for anticipated permanent savings from Coalition MOU members beginning in 2013-14.

(13) City Employment Retirement System ("LACERS") and Fire & Police Pensions ("Pensions"): The LACERS and Pensions contribution are estimated based on information from the departments' actuaries and include employee compensation adjustments as noted above. The LACERS

Table 12
GENERAL FUND BUDGET OUTLOOK
($ in millions)

contribution rate is a combination of the Tier 1 and Tier 2 rates, and assumes Tier 2 will be one percent of the covered payroll in 2013-14 and grow by one percent each year. The amounts reflected in the Five-Year Outlook represent incremental changes. The estimates are mostly driven by changes in assumptions and investment returns.

Table 2
LACERS and Pensions

Assumptions		2013-14	2014-15	2015-16	2016-17	2017-18
LACERS						
6/30th Investment Returns		7.75%	7.75%	7.75%	7.75%	7.75%
Combined Contribution Rate		25.26%	27.56%	30.06%	31.56%	31.08%
Pensions						
6/30th Investment Returns		7.75%	7.75%	7.75%	7.75%	7.75%
Combined Contribution Rate		44.40%	48.78%	51.85%	54.70%	54.55%

(14) Workers Compensation Benefits ("WC"): Based on the draft April 2013 actuarial analysis that projects annual medical inflation of 7 percent and a 5 percent annual cost increase in permanent disability costs a decrease of approximately $1.2 million for workers' compensation claims is anticipated in 2013-14. The WC line-item also includes an increase in the State Assessment Fee of $1.5 million and a $2.1 million decrease in contracts: Third Party Administrator (TPA) and Utilization Review.

(15) Health and Dental Benefits: The projections assume that all civilian employees will contribute 10 percent towards the cost of the City-sponsored health plan. Mercer Consulting provides the assumed enrollment, as well as the civilian plan rate forecast. Civilian FLEX medical premiums are expected to increase each calendar year around 8 percent to 11 percent from 2014 to 2018. Police and Fire health benefits are historically higher due to the subsidy increases and type and level of coverage elected by sworn employees. Police and Fire enrollment projections are consistent with the hiring plan. It is anticipated that the health care reform laws of 2010 may cause changes to health plans starting in 2014; however, its impact is unknown at this time.

(16) Debt Service: The debt service amounts include Capital Finance and Judgment Obligation Bond budgets.

(17) Deletion Resolution Authorities: Reflects City practice of deleting positions that are limited-term and temporary in nature at the start of the budget process. Funding for these positions is reviewed on a case-by-case basis and dependent upon continuing need for the fiscal year. Continued or new resolution positions added are embedded in the "Add New and Continued Resolution Authorities" 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 such, these costs are therefore incorporated into the beginning General Fund base of subsequent years.

(18) Deletion of One-time 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 programs and expenses is reviewed on a case-by-case basis and dependent upon continuing need for the fiscal year. Continued items are embedded in the "Net – Additions and Deletions" line item of the forecast. None of the continued items are deleted in subsequent years to provide a placeholder for continuation of equipment and other one-time expenses incurred annually. As such, these costs are therefore incorporated into the beginning General Fund base of subsequent years.

(19) Add One-time Costs: Reflects the addition of new costs that are limited-term and temporary in nature. These costs are primary funded by one-time revenue receipts and therefore deleted from subsequent years.

(20) Unappropriated Balance (UB): One-time UB items are eliminated while ongoing items are continued the following year to provide a placeholder for various ongoing and/or contingency requirements in the future.

(21) New Facilities: Funding projections are based on preliminary departmental estimates for ongoing staffing and expenses that have not been prioritized.

(22) Elections: Citywide elections occur bi-annually.

(23) Capital Improvement Expenditure Program (CIEP): The 2013-14 Adopted Budget includes $24 million for various capital projects, several of which are one-time and deleted in 2014-15. It also includes an additional $16.6 million for the Pavement Preservation Program to maintain and repair 800 miles of streets each year. It is assumed that the program will be continued through 2017-18 at 735 miles per year, the minimum number of miles required to maintain the current pavement condition. In 2014-15, the Sidewalk Repair Program is deleted from the UB and added to CIEP.

(24) Appropriation to the Reserve Fund: In certain years, a General Fund appropriation to the Reserve Fund has been budgeted to strengthen the status of the Reserve Fund. These appropriations are reviewed on a case-by-case basis and dependent upon continuing need for the subsequent fiscal year.

(25) Net - Other Additions and Deletions: Prior year one-time additions to the budget that are continued and new regular positions are embedded in the "Net – Additions and Deletions" line item of the forecast. Also included in this line item are the reductions to programs and positions that were previously part of the base budget. For 2014-15, $20 million has been added to payout a portion of Police overtime. It is assumed that the City will continue banking the remaining overtime.

Source: City of Los Angeles, Office of the City Administrative Officer.

The above budget outlook makes various assumptions regarding labor concessions and other cost savings. The table below assumes no reduction from labor concessions, and illustrates the impact in subsequent fiscal years.

Revised General Fund Budget Outlook
Alternative Without Labor Concessions
($ millions)

	2013-14	2014-15	2015-16	2016-17	2017-18
Mayor's Proposed Budget		($153)	($112)	($96)	$6
Proposed Budget without Labor Concessions	0	($242)	($201)	($185)	($83)
Variance	0	($89)	($89)	($89)	($89)

GAAP-Based Fund Balance

The Government Accounting Standards Board (GASB) has provided new guidance for the presentation of fund balance in the General Fund and other governmental funds, effective with financial statements for periods beginning after June 15, 2010. Statement No. 54 provides a new hierarchy of fund balance classifications. A description of the new classifications appears in "Note 1 (E) Assets, Liabilities and Net Assets or Equity," in the City's CAFR for the Fiscal Year Ended June 30, 2012. The table below restates the historical fund balances for the General Fund for Fiscal Years 2007-08 through 2009-10 under this new hierarchy. A restatement beginning in Fiscal Year 2002-03 can be found in the Statistical Section of the CAFR.

Table 15
GASB 54 GENERAL FUND BALANCE
($ in thousands)

	Fiscal Year Ending June 30				
	2008	2009	2010	2011	2012
Nonspendable[1]	$ 30,304	$ 27,879	$ 29,771	$ 26,299	$ 31,134
Assigned[2]	352,416	233,761	182,835	239,877	267,645
Unassigned[3]	215,227	221,811	224,574	253,882	272,905
Total Fund Balance	$597,947	$483,451	$437,180	$520,058	$571,684

(1) Includes inventories and certain advances to other funds.
(2) Includes encumbrances, various revolving funds, and certain net receivables.
(3) Primarily consists of the City's reserve fund.

Source: City of Los Angeles, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

FINANCIAL OPERATIONS

Reserves and Contingencies

The City maintains a Reserve Fund, which was created by the City Charter. The City may transfer moneys from the Reserve Fund as part of the Adopted Budget or throughout the fiscal year for appropriation, or may transfer funds as a loan to other funds. The City also transfers moneys to the Reserve Fund from time to time throughout the year. All unencumbered cash amounts in the General Fund revert to the Reserve Fund at the end of the fiscal year; some of those funds will be reappropriated at the beginning of the following fiscal year (primarily for General Fund capital projects).

In March, 2011, voters approved a provision in the City's Charter to formalize current financial policies adopted by the Mayor and Council and established a minimum balance equal to 2.75% of General Fund revenue that must be kept in reserves for emergencies. The measure amended Section 302 of the Charter to require the Reserve Fund accounts described below.

The Reserve Fund is composed of two accounts—a Contingency Reserve Account and an Emergency Reserve Account. Amounts in the Emergency Reserve Account, representing 2.75% of General Fund revenues, are restricted for funding an "urgent economic necessity" upon a finding by the Mayor and Council of such necessity and to be replenished in the subsequent fiscal year except in the case of a catastrophe. The balance of the available Reserve Fund is allocated to the Contingency Reserve Account, and is available to address unexpected expenditures relating to existing programs or revenue shortfalls upon authorization by the Mayor and City Council. The Reserve Fund was reported as part of the Unreserved General Fund fund balance in the City's Financial Statements through Fiscal Year 2009-10. Beginning with Fiscal Year 2010-11 and the implementation of GASB 54, the Reserve Fund is reported as part of the Unassigned Fund Balance. See **"BUDGET AND REVENUES—GAAP-Based Fund Balance,"** above.

The table below contains a five-year history of the City's Reserve Fund balances as of July 1. This balance is reported as of the beginning of the fiscal year in order to avoid overstating the balance as a result of year-end reversions, many of which are reappropriated as of July 1. The Fiscal Year 2013-14 Adopted Budget set the Reserve Fund at $261 million, which is 5.37 percent of the General Fund budget.

Table 30
RESERVE FUND
As of July 1st
($ in millions)

	2009-10	2010-11	2011-12	2012-13	2013-14
Emergency Reserve	$121.0	$120.3	$120.6	$125.1	$133.7
Contingency Reserve	31.9	51.1	77.1	103.1	127.4
Total	$152.9	$171.4	$197.70	$228.3	$261.1
% of General Fund Revenues	3.45%	4.40%	4.58%	4.94%	5.37%

Source: City of Los Angeles, Office of the City Administrative Officer.

In addition, the City budgets a number of other funds that can be used to finance contingencies as they arise, the most important of which is the Unappropriated Balance, where funds are placed as part of the budget so that they are available for appropriations later in the fiscal year to meet contingencies as they arise. The following table summarizes allocations to this fund over the past five years, highlighting items that received an allocation of $5 million or more in any given year.

Table 31
UNAPPROPRIATED BALANCE
As of July 1st
($ in millions)

	2009-10	2010-11	2011-12	2012-13	2013-14
Appropriations					
Equipment, Expenses & Improvements	-	-	$3.6	$3.6	$5.7
Bank Fees	$ 7.0	-	-	-	-
Petroleum Products	4.0	$2.0	4.0	9.0	3.0
AB 1290 (CRA pass-through)	10.0	-	-	-	-
New Positions	16.1	-	-	-	-
Budget Balancing Bridge	-	13.2	-	-	-
Early Retirement Incentive Program Payout	-	33.7	-	-	-
FLEX Benefits	-	13.4	-	-	-
Reserve for Future Transit Expenditures	-	15.0	-	-	-
Service Reduction Mitigation	-	11.0	-	-	-
Layoff Avoidance	-	-	-	8.0	-
Reserve for Economic Uncertainties	-	-	-	-	21.0
Police Overtime and Hiring	-	-	-	-	18.2
Liability Claims	-	-	-	-	6.0
Other	23.3	10.8	14.1	6.9	30.0
Total	$60.4	$99.1	$21.7	$27.5	$83.9
Sources of Funds					
General Fund	52.8	71.6	21.7	27.2	83.9
Other	7.6	27.5	-	0.3	-
Total	60.4	99.1	21.7	27.5	83.9

Source: City of Los Angeles, Office of the City Administrative Officer.

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act ("MMBA"). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with bargaining units. The CAO receives direction from the Executive Employee Relations Committee ("EERC"), consisting of the Mayor, the President of the Council, the President Pro-Tempore of the Council and the chairpersons of the Council's Budget and Finance and Personnel and Animal Welfare Committees. Formal Memoranda of Understanding ("MOUs") are executed between the City and the bargaining units incorporating the negotiated wages and working conditions.

There are 41 individual MOUs, representing about 34,700 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees). The 41 MOUs are represented by 25 labor unions/employee associations and about 800 employees are not represented. Employees that are members of the Los Angeles City Employees' Retirement System ("LACERS") are considered to be "civilian" employees. Employees that are members of the City of Los Angeles Fire and Police Pension Plan ("FPPP") are considered to be "sworn" or "safety" employees.

Over the last several fiscal years, the CAO, at the direction of the EERC, has worked with labor unions to reduce the City's labor expenses by reducing the workforce through an Early Retirement Incentive Program ("ERIP"), reducing working hours for civilians (e.g., unpaid holidays), deferring or eliminating cost-of-living adjustments, reducing or eliminating cash overtime, changing active civilian employee healthcare benefits, and reforming its pension plans, including retiree healthcare benefits. During this time, the City also eliminated funded positions, transferred hundreds of employees into vacant non-General Fund positions, implemented furloughs on

City civilian workers and executed layoffs. The City's adopted authorized staffing level for Fiscal Year 2013-14 is 31,816, the lowest level in 19 years, since Fiscal Year 1993-94.

During Fiscal Year 2010-11, the City negotiated and implemented significant reductions in the ongoing cost of its workforce. The City entered into an agreement with labor unions representing nearly 14,000 full-time civilian employees that offset over $60 million in Fiscal Year 2011-12. The agreement secured a 4% active employee contribution towards retiree healthcare, restructured cost-of-living-adjustments, decreased salaries by 1.5%, and froze scheduled salary step increases for one year. In exchange, these employees were granted future salary increases, including a 5.5% increase on January 1, 2014, and the City will deem their post-employment health subsidy benefits as vested. The 5.5% salary increase is anticipated to cost approximately $28 million in Fiscal Year 2013-14; further deferral of this salary increase was assumed in the Mayor's Proposed Budget for Fiscal Year 2013-14. In addition, the City entered into a separate agreement with a labor union representing over 4,000 civilian employees that offset $19 million by securing concessions, including 10 unpaid holidays, changing employee healthcare benefits, flat-rating bonuses, and extending salary step movement by an additional six months. To offset the increasing costs associated with health insurance for active employees, several bargaining units have agreed to have their members pay at least 5% of their monthly health care premium, and three bargaining units have agreed to pay at least 10% of the premium beginning in January 2014.

On May 27, 2011, the City adopted an Emergency Resolution, authorizing departments to continue utilizing reduced work schedules or alternative means of generating payroll savings and to reduce total employee compensation costs, including pension and retiree healthcare. The reductions could be in the form of working hour reductions, layoffs, unpaid floating holidays, office closures, abolishment of positions, or any other methods necessary to ensure and improve the City's fiscal stability. As a result of the Emergency Resolution, some civilian employees in certain bargaining units were furloughed in Fiscal Year 2011-12 to save approximately $27 million. Furloughs for some civilian employees continue in Fiscal Year 2012-13 to save approximately $9 million. No Emergency Resolution was necessary for Fiscal Year 2013-14.

In addition, the City has implemented significant reductions to its expenditures related to sworn employees. In March 2011, voters approved a Charter amendment for a new sworn pension tier that is anticipated to provide significant savings over the next 10 years. By 2018-19, approximately 25 percent of new sworn personnel will be enrolled in the new tier. Multi-year agreements have also been reached with the Los Angeles Police Protective League, representing approximately 9,781 sworn employees, and with the United Firefighters of Los Angeles City, representing 3,168 sworn employees. These contracts will expire in 2014 with salary increases occurring in Fiscal Years 2012-13 and 2013-14 (as shown on the table below). In addition to the MOU, an agreement was reached that gave members the option to contribute an additional 2% of salary (post-tax) toward vesting their current retiree health benefit and any future increases; approximately 71% of the eligible sworn workforce (representing 64% of the total sworn workforce) has elected to make this contribution. Those that did not choose to make the additional contribution had their subsidy level frozen at the rate in effect as of July 1, 2011.

The following table summarizes the membership and status of the largest unions and employee associations. See also "**BUDGET AND REVENUES—Budget Outlook**," including the footnotes to Table 12.

Table 34
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of June 15, 2013)

Organization	Authorized Number of Full-Time Employees Represented[(1)]	Number of Bargaining Units	Status of Memorandum of Understanding	Cost of Living Adjustment
Los Angeles Police Protective League	9,781	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
United Firefighters of Los Angeles City	3,168	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
Coalition of Los Angeles City Unions[(2)]	13,155	16	Contract expires 6/30/14 April/May 2011 contracts restructured.	3% on 7/1/10 2.75% on 1/1/11 2.25% on 7/1/11 2.25% on 7/1/12 32 hours time-off in lieu of compensation (11/1/12) 1.75% deferral recovery on 7/1/13 5.5% on 1/1/14
Engineers and Architects Association	4,475	4	Contract expires 7/1/13	2.5% on 7/ 1/12 1.5% on 7/1/13
Service Employees International Union – Units 8 & 17	1,718	2	Contract expires 6/30/14	2% on 7/3/11 3% on 6/30/13
Municipal Construction Inspectors Association (MCIA)	810	1	Contract expires 6/30/14	2% on 7/3/11 1.5% first full pay period January 2013 1.5% first full pay period January 2014

(1) Total authorized employees in all departments except DWP.
(2) Excludes IBOE, Local 501 and Deputy City Attorneys who maintain the original Coalition contract expiring 6/30/13. Remaining coalition member units are represented by Service Employee International Union, Local 721, American Federation of State, County and Municipal Employees, Laborers' International Union of North America Local 777, Los Angeles/Orange County Building & Construction Trades Council, and the Teamsters, Local 911.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below shows total authorized City staffing for all departments except the City's three proprietary departments: Airports, Harbor, and DWP. The Police Department represents the single largest department in terms of authorized positions.

Table 35
AUTHORIZED CITY STAFFING[1]

	2009-10	2010-11	2011-12	Estimated 2012-13	Adopted Budget 2013-14
Police & Fire	14,012	13,740	13,677	13,647	13,706
All Others	21,852	19,225	18,597	18,169	18,187
Total	35,864	32,965	32,274	31,816	31,893

(1) Excludes the Departments of Airports, Harbor, and Water and Power.

Source: City of Los Angeles, Office of the City Administrative Officer.

Retirement and Pension Systems

General

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees' Retirement System ("LACERS"), the City of Los Angeles Fire and Police Pension Plan ("FPPP"), and 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.

Both LACERS and FPPP (collectively, the "Pension Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although from time to time phasing-in of changes has resulted in a small net pension obligation or net OPEB obligation for specific years.

The Pension Systems' annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. The valuation incorporates a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, and inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities contemplated based on the assumptions. The contribution rates in the next year's valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial valuation of assets that are lower or higher than the market value of assets. As discussed below, both systems have recently amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.75% for both of the Pension Systems) represents an actuarial investment loss.

Table 36
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

Fiscal Year	LACERS[(1)]	FPPP[(2)]
2002-03	4.5%	5.5%
2003-04	18.6	16.9
2004-05	10.0	9.8
2005-06	12.4	12.4
2006-07	19.5	18.3
2007-08	(5.7)	(5.0
2008-09	(19.5)	(20.7)
2009-10	12.9	14.7
2010-11	22.6	21.2
2011-12	1.1	0.7

(1) As of June 30, 2012, the 10-year annualized average rate of return for LACERS was 6.9%. The 20-year average was 7.9%.
(2) As of June 30, 2012, the 10-year annualized average rate of return for FPPP is 6.92%. The 20-year average is 8.15%.

Source: City of Los Angeles, Office of the City Administrative Officer.

The City has never issued pension obligation bonds to fund either of its Pension Systems.

This section, "**Retirement and Pension Systems**," and the following section, "**Other Post-Employment Benefits**," contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent accountants and their actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites, at www.lacers.org/aboutlacers/reports/index.html and www.lafpp.com/LAFPP/financial.html, respectively. Such information is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the "Notes to the City's Basic Financial Statements" in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is "forward looking" information. Such "forward looking" information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the 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.

Los Angeles City Employees' Retirement System (LACERS)

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2012, the date of its most recent actuarial valuation, LACERS had 24,917 active members, 17,223 retired members and beneficiaries, and 5,808 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City's Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS' actuary, The Segal Company, in preparing LACERS' actuarial report as of June 30, 2012.

Table 37
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
Actuarial Assumptions
As of June 30, 2012

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.65% to 11.25%, based on service
Cost of living adjustments for pensioners	3.00%

Source: LACERS Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2012.

Based on the results of its most recent triennial experience study dated September 30, 2011 for the three-year period from July 1, 2008 through June 30, 2011, LACERS adopted new actuarial assumptions, including a reduced assumed investment return from 8% to 7.75%. The impact of these new actuarial assumptions would have increased the City's contribution rate by approximately 1.39% in Fiscal Year 2012-13. However, LACERS' Board approved phasing in impacts of these changes in assumptions over 5 years, which resulted in a 0.28% increase to the City's contribution rate in Fiscal Year 2012-13, and a .55% increase to the City's contribution rate for Fiscal Year 2013-14.

Over the past several years, LACERS' Board took several actions to change its asset smoothing method. First, it extended the period of time over which it recognizes market gains and loss from five to seven years, effective with the June 30, 2010 actuarial evaluation. Under this asset smoothing, only 1/7th of annual market gains or losses are recognized in the actuarial value of assets each year. LACERS also amended the manner by which it recognizes extraordinary losses or gains in the market value of assets. LACERS, like a number of pension systems, maintains a policy that whenever market value falls outside a certain range or "corridor" relative to actuarial value, the excess portion must be recognized in that year's valuation. Previously, losses that resulted in market value being less than 80% of the calculated actuarial value, or gains resulting in market values greater than 120% of actuarial values, had to be recognized immediately. Because of investment losses for Fiscal Year 2008-09 of approximately 20%, LACERS' actuary estimated that the actuarial value would be greater than 120% of the market value of assets. Application of this corridor meant that losses would be recognized more quickly than would occur under normal smoothing. LACERS' Board adopted a wider corridor, effective June 30, 2009, requiring immediate recognition of assets whose actuarial value was greater than 150% of the market value or less than 50% of the market value. The effect of this action was to defer the actuarial recognition of extraordinary market losses; however, the unrecognized losses will have to be paid in future years. In connection with the revised smoothing method discussed above, LACERS again, as of June 30, 2010, revised its market corridor, narrowing it to 60%-140%.

The following table shows unrecognized gains and losses as of June 30, 2012. As of the valuation date, approximately $1.025 billion of net investment return losses are being deferred. These deferred losses will be reflected in future valuations and will likely increase the City's contribution in the future, unless offset by other favorable plan experience.

Table 38
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2012

Year Ended June 30	Original Actuarial Gain (Loss)	Percent Not Yet Phased in	Amount Not Recognized
2012	$ (770,325,267)	85.71%	$ (660,278,800)
2011	1,208,621,516	71.43%	863,301,083
2010	392,956,483	57.14%	224,546,562
2009	(2,964,832,484)	40.00%[1]	(1,185,932,994)
2008	(1,549,293,380)	24.00%[1]	(371,830,411)
2007	1,054,377,186	10.00%[1]	105,437,719
Total unrecognized return (loss)			**$(1,024,756,841)**

[1] These percentages have been calculated by taking the unrecognized returns developed using a 5-year smoothing period through June 30, 2009 and recognizing those amounts over an extended period of an additional 2 years (for a total of 7 years from the original date of the investment gains or losses) starting with the June 30, 2010 valuation.

Source: LACERS Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2012.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 30 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over 5 years; other benefit changes will be amortized over 15 years. Effective for the June 30, 2012 valuation, existing liabilities on or before June 30, 2012 were combined under one layer and amortized over 30 years, except liabilities arising from the 2009 ERIP and the two GASB 25/27 layers. The LACERS Board implemented this revised amortization policy to mitigate the impact of the change in funding policy from the Projected Unit Credit cost method to Entry Age Normal cost method.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

Table 39
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(Dollars in Thousands)[1]

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL[2]	Funded Ratio[3]	Covered Payroll[4]	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll[5]
2003	$6,999,647	$7,659,846	$ 660,199	91.4%	$1,405,058	47.0%
2004	7,042,108	8,533,864	1,491,756	82.5	1,575,285	94.7
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
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2012.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 40
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(Dollars in Thousands)[(1)]

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) Liability[(2)]	Funded Ratio (Market Value)[(3)]	Covered Payroll[(4)]	Unfunded Liability as a Percentage Of Covered Payroll (Market Value)[(5)]
2005	$7,393,707	$9,321,525	$1,927,818	79.3%	$1,589,306	121.3%
2006	8,204,603	9,870,662	1,666,059	83.1	1,733,340	96.1
2007	9,708,718	10,526,874	818,156	92.2	1,896,609	43.1
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.2

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) Unfunded liability divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2012.

The table below summarizes the City's payments to LACERS over the past five years. This table includes costs for retirement, as well as for retiree health care (see **"FINANCIAL OPERATIONS —Other Post-Employment Benefits"**), and other miscellaneous benefits.

Table 41
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)[1]

	2009-10	2010-11	2011-12	Estimated [3] 2012-13	Adopted Budget 2013-14
Sources of Contributions					
Contributions for Council-controlled Departments	$298,217	$339,136	$394,969	$342,188	$367,774
Airport and Harbor Departments	57,548	72,701	87,530	77,917	82,942
Total	$355,765	$411,837	$482,499	$420,105	$450,716
Percent of payroll	19.4%	24.49%	27.66%	24.14%	25.26%
Uses of Contributions					
Current Service Liability (Normal cost)	$238,536	$230,398	$236,164	$184,202	$184,881
UAAL	116,618	180,559	245,569	234,896	264,602
Adjustments[2]	611	880	776	1,007	1,233
Total	$355,765	$411,837	$482,499	$420,105	$450,716

(1) Includes funding for OPEB.
(2) Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund.
(3) A $3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments. Airports, and Harbor to LACERS subsequent to this credit was $416.4 million.

Source: City of Los Angeles, Office of the City Administrative Officer.

In late 2012, the City Council adopted a new civilian retirement tier (Council file 10-1250), which applies to all employees hired on or after July 1, 2013. Prior to the adoption of the new tier, the City successfully negotiated and/or implemented various savings measures, including increasing active member pension contributions from 7% to 11% to help defray the costs of retiree healthcare, freezing retiree health care subsidies for noncontributing employees, deferring cost-of-living adjustments, reducing the size of the civilian workforce by 5,300 positions ,implementing a new pension tier for sworn personnel, and lowering the new hire salary for police officers by 20%. Although such measures were significant in helping to ameliorate the City's fiscal difficulties, implementation of a new civilian retirement tier was necessary to further bridge the gap. The new tier will reduce the City's future pension costs by increasing the normal retirement age from 55 to 65, decreasing the maximum retirement factor from 2.16% to 2.00% per year of service, capping the maximum retirement allowance at 75% of an employees' final compensation (compared to the current 100%), setting an employees' pension on a 3-year salary average (as opposed to one year), modifying disability retirement benefits to avoid spikes in the number of disability retirements, eliminating the current 50% survivor continuance benefit capping future retiree annual cost-of-living adjustments to 2% with the option for the employee to purchase up to 3%, requiring that employees pay the full cost of purchasing service credit and limiting the number of years purchasable to 4 years maximum, and controlling retiree healthcare costs by limiting the benefit to retirees only. The most significant cost offset for the City is achieved through the new tier's cost sharing element, which requires employees to contribute a portion of their salary at 75% of the normal cost of the pension benefits plus 50% of any future unfunded liabilities. This will relieve the City from carrying 100% of future pension cost increases.

In total, the new civilian retirement tier is estimated to result in a five-year savings of $30 million to $70 million, a 10-year savings of $169 million to $309 million, and a 30-year savings of $3.9 billion to $4.3 billion, as calculated by an independent enrolled actuary as required under the City Charter (Section 1168).

In the development and implementation of the new civilian tier, the City reached out to labor unions that represent all civilian employees through a two-year meet and consult process. Various unions contend that the development and implementation of the new tier is subject to meet and confer. As such, administrative actions have been taken against the City and are currently in process. Pending the outcome of the administrative actions, legal action may be taken against the City.

The City contribution is determined annually based on the estimated payroll for the coming fiscal year for LACERS-covered employees (as adopted through the City budget process), multiplied by an actuarially determined contribution percentage needed to fund the retirement and retiree healthcare benefits (as adopted by the LACERS Board). If the estimated covered payroll is less than the actual payroll amount, an actuarial loss will occur as the actual contribution is less than what is expected. Conversely an actuarial gain will occur if the estimated covered payroll is higher than the actual payroll amount. These annual experience gains/losses are added to the Unfunded Actuarial Accrued Liability ("UAAL") and amortized over 15 years. The City's future contributions will increase or decrease in the next 15 years to compensate for the contribution shortfall or surplus of a given year. Therefore, from the plan funding perspective, the inexactness in estimated covered payroll does not affect a pension plan's long-term funding goal.

However, beginning July 1, 2013, the inexactness between the City's estimated and actual covered payroll will have impact on the contribution rate for members under a new tier of LACERS benefits (Tier 2) adopted by City ordinance. Under Tier 2, the employee contribution is 10% of pensionable salary for the first four years; thereafter, Tier 2 member contributions are based on an actuarially determined rate, adopted by the Board, sufficient to fund 75% of Normal Cost and 50% of UAAL. The UAAL will increase when the estimated covered payroll is less than the actual covered payroll. Tier 2 members could potentially challenge their contribution to the UAAL claiming undue actuarial losses on the grounds that the City understated covered payrolls. Therefore, the LACERS Board adopted a contribution true-up mechanism to prevent such disputes on Tier 2 member contributions. The true-up amount determined by this mechanism, being either an underpayment or overpayment by the City, will result an adjustment to the annual required City contribution for the following fiscal year beginning from fiscal year 2013-2014, rather than incorporated into the UAAL to be amortized over 15 years.

The following table sets forth LACERS' investments and asset allocation targets as of June 30, 2012.

Table 42
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
($ in millions)
As of June 30, 2012

Asset Class	Market Value	Current Asset Allocation Mix[(1)]	Target Asset Allocation Mix
U.S. Equity			
Common Stock	$ 4,069.1	38.9%	24.0%
Non-U.S. Equity			
Common Stock	1,766.0	16.9	
Preferred Stock	19.0	0.2	
Others	6.1	0.1	
		17.2	29.0
Fixed Income Securities			
Domestic	2,385.5	22.8	
International	300.8	2.9	
		25.7	19.0
Alternative Investment			
Domestic	1,028.4	9.8	
International	164.2	1.6	
		11.4	17.0
Real Estate	642.4	6.1	10.0
Unallocated Cash	73.8	0.7	1.0
Total MV	$10,455.3	100.0%	100.0%

(1) Total does not add due to rounding.

Source: City of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012.

Fire and Police Pension Plan (FPPP)

The FPPP, established in 1899 and incorporated into the Charter in 1923, represents contributory plans covering uniformed fire and police (sworn) personnel. As of June 30, 2012, the date of its most recent actuarial valuation, the FPPP had 13,396 active members, 12,380 retired members and beneficiaries, and 62 vested former members. The FPPP is funded pursuant to the Entry Age Normal Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

Within the FPPP, there is a Deferred Retirement Option Plan (DROP). This voluntary plan allows members to retire for pension purposes only after completing 25 years of service. A member entering DROP continues to work and receive salary and benefits as an active employee, but stops accruing additional service credit for retirement purposes. While in DROP, the member's retirement benefit is deposited into an interest-bearing account which is distributed to the member when he/she leaves City service. Participation in DROP in limited to a maximum of five years. An actuarial study of DROP is required at least every five years to ensure that the program remains cost neutral. The last actuarial study was completed in 2008, and a new study has been requested from the FPPP.

Six tiers of benefits are provided, depending on the date of the member's hiring. For Tiers 1 and 2, any UAAL is amortized over a fixed term ending on June 30, 2037. For Tiers 3, 4 and 5, actuarial losses are funded and actuarial gains are credited over a fixed 15-year term; any liability changes due to benefit or assumption changes are funded over 30 years. A recent Charter amendment adopted by City voters on March 8, 2011 provides the FPPP Board with greater flexibility to establish amortization policies. Under the FPPP Board's actuarial funding policy, adopted in September 2012, actuarial gains or losses are amortized over 20 years; changes in actuarial assumptions and cost methods are amortized over 25 years; plan amendments are amortized over 15 years; and actuarial funding surpluses are amortized over 30 years. That same Charter amendment created a new tier of retirement benefits

(Tier 6) for sworn employees hired after July 1, 2011. Based on studies conducted by an independent actuary, the adoption of the measure is expected to reduce the City's future pension costs for new sworn public safety employees. Assuming that the number of active members leaving the workforce were to follow exactly those predicted by the assumptions used in the valuation, the plan's actuary estimates that about a quarter of the current active members would have left the workforce by 2018-19. If the City were to keep the number of sworn active employees constant, about a quarter of the then current active population would be made up of Tier 6 members by 2018-19.

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by the FPPP actuary, The Segal Company, in preparing FPPP's actuarial report.

Table 43
LOS ANGELES FIRE AND POLICE PENSION PLAN
Actuarial Assumptions
As of June 30, 2012

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 5.25% to 12.25% based on service
Cost of living adjustments (pensioners)	3.50% for Tiers 1 and 2 and 3.00% for Tiers 3, 4, 5 and 6.

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2012

Effective July 1, 2010, the FPPP reduced its assumed investment return from 8% to 7.75%. Also, based on the results of its recent triennial experience study dated June 24, 2011 for the three-year period from July 1, 2007 through June 30, 2010, FPPP adopted new non-economic actuarial assumptions. The impact of these new actuarial assumptions would have increased the City's contribution rate for retirement benefits by approximately 2.94% in Fiscal Year 2012-13. However, FPPP is phasing in impacts of these changes in assumptions over 3 years, which will result in a 0.98% increase to the City's contribution rate for retirement benefits beginning with Fiscal Year 2012-13. The second year of the phase-in will also result in a 0.98% increase to the City's contribution rate for retirement benefits.

Similar to LACERS, FPPP has taken several actions to change its asset smoothing method. It extended the period of time over which market gains or losses are recognized, extending its smoothing methodology from five years to seven years effective July 1, 2008, so that approximately 1/7th of market losses or gains are recognized each year. FPPP also amended the manner in which they recognize extraordinary losses or gains in the market value of assets, expanding their market value "corridor." Because of investment losses for Fiscal Year 2008-09 of approximately 20%, FPPP adopted a wider corridor (effective July 1, 2008), requiring immediate recognition of assets whose actuarial value was greater than 140% of the market valuation or less than 60% of the market value; the prior corridor was 80% to 120%. The combination of the seven-year smoothing period and three year phase-in is estimated to have deferred approximately $157 million in City contributions in Fiscal Year 2010-11, $53 million in Fiscal Year 2011-12, and $90 million in Fiscal Year in 2012-13.

The following table shows unrecognized gains and losses as of June 30, 2012 for retirement and health subsidy benefits. As of the valuation date, approximately $1.05 billion of net investment return losses are being deferred. These deferred losses will be reflected in future valuations and will likely increase the City's contribution in the future, unless offset by other favorable plan experience.

Table 44
LOS ANGELES FIRE AND POLICE PENSION PLAN
CALCULATION OF UNRECOGNIZED RETURN
As of June 30, 2011

Year Ended June 30	Original Actuarial Gain (Loss)	Percent Not Recognized	Amount Not Recognized
2012	$(1,024,245,456)	85.71%	$ (877,924,677)
2011	1,641,626,618	71.43%	1,172,590,441
2010	737,173,630	57.14%	421,242,074
2009	(4,113,928,646)	42.86%	(1,763,112,277)
2008	(2,015,976,509)	0.00%	-
Total unrecognized return (loss)			**$(1,047,204,439)**

Source: LAFPPP Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2012.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for FPPP, the funded ratio and the ratio of UAAL to annual payroll.

Table 45
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(Dollars in Thousands) [1]

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL[2]	Funded Ratio[3]	Covered Payroll[4]	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll[5]
2003	$11,690,750	$11,203,558	$ (487,192)	104.3%	$ 970,727	(50.2)%
2004	11,735,696	11,389,981	(345,715)	103.0%	1,001,004	(34.5)%
2005	11,634,114	12,357,524	723,411	94.1%	1,037,445	69.7%
2006	12,121,403	12,811,384	689,981	94.6%	1,092,815	63.1%
2007	13,215,668	13,324,089	108,421	99.2%	1,135,592	9.5%
2008	14,153,296	14,279,116	125,820	99.1%	1,206,589	10.4%
2009	14,256,611	14,817,146	560,535	96.2%	1,357,249	41.3%
2010	14,219,581	15,520,625	1,301,044	91.6%	1,356,986	95.9%
2011	14,337,669	16,616,476	2,278,807	86.3%	1,343,963	169.6%
2012	14,251,913	17,030,833	2,778,920	83.7%	1,341,914	207.1%

(1) Table includes funding for retirement benefits only. . Other post-employment benefits not included.
(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll against which UAAL amortized.
(5) UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

Investment gains and losses are recognized on an actuarial basis over a seven-year period. The following table shows the funding progress of FPPP based on the market value of the portion of system assets allocated to retirement benefits.

Table 46
LOS ANGELES FIRE AND POLICE PENSION PLAN
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(Dollars in Thousands) [1]

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) Liability[2]	Funded Ratio (Market Value)[3]	Covered Payroll[4]	Underfunded or (Overfunded) Liability as a Percentage Of Covered Payroll (Market Value)[5]
2003	$ 9,793,088	$11,203,558	$1,410,470	87.4%	$ 970,727	145.3%
2004	11,039,890	11,389,981	350,091	96.9%	1,001,004	35.0%
2005	11,775,706	12,357,524	581,818	95.3%	1,037,445	56.1%
2006	12,854,086	12,811,384	(42,702)	100.3%	1,092,815	(3.9%)
2007	14,766,110	13,324,089	(1,442)	110.8%	1,135,592	(0.1%)
2008	13,622,037	14,279,116	657,079	95.4%	1,206,589	54.5%
2009	10,379,786	14,817,146	4,437,360	70.1%	1,357,249	326.9%
2010	11,535,936	15,520,625	3,984,688	74.3%	1,356,986	293.6%
2011	13,564,904	16,616,476	3,051,572	81.6%	1,343,963	227.1%
2012	13,268,687	17,030,833	3,762,146	77.9%	1,341,914	280.4%

(1) Table includes funding for retirement benefits only. Other post-employment benefits not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a deficit.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll against which liability is amortized.
(5) Liability divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

The table below summarizes the General Fund's payments to FPPP over the past five fiscal years. This table includes costs for retirement, retiree health care (see **"FINANCIAL OPERATIONS —Other Post-Employment Benefits"**), and other miscellaneous benefits.

Table 47
LOS ANGELES FIRE AND POLICE PENSION PLAN
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)

	2009-10	2010-11	2011-12	Estimated 2012-13	Adopted Budget 2012-13
General Fund	$355,308	$386,505	$441,861	$506,086	$575,941
Percent of payroll	28.24%	30.12%	39.07%	39.94%	44.40%
Current Service Liability	$285,929	$279,334	$276,171	$214,223	$302,040
UAAL/(Surplus)	69,280	107,171	165,689	291,863	273,901
Adjustments(1)	99	-	-	-	-
Total	$355,308	$386,505	$441,861	$506,086	$575,941

(1) Includes the Excess Benefit Plan costs. However, effective FY 2010-11, the Excess Benefit Plan costs are now credited as part of the Annual Required Contribution (i.e., the costs are included in the contribution rate).

Source: City of Los Angeles, Office of the City Administrative Officer.

The following table sets forth the FPPP's investments and asset allocation targets as of June 30, 2012.

Table 48
LOS ANGELES FIRE AND POLICE PENSION PLAN
ASSET CLASS BY MARKET VALUE AND ALLOCATION
($ in millions)
As of June 30, 2012

	Market Value	Cash Market Allocation	Current Target
Domestic Large Cap Equity	$4,044	28.42%	23.00%
Domestic Small Cap Equity	878	6.17	6.00
International Developed Markets	2,029	14.26	16.00
International Emerging Markets	604	4.25	5.00
Domestic Bonds	2,166	15.22	14.00
High Yield Bonds	398	2.49	3.00
TIPS	764	5.37	5.00
Real Estate	1,001	7.03	7.00
REITS	262	1.84	2.00
Alternative Investments	1,218	8.56	9.00
Hedge Funds	571	4.02	4.00
Commodities	0	0.00	5.00
Cash Equivalents	294	2.06	1.00
Total	$14,229	100.00%	100.00%

Source: Los Angeles Fire & Police Pensions June 30, 2012 Performance Report.

Accounting and Financial Reporting Standard

In 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which applies to the financial reports of most pension plans such as LACERS and FPPP. GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any additional funding requirements.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and provides greater guidance on measuring the annual costs of pension benefits, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The City anticipates complying with the provisions of GASB 68 by its effective date.

GASB 67 revises existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position, and requires additional note disclosures and required supplementary information. The provisions in GASB 67 are effective for financial statements for fiscal years beginning after June 5, 2013. LACERS and FPPP are expected to comply with the provisions of GASB 67 by its effective date.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical and dental insurance. These retiree health benefits are accounted for as "Other Post-Employment Benefits" ("OPEB").

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the four years beginning Fiscal Year 2007-08, less than the ARC was contributed to the FPPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB liabilities are made by the same actuaries that perform the analysis of the Pension Systems, and generally rely on the same actuarial assumptions, other than those assumptions specific to OPEB. For example, effective July 2012, the FPPP Board adopted a medical inflation rate of 8.5% (from the previous rate 9%) for the first year, then reduced by 0.5% each year until an ultimate rate of 5.0% is reached in 2019.

As of June 30, 2012, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 49
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(Dollars in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL(1)	Funded Ratio(2)	Covered Payroll(3)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll(4)
2006	$ 990,270	$1,730,799	$740,529	57.2%	$1,733,340	42.7%
2007	1,185,544	1,730,400	544,856	68.5%	1,896,609	28.7%
2008	1,342,920	1,928,043	585,123	69.7%	1,977,645	29.6%
2009	1,342,497	2,058,177	715,680	65.2%	1,816,171	39.4%
2010	1,425,726	2,233,874	808,148	63.8%	1,817,662	44.5%
2011	1,546,884	1,968,708	421,824	78.6%	1,833,392	23.0%
2012	1,642,374	2,292,400	650,027	71.6%	1,819,270	35.7%

(1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuations.

Table 50
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN
(Dollars in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL(1)	Funded Ratio(2)	Covered Payroll(3)	Underfunded or (Overfunded) AAL as a Percentage of Covered Payroll(4)
2006	$613,782	$1,631,187	$1,017,045	37.6%	$1,092,815	93.1%
2007	687,096	1,656,653	969,557	41.5%	1,135,592	85.4%
2008	767,647	1,836,840	1,069,193	41.8%	1,206,589	88.6%
2009	809,677	2,038,659	1,228,982	39.7%	1,357,249	90.6%
2010	817,276	2,537,825	1,720,549	32.2%	1,356,986	126.8%
2011	882,890	2,557,607	1,674,716	34.5%	1,343,963	124.6%
2012	927,362	2,499,289	1,571,927	37.1%	1,341,914	117.1%

(1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining agreements that will reduce the City's contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for 95% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible sworn workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011. It is estimated that the City OPEB contribution to both systems will be reduced by approximately $80 million in Fiscal Year 2013-14 as the result of members making the additional contribution toward retiree health care costs.

The FPPP Board requested and obtained an outside legal opinion that advised that members have a vested right to certain retiree medical benefits. The City retained its own outside counsel, who concluded that the subsidy increase is not a vested right. The FPPP Board acknowledged the opinions but stated that neither of them necessarily reflected the opinion of the Board. The City has concluded that it has the right to freeze retiree health subsidies.

Subsequent to the receipt of these opinions, on November 21, 2011, the California Supreme Court in *Retired Employees Association of Orange County, Inc. v. County of Orange* held that a vested right to retiree health benefits may be implied from an ordinance or resolution where the language therein or the circumstances associated with its passage evidenced a clear legislative intent to create "private rights of a contractual nature," despite the absence of any express vesting language or other such guarantee. The City does not believe that it has passed any legislation, ordinance or resolution from which a vested right in health benefits for City retirees may be implied.

Four lawsuits have been filed challenging the City's actions relative to freezing OPEB benefits: *Los Angeles City Attorneys Association v. City of Los Angeles; Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles; Engineers & Architects Association v. City of Los Angeles; and Los Angeles Police Protective League v. Board of Fire and Police Pension Commissioners v. City of Los Angeles*.

Projected Retirement and Other Post-Retirement Benefit Expenditures

The table below illustrates the City's projected contributions to LACERS for the next four fiscal years, under the same actuarial assumptions used by LACERS actuary for the LACERS valuation, and incorporating additional assumptions requested by the City Administrative Officer that take into account recent labor negotiations and concessions by a majority of active LACERS members. These contributions illustrate the projected cost of both pension and other post-employment benefits under these assumptions. These projections reflect deferred investment losses from the previous years and the actuarial assumptions described above.

Table 51
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	Adopted Budget 2012-13	2013-14	2014-15	2015-16	2016-17
LACERS					
Contributions for Council-controlled Departments[1][2]	$342,188	$367,772	$403,531	$444,719	$469,625
Percentage of payroll	24.14%	25.26%	27.56%	30.06%	31.56%
Incremental Change	$(52,781)	$25,586	$35,757	$41,188	$24,907
% Change		7%	10%	10%	6%

(1) Includes the General Fund and various special funds.
(2) Assumes 0% return on market value of assets for 2011-12 and 7.75% per year thereafter.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below illustrates the City's projected contributions to FPPP, including the projected cost of pension and other post-employment benefits, for the next four fiscal years, based on an illustration provided by FPPP's actuary using the plan's assumed rate of return. These contributions include the projected cost of other post-employment benefits. These illustrations, which are based on the June 30, 2012 actuarial valuation, reflect the deferred investment losses from the previous years, the actuarial assumptions described above, and certain benefit enhancements implemented with the adoption of the Tier 5 plan in 2002. Potential savings from the establishment of the new Tier 6 pension plan, as approved by City voters in March 2011, are not reflected in these estimates. Savings will occur as current active employees are replaced by new employees in Tier 6.

The triennial experience study adopted by the FPPP board reflected demographic changes, including changes to mortality rates that will increase the City's costs. Increased liabilities arising from the experience study are being phased in over three years.

Table 52
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	Adopted Budget 2012-13	2013-14	2014-15	2015-16	2016-17
General Fund[1]	$506,086	$575,941	$643,012	$683,481	$721,049
Percentage of Payroll	39.94%	44.40%	48.78%	51.85%	54.70%
Incremental Change	$64,225	$69,855	$67,071	$40,468	$37,568
% Change	14.5%	14.5%	12%	6%	5%

[1] Assumes 7.75% return on market value of assets.

Source: City of Los Angeles, Office of the City Administrative Officer.

The projections in Tables 51 and 52 illustrate that the City's contribution rates for LACERS and FPPP will increase substantially over the next few years. See **"BUDGET AND REVENUES—Budget Outlook,"** above. A number of factors will determine actual contributions; for example, if investment returns are lower than investment assumptions, actual contribution rates could be higher than these projections.

LITIGATION

The following is a list prepared by the Office of the City Attorney updated as of June 25, 2013, of completed, pending or threatened litigation involving the City, excluding most personal injury cases and single plaintiff cases, in which the City has a possible financial exposure of $5 million or more which, either individually or in the aggregate, could materially affect the City's General Fund financial position. [***THE FOLLOWING LIST HAS BEEN TRUNCATED TO ONLY INCLUDE LITIGATION ADDRESSED IN AND RELATING TO THE FOREGOING EXCERPTS OF THE CITY'S APPENDIX A TO THE OFFICIAL STATEMENT OF THE CITY DATED JUNE 26, 2013 IN CONNECTION WITH THE CITY'S 2013 TAX AND REVENUE ANTICIPATION NOTES, WHICH IS AVAILABLE FROM THE MUNICIPAL SECURITIES RULEMAKING BOARD'S ELECTRONIC MUNICIPAL MARKET ACCESS SYSTEM***.]

With regard to all other pending litigation, the City Attorney expects that the final determination of such litigation, either individually or in the aggregate, would not materially affect the City's General Fund financial position.

1. *Fair Labor Standards Act Litigation*: The City has been sued in six separate class action cases for alleged violations of the Act. The various cases involve classes of police officers, firefighters or Bureau of Sanitation employees, and involve allegations of failure to compensate for time spent "donning and doffing" safety equipment, off-the-clock hours worked, uncompensated overtime, meal breaks worked and

retaliatory disciplinary action. Resolution of these cases will not occur concurrently, but over an extended period of time maximum cumulative liability could reach $34 million to the General Fund.

2. *The Association of Los Angeles City Attorneys v City of Los Angeles, Engineers & Architects Association, Intervenors.* The plaintiffs filed an action arising out of the furloughs imposed on plaintiff employees in fiscal years 2010-11 through 2012-13. Plaintiff seeks to end the furloughs and obtain back pay to reimburse Association members for the furlough days they would have worked but for the City's actions, plus interest and attorneys' fees. Potential liability to the City could exceed $24 million.

3. Engineers & Architects Association: On June 20, 2013, the California Supreme Court ruled in *Los Angeles v. Superior Court* (Engineers & Architects Association real party in interest), that City employees have the right to arbitrate furloughs implemented as a budget-cutting measure. This ruling will affect other related claims and might result in the City arbitrating various grievances filed during the last several years. To the extent the City loses an arbitration, the City might be ordered to pay back pay to affected employees. The City is unable to predict the aggregate amount of such claims or the number of resulting arbitrations.

In addition to the cases listed above, the City has been sued by the Los Angeles City Attorneys Association (*Los Angeles City Attorneys Association v. City of Los Angeles*) challenging the City's action to freeze the level of retiree health benefits at current levels for civilian employees who elected not to contribute to such benefits. The Engineers and Architects Association has joined this litigation as an Intervener. A second case was filed by individual sworn employees regarding the City's action to freeze retiree health benefits for sworn employees who elect not to contribute to these benefits *(Fry v. City of Los Angeles)*. Both cases allege that retiree health benefits', including increases to reflect medical inflation, is a vested contractual retirement benefit, and seek to invalidate the City's prior actions. (See **"FINANCIAL OPERATIONS—Other Post-Employment Benefits,"** above). The City continues to review the complaints and the potential financial impacts.

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

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