

NEW ISSUES—FULL BOOK-ENTRY ONLY**RATINGS: See "RATINGS" herein.**

In the opinion of Kutak Rock LLP and Quateman & Zidell LLP, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants described in "TAX MATTERS" herein, interest on the Subordinate 2002 Bonds is excluded from gross income for federal income tax purposes. Co-Bond Counsel is further of the opinion that interest on the Subordinate 2002 Bonds is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations, although for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings as described in "TAX MATTERS" herein. Under existing laws, regulations, rulings and judicial decisions, Co-Bond Counsel is further of the opinion that interest on the Subordinate 2002 Bonds is exempt from all present State of California personal income taxes. See "TAX MATTERS" herein for a discussion of additional federal tax law consequences.

\$57,400,000

**DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA**

**\$37,400,000**

**Los Angeles International Airport
Subordinate Revenue Bonds
2002 Subseries C1**

**(Adjustable Rate)
CUSIP: 544435VK3**

\$20,000,000

**Los Angeles International Airport
Subordinate Revenue Bonds
2002 Subseries C2**

**(Adjustable Rate)
CUSIP: 544435VD9**

Dated: Date of Delivery**Due: May 15, 2020**

The Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Subordinate Revenue Bonds 2002 Subseries C1 (the "Subseries 2002C1 Bonds") and the Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Subordinate Revenue Bonds 2002 Subseries C2 (the "Subseries 2002C2 Bonds" and together with the Subseries 2002C1 Bonds, the "Subordinate 2002 Bonds") are being issued 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") in accordance with certain provisions of the Charter of the City, relevant ordinances of the City and the Los Angeles Administrative Code (collectively, the "Charter"); resolutions adopted by the Board and the City Council; the Master Subordinate Indenture and the First Supplemental Subordinate Indenture. See "DESCRIPTION OF THE SUBORDINATE 2002 BONDS" herein. The proceeds of the Subordinate 2002 Bonds are being used to reimburse the Department for certain previous expenditures made for capital improvements and to pay costs of issuance.

The Subordinate 2002 Bonds will be issued in fully registered form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Subordinate 2002 Bonds will be initially issued and delivered under a book-entry form only and no physical delivery of the Subordinate 2002 Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Subordinate 2002 Bonds, payments of principal and interest on the Subordinate 2002 Bonds are expected to be made to beneficial owners by DTC through its participants. See "APPENDIX F—BOOK-ENTRY ONLY SYSTEM."

Each Subseries of the Subordinate 2002 Bonds will be issued initially in denominations of \$100,000 and in integral multiples of \$5,000 in excess of \$100,000. Each Subseries of the Subordinate 2002 Bonds will initially bear interest at a Weekly Interest Rate as described herein, unless and until such Subseries of Subordinate 2002 Bonds is converted, at the election of the Department and subject to the conditions described herein, to a Daily Interest Rate, a Bond Term Interest Rate(s), a Long-Term Interest Rate, an Auction Rate or a Fixed Interest Rate. The interest rates for the Subordinate 2002 Bonds, except when bearing interest at an Auction Rate or a Fixed Interest Rate, will be determined by UBS PaineWebber Inc. as Remarketing Agent for the Subseries 2002C1 Bonds and E. J. De La Rosa & Co., Inc., as Remarketing Agent for the Subseries 2002C2 Bonds.

The Subordinate 2002 Bonds are subject to optional and mandatory redemption prior to maturity as more fully described herein.

The Subordinate 2002 Bonds are limited obligations of the Department payable solely from and secured by Subordinate Pledged Revenues, which include certain income and revenue received by the Department from the Los Angeles International Airport but specifically exclude income and revenue received by the Department from the Department's other airports and certain funds and accounts held by the Trustee. **THE SUBORDINATE 2002 BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OF CALIFORNIA (THE "STATE ") OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTION, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. 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, PREMIUM, IF ANY, OR INTEREST, IF ANY, ON THE SUBORDINATE 2002 BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SUBORDINATE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISION THEREOF.**

While bearing interest at a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate(s) or a Long-Term Interest Rate, the Department is required, with certain exceptions, to maintain a Letter of Credit or a Liquidity Facility to provide security and/or liquidity with respect to the Subordinate 2002 Bonds as described herein. Initially the Department will maintain an irrevocable, direct pay Letter of Credit to be issued by Bayerische Landesbank, acting through its New York Branch, individually and as Agent, JPMorgan Chase Bank and Landesbank Baden-Wuerttemberg, acting through its New York Branch, on a several, not joint basis (collectively, the "Banks"). The Letter of Credit will permit the Trustee to draw an amount sufficient to pay (a) the principal, the redemption price and (if not paid from remarketing proceeds) the purchase price of the related Subordinate 2002 Bonds, plus (b) up to 34 days' accrued interest on the related Subordinate 2002 Bonds computed at a maximum rate of 12% per annum. The Letter of Credit expires on April 23, 2005, unless terminated sooner in accordance with its terms and may be replaced with a Substitute Letter of Credit or a Liquidity Facility. Each Subseries of Subordinate 2002 Bonds is subject to mandatory tender for purchase prior to the expiration, termination or certain replacements of the Letter of Credit as described herein. **UNDER CERTAIN CIRCUMSTANCES, AS DESCRIBED HEREIN, THE OBLIGATION OF THE BANKS TO PURCHASE SUBORDINATE 2002 BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED AND, IN SOME OF SUCH CIRCUMSTANCES, THE TERMINATION OR SUSPENSION OF SUCH OBLIGATION WILL BE IMMEDIATE AND WITHOUT NOTICE TO SUCH OWNERS. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH SUBORDINATE 2002 BONDS. THE DEPARTMENT IS NOT OBLIGATED TO PURCHASE SUBORDINATE 2002 BONDS TENDERED FOR PURCHASE IF REMARKETING PROCEEDS AND PAYMENTS UNDER THE LETTER OF CREDIT ARE INSUFFICIENT TO PAY THE PURCHASE PRICE OF SUCH SUBORDINATE 2002 BONDS. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT."**

Contemporaneously with the issuance of the Subordinate 2002 Bonds, the Department intends to issue \$32,450,000 of its Los Angeles International Airport Revenue Bonds, 2002 Series A, which will be secured by a senior lien on Pledged Revenues. The Series 2002A Bonds are not being offered through this Official Statement. The Department also has outstanding \$211,885,000 of Senior Lien Revenue Bonds (as defined herein).

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Subordinate 2002 Bonds. Investors are advised to read the entire Official Statement, including any portion hereof included by reference, to obtain information essential to the making of an informed decision. Further, investors are advised that a supplemental or new official statement will be issued in the event the Department elects to convert the Subordinate 2002 Bonds to a Fixed Interest Rate or an Auction Rate.

PRICE: 100%

The Subordinate 2002 Bonds are offered, when, as and if issued by the Department, subject to the approval of legality by Kutak Rock LLP, Denver, Colorado, and Quateman & Zidell LLP, Los Angeles, California, Co-Bond Counsel, and by Rockard J. Deigadillo, City Attorney of the City of Los Angeles, and to certain other conditions. Certain legal matters will be passed upon for the Department by Kutak Rock LLP and Quateman & Zidell LLP, Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, and for the Banks by their counsel, Chapman & Cutler, Chicago, Illinois. Public Resources Advisory Group and Frasca & Associates, L.L.C. have served as Co-Financial Advisors to the Department. It is expected that the delivery of the Subordinate 2002 Bonds will be made to DTC on or about December 19, 2002 in New York, New York.

UBS PAINWEBBER INC.
Underwriter and Remarketing Agent for Subseries C1 Bonds

E. J. DE LA ROSA & CO., INC.
Underwriter and Remarketing Agent for Subseries C2 Bonds

No dealer, broker, salesperson or other person has been authorized by the City 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 foregoing. 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 Subordinate 2002 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Subordinate 2002 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "forecast" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

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 a part of, their respective responsibilities under the federal securities law as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information, and this Official Statement is not to be construed as the promise or guarantee of the Underwriters.

The information set forth herein has been furnished by the City and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. 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.

IN CONNECTION WITH THE OFFERING OF THE SUBORDINATE 2002 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SUBORDINATE 2002 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY OF LOS ANGELES OFFICIALS

James K. Hahn, Mayor
Rockard J. Delgadillo, City Attorney
Laura Newman Chick, City Controller
William T Fujioka, Chief Administrative Officer
Antoinette Christovale, Director, Office of Finance
Joya C. DeFoor, City Treasurer
J. Michael Carey, City Clerk

CITY COUNCIL

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Wendy Greuel (District 2)	Alex Padilla (District 7)	Hal Bernson (District 12)
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Tom LaBonge (District 4)	Jan Perry (District 9)	Nick Pacheco (District 14)
Jack Weiss (District 5)	Nate Holden (District 10)	Janice Hahn (District 15)

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Eileen N. Levine, Commissioner	Armando Vergara, Commissioner
Alan Llorens, Commissioner	Peter Weil, Commissioner
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Paul L. Green, Chief Operating Officer
Karen L. Sisson, Chief Financial Officer
William A. Bruce, Director of Airports Administration
Kim Day, Deputy Executive Director, Project and Facilities Development
Philip J. Depoian, Deputy Executive Director, Government and External Affairs
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Richard M. Janisse, Deputy Executive Director, Properties and Concessions
Roger Johnson, Deputy Executive Director, Technology and Environmental Affairs
Edward James Ritchie, Deputy Executive Director, Long Range Planning
Eduardo Alfonso Angeles, Managing Assistant City Attorney

TRUSTEE

U.S. Bank, N.A.

AIRPORT CONSULTANT

Ricondo & Associates, Inc.

CO-BOND COUNSEL AND CO-DISCLOSURE COUNSEL

Kutak Rock LLP
Quateman & Zidell LLP

CO-FINANCIAL ADVISORS

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

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OFFICIAL STATEMENT

\$57,400,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA

\$37,400,000
Los Angeles International Airport
Subordinate Revenue Bonds
2002 Subseries C1

\$20,000,000
Los Angeles International Airport
Subordinate Revenue Bonds
2002 Subseries C2

INTRODUCTION

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

General

The purpose of this Official Statement, which includes the cover page, table of contents and appendices, is to provide certain information concerning the issuance and delivery by the Department of Airports (the "Department") of the City of Los Angeles, California (the "City") acting through the Board of Airport Commissioners (the "Board") of its \$37,400,000 Los Angeles International Airport Subordinate Revenue Bonds, 2002 Subseries C1 (the "Subseries 2002C1 Bonds") and \$20,000,000 Los Angeles International Airport Subordinate Revenue Bonds, 2002 Subseries C2 (the "Subseries 2002C2 Bonds" and, together with the Subseries 2002C1 Bonds, the "Subordinate 2002 Bonds").

Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C. See "APPENDIX C – SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE INDENTURE."

The Issuer and the Airport System

The City is a municipal corporation and chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the "State") and the Charter. The City, acting through the Department, owns, operates and maintains Los Angeles International Airport ("LAX" or the "Airport"), Ontario International Airport ("ONT"), Van Nuys Airport ("VNY") and Palmdale Regional Airport ("PMD") (collectively, the "Airport System"). LAX is the major facility in the Airport System accounting for approximately 90% of the total passenger traffic of the Airport System for Fiscal Year 2002. 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 responsible for the formulation of airport policy. See "THE DEPARTMENT OF AIRPORTS."

According to Airports Council International ("ACI") statistics, in calendar year 2001 LAX was ranked as the 3rd busiest airport in the world as measured by total number of enplaned and deplaned passengers and the 4th busiest airport in the world in terms of volume of air cargo. According to preliminary statistics collected by ACI through June 2002, LAX is ranked as the 5th busiest airport for both passenger traffic and cargo volume. In calendar year 2001, 67% of enplanements at LAX represented originating and destination passengers. The remaining 33% of enplanements represented connections to or from regional markets as well as domestic connections to or from international markets. The relatively high percentage of connecting passengers at LAX is primarily due to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets in California; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the diversity of airlines serving LAX. LAX is classified by the Federal Aviation Administration (the "FAA") as a large hub airport. See "LOS ANGELES INTERNATIONAL AIRPORT."

Subordinate 2002 Bonds

The Subordinate 2002 Bonds are authorized to be issued under and pursuant to a Master Subordinate Trust Indenture dated as of December 1, 2002, (the "Master Subordinate Indenture"), and a First Supplemental Subordinate Trust Indenture dated as of December 1, 2002 (the "First Supplemental Subordinate Indenture" and together with the Master Subordinate Indenture, the "Subordinate Indenture") each by and between the Department and U.S. Bank, N.A., as Trustee (the "Trustee"); Resolution No. 21875 adopted by the Board of Airport Commissioners (the "Board") on October 15, 2002 and approved by the City Council on October 29, 2002 and Resolution No. 21907 adopted by the Board on November 13, 2002 (collectively, the "Resolution") and under and in accordance with Section 609 of the Charter, relevant ordinances of the City and Sections 11.28.1 *et seq.* of the Los Angeles Administrative Code (collectively, the "Charter"). The proceeds from the sale of the Subordinate 2002 Bonds will be used to reimburse the Department for certain previous expenditures made for capital improvements and to pay costs of issuance, all as further described herein. See "APPLICATION OF THE SUBORDINATE 2002 BOND PROCEEDS" and "DESCRIPTION OF THE SUBORDINATE 2002 BONDS."

The Subordinate 2002 Bonds are limited obligations of the Department payable solely from and secured by Subordinate Pledged Revenues, which include certain income and revenue received by the Department from LAX but specifically exclude income and revenue received by the Department from the Department's other airports and certain funds and accounts held by the Trustee. The Subordinate 2002 Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Parity Subordinate Obligations (as defined below under "– Outstanding Indebtedness"), any additional bonds issued on a parity with the Subordinate 2002 Bonds and any Parity Subordinate Obligations under the terms and provisions of the Master Subordinate Indenture and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the terms of the Master Subordinate Indenture. For purposes of this Official Statement, "Subordinate Obligations" shall mean the Subordinate 2002 Bonds and any additional Subordinate Obligations. Subordinate Pledged Revenues are available for the equal and proportionate benefit of all Subordinate Obligations and the Parity Subordinate Obligations.

THE SUBORDINATE 2002 BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTION, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SUBORDINATE 2002 BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT 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 SUBORDINATE 2002 BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SUBORDINATE 2002 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 SUBORDINATE 2002 BONDS."

Redemption, Tender and Purchase of the Subordinate 2002 Bonds

The Subordinate 2002 Bonds are subject to redemption prior to maturity as described herein. In addition, the Owners of either Subseries of Subordinate 2002 Bonds bearing interest at a Daily Interest Rate may elect to have their respective Subordinate 2002 Bonds purchased on any Business Day at a price equal to the principal amount thereof plus accrued but unpaid interest, if any, as described herein and the Owners of any Subordinate 2002 Bonds bearing interest at a Weekly Interest Rate may elect to have their Subordinate 2002 Bonds purchased upon not less than seven days' notice of tender to the Trustee.

The Subordinate 2002 Bonds are subject to mandatory tender for purchase at a purchase price equal to the principal amount thereof plus accrued but unpaid interest, if any, on the first day of each new Interest Rate Period, on the day last succeeding each Bond Interest Term and upon the occurrence of certain other events described herein. See "DESCRIPTION OF THE SUBORDINATE 2002 BONDS – Tender and Purchase of Subordinate 2002 Bonds." See also "– Letter of Credit for the Subordinate 2002 Bonds" below and "THE LETTER OF CREDIT AND REIMBURSEMENT AGREEMENT" herein for a discussion of the extent of the Banks' (as defined herein) obligation to purchase Subordinate 2002 Bonds tendered but unremarketed.

Letter of Credit for the Subordinate 2002 Bonds

The Subordinate 2002 Bonds are payable from and secured by an irrevocable direct pay letter of credit to be issued by Bayerische Landesbank, acting through its New York Branch, individually and as Agent, JPMorgan Chase Bank and Landesbank Baden-Württemberg, acting through its New York Branch, on a several, not joint basis (collectively, the "Banks"). The Department, acting through the Board, and the Banks will enter into a Reimbursement Agreement dated as of December 1, 2002 (the "Reimbursement Agreement"). Pursuant to the terms of such Reimbursement Agreement, the Banks will issue the Letter of Credit for the Subordinate 2002 Bonds. Pursuant to the terms of the Letter of Credit, the Trustee is entitled to draw thereunder to pay the principal of, the purchase price and interest on the Subordinate 2002 Bonds. See "THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT" herein.

Outstanding Indebtedness

In addition to the Parity Subordinate Obligations, the Department has previously issued and there is currently outstanding \$211,885,000 in aggregate principal amount of its Los Angeles International Airport Revenue Bonds 1995 Series A, 1995 Series B, 1995 Series C and 1995 Series D (the "Series 1995 Bonds"). The Department intends to issue, contemporaneously with the issuance of the Subordinate 2002 Bonds, \$32,450,000 of Los Angeles International Airport Revenue Bonds Series 2002 A (the "Series 2002A Bonds," and together with the Series 1995 Bonds and additional obligations secured by a senior lien on Pledged Revenues, the "Senior Lien Revenue Bonds"). The Senior Lien Revenue Bonds are secured by a senior lien on Pledged Revenues.

During Fiscal Year 2002 the Department implemented a commercial paper note program, with a program authorization of up to \$300,000,000. As of the date hereof the Department has outstanding commercial paper in the amount of \$15,500,000 (the "Parity Subordinate Obligations"). The Parity Subordinate Obligations are secured by a direct pay letter of credit and a lien on Subordinate Pledged Revenues on a parity with the Subordinate 2002 Bonds.

Aviation Activity

The Airport System, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the "September 11 Events"). Additionally, according to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. The Department cannot predict whether LAX or any of its other airports will be targets of terrorists in the future. Significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, Passenger Facility Charges ("PFCs"), concession revenues and parking revenue due in part to the September 11 Events as well as the slowdown in the national economy. The Department has engaged in a review of its rates and charges, and has implemented expenditure controls that affect a variety of operating expenses. Capital expenditures were reevaluated and many such expenditures were suspended except where the affected projects were near completion or essential from a security or safety standpoint. See "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events." LAX domestic passenger volume decreased 16.4% from 49,634,845 passengers in Fiscal Year 2001 to 41,490,373 passengers in Fiscal Year 2002. LAX international passenger volume decreased 16.7% from 17,553,941 passengers in Fiscal Year 2001 to 14,623,209 passengers in Fiscal Year 2002. Total LAX passenger volume decreased 16.5% from 67,192,972 passengers in Fiscal Year 2001 to 56,113,582 passengers in Fiscal Year 2002. Monthly air traffic volume at LAX has been improving since the September 11 Events, although for January to August 2002, air traffic volume remained approximately 15% lower than the same period in 2001.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines were experiencing economic difficulties prior to the September 11 Events. This situation was worsened by the September 11 Events and most of the airlines have been downgraded by the rating agencies. Three airlines operating at the Airport, National Airlines ("National"), Vanguard Airlines ("Vanguard") and US Airways, which together accounted for approximately 3.5% of enplanements at LAX in Fiscal Year 2002 and less than 1% of total LAX revenues in Fiscal Year 2002, have filed for bankruptcy protection and both National and Vanguard have suspended operations. In addition, UAL Corporation ("UAL"), the parent of United Air Lines ("United"), which accounted for approximately 19% of enplanements at LAX in Fiscal Year 2002, announced in its Form 10-Q for the third quarter ended September 30, 2002, as filed with the Securities and Exchange Commission (the "Commission") on October 25, 2002, that in the absence of federal loan guarantees, and the cost reductions necessary to achieve them, it does not expect to be able to raise sufficient liquidity to support its obligations through the end of 2002. On December 4, 2002, the Air Transportation Stabilization Board (the "ATSB") rejected United's application for \$1.8 billion of federal loan guarantees, and on December 9, 2002, UAL, along with certain of its subsidiaries, including United, filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. See "RISK FACTORS – Financial Condition of the Airlines" and "– Effect of Airline Bankruptcies." In response to decreased passenger demand and financial losses, most major airlines have reduced service and employment levels to control costs. Other key factors that are expected to affect future aviation activity and enplaned passenger traffic at LAX are local, regional, national and international economic and political conditions, airline service and route networks, availability and price of aviation fuel, airline economics (including labor relations), airline bankruptcies, competition, airfares, airline industry consolidation, capacity of the national air traffic control system and capacity provided at the Airport, among others.

The impact of the September 11 Events, and other key factors affecting future aviation activity and enplaned passenger traffic at LAX are discussed in greater detail throughout this Official Statement. See "RISK FACTORS" and "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events" and "– Aviation Activity."

Plan of Financing

Contemporaneously with the issuance of the Subordinate 2002 Bonds, the Department expects to issue \$32,450,000 aggregate principal amount of its Series 2002A Bonds. The Department also plans to issue approximately \$78,400,000 aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds (the "Subordinate 2003 Bonds") in one or more series in early 2003. The Department intends to use the proceeds of the Subordinate 2003 Bonds to reimburse itself for certain prior capital expenditures and to prepay certain rental credits. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits." Neither the Series 2002A Bonds nor the Subordinate 2003 Bonds are being offered with this Official Statement.

Investment Considerations

The purchase and ownership of the Subordinate 2002 Bonds involve investment risks. Prospective purchasers of the Subordinate 2002 Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Subordinate 2002 Bonds, see "RISK FACTORS."

Report of the Airport Consultant

Included as Appendix A to this Official Statement is the Report of the Airport Consultant dated December 4, 2002 (the "Report of the Airport Consultant"), prepared by Ricondo & Associates, Inc. (the "Airport Consultant"), which, among other things, reviews and analyzes LAX, describes the Department's capital improvement program, forecasts future levels of business and revenues at LAX and forecasts future debt service coverage levels. The Report of the Airport Consultant should be read in its entirety for an understanding of the assumptions and rationale underlying the financial forecasts contained therein. The information in the Report of the Airport Consultant has not been updated subsequent to the date of such report to reflect the final terms of the

Subordinate 2002 Bonds or events that have occurred since December 4, 2002. See "REPORT OF THE AIRPORT CONSULTANT" herein.

There are several matters discussed herein which could have a material adverse effect on the Department's operations or financial condition. See "RISK FACTORS," "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events" and "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of LAX Finances."

Consent to Proposed Amendments to the Senior Lien Trust Indenture

In connection with its adoption of the Seventh Supplemental Indenture to the Senior Lien Trust Indenture, under which the Series 2002A Bonds will be issued, the Board plans to amend certain provisions of the Senior Lien Trust Indenture (the "Proposed Amendments"). See "APPENDIX D – PROPOSED AMENDMENTS TO THE SENIOR LIEN TRUST INDENTURE." The Proposed Amendments may not become effective until the Board has received the written consent of the Owners of more than 50% in aggregate principal amount of all Senior Lien Revenue Bonds then Outstanding (the "Senior Lien Trust Indenture Consent Requirement"). By the purchase and acceptance of the Series 2002A Bonds, the Owners of the Series 2002A Bonds will be deemed to have irrevocably consented to the Proposed Amendments. After the issuance of the Series 2002A Bonds, the Owners of approximately 13% of the outstanding Senior Lien Revenue Bonds will have consented to the amendments to the Senior Lien Trust Indenture. At this time there can be no assurance that the Senior Lien Trust Indenture Consent Requirement will be met within any definitive time frame.

No Continuing Disclosure Obligation

The Subordinate 2002 Bonds are exempt from the rules of the Commission relating to continuing disclosure of annual financial information and certain material events set forth in Section (b)(5) of Rule 15c2-12 adopted by the Commission ("Rule 15c2-12") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). See "NO CONTINUING DISCLOSURE OBLIGATION."

Additional Information

Brief descriptions of the Subordinate 2002 Bonds, the Department, the Airport System, LAX, 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, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, 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 since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department or the Underwriters and purchasers or Owners of any of the Subordinate 2002 Bonds.

APPLICATION OF THE SUBORDINATE 2002 BOND PROCEEDS

Sources and Uses of Funds

The following table presents the estimated sources and uses of funds in connection with the issuance of the Subordinate 2002 Bonds.

Sources:	
Principal Amount of Subordinate 2002 Bonds	<u>\$57,400,000</u>
TOTAL:	<u>\$57,400,000</u>
Uses:	
Deposit to the LAX Revenue Account	\$56,614,340
Costs of Issuance of Subseries 2002C1 Bonds ⁽¹⁾	501,334
Costs of Issuance of Subseries 2002C2 Bonds ⁽¹⁾	<u>284,326</u>
TOTAL:	<u>\$57,400,000</u>

⁽¹⁾ Includes legal fees, trustee fees, financial advisory fees, underwriters' discount, rating agencies' fees, printing costs and other costs of issuance.

Reimbursement for Prior Capital Expenditures

The Department will use a portion of the proceeds of the Subordinate 2002 Bonds to reimburse the LAX Revenue Account for certain previous capital expenditures at LAX and VNY. Such expenditures were for the construction, renovation, improvement and equipping of, among other things, roadways, lighting, signage, electrical, landscaping, a parking structure, a taxiway and certain seismic repairs. See also "CAPITAL IMPROVEMENT PLANNING" for information on the Department's planned future capital improvements at LAX, VNY and PMD.

DESCRIPTION OF THE SUBORDINATE 2002 BONDS

General

The Subordinate 2002 Bonds will be dated their initial date of delivery. Each Subseries of the Subordinate 2002 Bonds will initially bear interest at a Weekly Interest Rate until such time as the Department designates new Interest Rate Periods (as defined herein) for such Subseries of Subordinate 2002 Bonds or converts such Subseries of Subordinate 2002 Bonds to a Fixed Interest Rate. The terms of each Subseries of Subordinate 2002 Bonds will be divided into consecutive Interest Rate Periods during which each Subseries of Subordinate 2002 Bonds will bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate, a Bond Interest Term Rate, an Auction Rate or a Fixed Interest Rate. Each Subseries of Subordinate 2002 Bonds may bear interest at a different interest rate (which may be a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate, a Bond Interest Term Rate, an Auction Rate or a Fixed Interest Rate); provided, however, that each Subseries of Subordinate 2002 Bonds must bear interest at the same interest rate, except when bearing interest at a Bond Interest Term Rate. For purposes of this Official Statement, a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate, Bond Interest Term Rates and an Auction Rate will each be known as an "Adjustable Interest Rate." The Subordinate 2002 Bonds will mature, subject to the redemption provisions described below, in the amounts and on the dates set forth on the inside cover page of this Official Statement. Upon conversion of either Subseries of Subordinate 2002 Bonds to another Adjustable Interest Rate or to a Fixed Interest Rate, such Subseries of Subordinate 2002 Bonds will be subject to mandatory tender for purchase (and remarketing). Reference is made to the Subordinate Indenture for a more detailed description of such provisions and the provisions of the Subordinate 2002 Bonds bearing interest at the Adjustable Interest Rates and bearing interest at a Fixed Interest Rate. See "APPENDIX C - SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE INDENTURE." The discussion herein is qualified by such reference.

Interest will be computed, in the case of a Subseries of Subordinate 2002 Bonds bearing interest at a Daily Interest Rate, a Weekly Interest Rate or a Bond Interest Term Rate, on the basis of a 365 or 366-day year, as appropriate, for the actual number of days elapsed. In the case of a Subseries of Subordinate 2002 Bonds bearing interest at a Long-Term Interest Rate or a Fixed Interest Rate, interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest will be computed, in the case of a Subseries of Subordinate 2002 Bonds bearing interest at an Auction Rate, on the basis of a 360-day year for the actual number of days elapsed. When either Subseries of Subordinate 2002 Bonds bears interest at a Daily Interest Rate, a Weekly Interest Rate or a Bond Interest Term Rate, the authorized denominations will be \$100,000 and in integral multiples of \$5,000 in excess of \$100,000; when either Subseries of Subordinate 2002 Bonds bears interest at an Auction Rate, the authorized denominations will be \$25,000 and any integral multiple thereof; and when either Subseries of Subordinate 2002 Bonds bear interest at a Long-Term Interest Rate or a Fixed Interest Rate, the authorized denominations will be \$5,000 and any integral multiple thereof (collectively, the “Authorized Denominations”).

Interest on each Subseries of Subordinate 2002 Bonds will be payable on each respective Interest Payment Date thereof for the period commencing on the immediately preceding Interest Accrual Date (or as otherwise provided in the Subordinate Indenture) and ending on the day immediately preceding such respective Interest Payment Date. In any event, interest on each Subseries of Subordinate 2002 Bonds will be payable for the final Interest Rate Period thereof to the date on which the applicable Subseries of Subordinate 2002 Bonds will have been paid in full except with respect to Bank Bonds. “Interest Payment Date” means (a) with respect to any Daily Interest Rate Period and Weekly Interest Rate Period, the first Business Day of each calendar month; (b) with respect to any Short-Term Interest Rate Period, the Business Day next succeeding the last day of each Bond Interest Term within each Short-Term Interest Rate Period; (c) with respect to any Long-Term Interest Rate Period or any period in which either Subseries of Subordinate 2002 Bonds bears interest at a Fixed Interest Rate, each May 15 and November 15, or if any May 15 or November 15 is not a Business Day, the next succeeding Business Day; and (d) with respect to any ARS Interest Rate Period the ARS Interest Payment Date.

Except as otherwise provided in the First Supplemental Subordinate Indenture or the Reimbursement Agreement, each Subseries of Subordinate 2002 Bonds will bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof, or, if such date of authentication is an Interest Accrual Date to which interest on such Subseries of Subordinate 2002 Bonds has been paid in full or duly provided for or the date of initial authentication of such Subseries of Subordinate 2002 Bonds, from such date of authentication; provided, however, that if, as shown by the records of the Trustee, interest on such Subseries of Subordinate 2002 Bonds is in default, such Subseries of Subordinate 2002 Bonds issued in exchange for Subordinate 2002 Bonds surrendered for registration or transfer or exchange will bear interest from the date to which interest has been paid in full on such exchanged Subseries of Subordinate 2002 Bonds or, if no interest has been paid on such Subseries of Subordinate 2002 Bonds, from the date of the first authentication thereof.

The Subordinate 2002 Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Subordinate 2002 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Subordinate 2002 Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Subordinate 2002 Bonds, references herein to the Bondholders or registered owners will mean Cede & Co. and will not mean the Beneficial Owners of the Subordinate 2002 Bonds. So long as Cede & Co. is the registered owner of the Subordinate 2002 Bonds, principal, purchase price, and redemption premium, if any, of, and interest on the Subordinate 2002 Bonds are payable by wire transfer to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Direct Participants for subsequent disbursement by the Direct Participants and the Indirect Participants to the Beneficial Owners. See “APPENDIX F – BOOK-ENTRY ONLY SYSTEM.”

Within each Interest Rate Period (except an ARS Interest Rate Period), the applicable interest rate will be the rate of interest per annum determined by the applicable Remarketing Agent (as defined below) (based on the examination of tax-exempt obligations comparable, in the judgment of the applicable Remarketing Agent of the Subseries of Subordinate 2002 Bonds and known by the applicable Remarketing Agent of the Subseries of Subordinate 2002 Bonds to have been priced or traded under then-prevailing market conditions) to be the minimum interest rate which, if borne by the applicable Subseries of Subordinate 2002 Bonds, would enable the Remarketing

Agent to sell all of such Subseries of Subordinate 2002 Bonds on such date of determination at a price (without regard to accrued interest) equal to the principal amount thereof.

UBS PaineWebber Inc. has been appointed remarketing agent for the Subseries 2002C1 Bonds (the "Subseries 2002C1 Remarketing Agent") under the terms of a Remarketing Agreement, dated as of December 1, 2002 (the "Subseries 2002C1 Remarketing Agreement") between the Subseries 2002C1 Remarketing Agent and the Department. The principal office for the Subseries 2002C1 Remarketing Agent is 1285 Avenue of the Americas, 15th Floor, New York, New York 10019. E. J. De La Rosa & Co., Inc. has been appointed remarketing agent for the Subseries 2002C2 Bonds (the "Subseries 2002C2 Remarketing Agent") under the terms of a Remarketing Agreement, dated as of December 1, 2002 (the "Subseries 2002C2 Remarketing Agreement") between the Subseries 2002C2 Remarketing Agent and the Department. The principal office for the Subseries 2002C2 Remarketing Agent is 11900 West Olympic Boulevard, Suite 500, Los Angeles, California 90064. Each of the Remarketing Agents may resign or be removed as Remarketing Agent of the applicable Subseries of Subordinate 2002 Bonds by the Department in accordance with the terms of the respective Remarketing Agreements. See "The Remarketing Agents."

See "APPENDIX C – SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE INDENTURE" for a summary of certain provisions of the Subordinate Indenture, including, without limitation, certain covenants of the Department, the rights and duties of the Trustee, the rights and remedies of the Trustee and the Bondholders upon an event of default under the Subordinate Indenture, provisions relating to amendments of the Subordinate Indenture and procedures for defeasance of the Subordinate 2002 Bonds.

Determination of Adjustable Interest Rates

Following is a brief description of how the Daily Interest Rate, the Weekly Interest Rate, the Long-Term Interest Rate and the Bond Interest Term Rate are determined by the Remarketing Agents.

Determination of Daily Interest Rate

The Daily Interest Rate for each Subseries of Subordinate 2002 Bonds (other than Bank Bonds) bearing interest at a Daily Interest Rate will be determined by the applicable Remarketing Agent on each Business Day for such Business Day. The Daily Interest Rate for any day that is not a Business Day will be the same as the Daily Interest Rate for the immediately preceding Business Day. In the event that the applicable Remarketing Agent fails to establish a Daily Interest Rate for any Business Day, then (a) the Daily Interest Rate for such day will be the same as the Daily Interest Rate for the immediately preceding day if the Daily Interest Rate for such preceding day was determined by such Remarketing Agent; or (b) if no Daily Interest Rate for the immediately preceding day was determined by such Remarketing Agent, or in the event that the Daily Interest Rate determined by such Remarketing Agent is held to be invalid or unenforceable by a court of law, then the interest rate for such day will be equal to 100% of The Bond Market Association Municipal Swap Index of Municipal Market Data, made available for such day, or if such index is no longer available or no such index was so made available for such day, 70% of the interest rate on 30-day high-grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* or *The Bond Buyer* on the day the Daily Interest Rate would otherwise be determined for such Daily Interest Rate Period as specified by the Department to the Trustee.

Determination of Weekly Interest Rate

The Weekly Interest Rate for each Subseries of Subordinate 2002 Bonds (other than Bank Bonds) bearing interest at a Weekly Interest Rate will be determined by the applicable Remarketing Agent by no later than 5:00 p.m., New York City time, on Tuesday of each week during such Weekly Interest Rate Period, or if such Tuesday is not a Business Day, then on the next succeeding Business Day. The first Weekly Interest Rate determined for each Weekly Interest Rate Period, will be determined on or prior to the first day of such Weekly Interest Rate Period and will apply to the period commencing on the first day of such Weekly Interest Rate Period and ending on and including the next succeeding Tuesday. Thereafter, each Weekly Interest Rate will apply to the period commencing on and including Wednesday and ending on and including the next succeeding Tuesday, unless such Weekly Interest Rate Period is in effect as of the stated maturity date, in which event the Weekly Interest Rate

for such Weekly Interest Rate Period will apply to the period commencing on and including the Wednesday preceding the last day of such Weekly Interest Rate Period and end on the stated maturity date. In the event that the applicable Remarketing Agent fails to establish a Weekly Interest Rate for any week, then (a) the Weekly Interest Rate for such week will be the same as the Weekly Interest Rate for the immediately preceding week if the Weekly Interest Rate for such immediately preceding week was determined by the applicable Remarketing Agent; or (b) if no Weekly Interest Rate for the immediately preceding week was determined by the applicable Remarketing Agent, or in the event that the Weekly Interest Rate determined by the applicable Remarketing Agent is held to be invalid or unenforceable by a court of law, then the Weekly Interest Rate for such week will be equal to 100% of The Bond Market Association Municipal Swap Index of Municipal Market Data, made available for the week preceding the date of determination, or if such index is no longer available or no such index was made available for the week preceding the date of determination, 70% of the interest rate on 30-day high-grade unsecured commercial paper notes sold through dealers by major corporations as reported in *The Wall Street Journal* or *The Bond Buyer* on the day the Weekly Interest Rate would otherwise be determined for such Weekly Interest Rate Period as specified by the Department to the Trustee.

Determination of Long-Term Interest Rate

The Long-Term Interest Rate for each Subseries of Subordinate 2002 Bonds (other than Bank Bonds) bearing interest at a Long-Term Interest Rate will be determined by the applicable Remarketing Agent on a Business Day no later than the effective date of such Long-Term Interest Rate Period with respect to the applicable Subseries of Subordinate 2002 Bonds. If, for any reason, the Long-Term Interest Rate is not so determined for any Long-Term Interest Rate Period by the applicable Remarketing Agent on or prior to the first day of such Long-Term Interest Rate Period, then the applicable Subseries of Subordinate 2002 Bonds will bear interest at a Weekly Interest Rate and will continue to bear interest at a Weekly Interest Rate determined in accordance with the provisions described above under “– Determination of Weekly Interest Rate” until such time as the interest rate on the applicable Subseries of Subordinate 2002 Bonds has been converted to a different Interest Rate Period as provided in the First Supplemental Subordinate Indenture, and the applicable Subseries of Subordinate 2002 Bonds will be subject to purchase as described under the caption “– Tender and Purchase of Subordinate 2002 Bonds.”

Determination of Bond Interest Terms and Bond Interest Term Rates in a Short-Term Interest Rate Period

The Bond Interest Term and the Bond Interest Term Rate for each Subordinate 2002 Bond, as the case may be, need not be the same, even if determined on the same date. Each of such Bond Interest Terms and Bond Interest Term Rates for each applicable Subordinate 2002 Bond (other than Bank Bonds) will be determined by the applicable Remarketing Agent, no later than 12:00 noon, New York City time, on the first day of each Bond Interest Term. Each Bond Interest Term for each applicable Subordinate 2002 Bond will be a period of not less than one day nor more than 270 days. Any applicable Subordinate 2002 Bond remaining unsold by the applicable Remarketing Agent, as of the close of business on the first day of the Bond Interest Term for an applicable Subordinate 2002 Bond will have a Bond Interest Term of one day or, if that Bond Interest Term would not end on a day immediately preceding a Business Day, a Bond Interest Term ending on the day immediately preceding the next Business Day. Each Bond Interest Term will end on either a day which immediately precedes a Business Day or on the day immediately preceding the maturity date, but in no event will any Bond Interest Term extend beyond the day which is five Business Days prior to the expiration date of the applicable Letter of Credit or liquidity facility. If for any reason a Bond Interest Term for any applicable Subordinate 2002 Bond cannot be so determined by the applicable Remarketing Agent, or if the determination of such Bond Interest Term is held by a court of law to be invalid or unenforceable, then such Bond Interest Term will be 30 days, but if the last day so determined is not a day immediately preceding a Business Day, will end on the first day immediately preceding the Business Day next succeeding such last day, or if such last day would be after the day immediately preceding the maturity date, will end on the day immediately preceding the maturity date. If for any reason a Bond Interest Term Rate for any applicable Subordinate 2002 Bond is not so established by the applicable Remarketing Agent, for any Bond Interest Term, or such Bond Interest Term Rate is determined by a court of law to be invalid or unenforceable, then the Bond Interest Term Rate for such Bond Interest Term will be the rate per annum equal to 70% of the interest rate on high grade unsecured commercial paper notes sold through dealers by major corporations as reported by *The Wall Street Journal* or *The Bond Buyer* on the first day of such Bond Interest Term and which maturity most nearly equals the Bond Interest Term for which a Bond Interest Term Rate is being calculated.

The determination of any rate of interest by the Remarketing Agents in accordance with the Indenture will be conclusive and binding on the Department, the City, the Banks, and the Registered Owners or Beneficial Owners of the Subordinate 2002 Bonds. Failure of the Remarketing Agents or the Department or the Securities Depository or any Securities Depository participant to give any of the notices described in the First Supplemental Subordinate Indenture, or any defect therein, will not affect the interest rate to be borne by any of the Subordinate 2002 Bonds nor in any way change the rights of the Registered Owners of the Subordinate 2002 Bonds to tender their Subordinate 2002 Bonds for purchase or to have them redeemed in accordance with the First Supplemental Subordinate Indenture.

Conversion to Adjustable Interest Rate

Prior to the Conversion of either Subseries of Subordinate 2002 Bonds to a Fixed Interest Rate Period, each Subseries of Subordinate 2002 Bonds, as specified by the Department, may be converted to bear interest from one Adjustable Interest Rate to a different Adjustable Interest Rate. The Department will deliver written notice of its desire to convert a Subseries of Subordinate 2002 Bonds from the then current Adjustable Interest Rate to a different Adjustable Interest Rate to the Trustee and the Banks, as the case may be, the applicable Remarketing Agent (and to the applicable Auction Agent and the applicable Market Agent and the Securities Depository if such Conversion of Adjustable Interest Rate is to an Auction Rate). The Trustee will mail notice of a Conversion from one Adjustable Interest Rate to another Adjustable Interest Rate to the Bondholders at least 30 days prior to the effective date of the new Adjustable Interest Rate. Prior to the Conversion to a new Adjustable Interest Rate (except for the Conversion to an Auction Rate) the Department will have entered into a Remarketing Agreement, as applicable, meeting the requirements of the First Supplemental Subordinate Indenture, and a Letter of Credit or Liquidity Facility (except no Letter of Credit or Liquidity Facility is required for the Conversion to an Auction Rate, a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is two years or longer, or a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the maturity date of the applicable Subseries of Subordinate 2002 Bonds) meeting the requirements of the First Supplemental Subordinate Indenture has been delivered to the Trustee. Prior to the Conversion to an Auction Rate the Department will have entered into an applicable auction agent agreement, broker-dealer agreement and market agent agreement meeting the requirements of the First Supplemental Subordinate Indenture.

Conversion to a Daily Interest Rate

The Department may, from time to time by written direction to the other Notice Parties (as defined herein), elect that either Subseries of Subordinate 2002 Bonds will bear interest at a Daily Interest Rate. The direction of the Department will specify (a) the effective date of such Conversion to a Daily Interest Rate, which will be (i) in each case, a Business Day not earlier than the thirtieth day following the second Business Day after receipt by the Trustee of such direction; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which a Subseries of Subordinate 2002 Bonds would otherwise be subject to optional redemption if such Conversion did not occur; provided that, if prior to the Department making such election either Subseries of Subordinate 2002 Bonds will have been called for redemption and such redemption will not have theretofore been effected, the effective date of such Daily Interest Rate Period will not precede such redemption date; (iii) in the case of a Conversion from a Weekly Interest Rate Period or a Short-Term Interest Rate Period, the day immediately following the last day of the Interest Rate Period with respect to either Subseries of Subordinate 2002 Bonds; and (iv) in the case of a Conversion from an ARS Interest Rate Period, an ARS Interest Payment Date; and (b) the date of delivery of such Subseries of Subordinate 2002 Bonds to be purchased (if other than the effective date).

Conversion to Weekly Interest Rate

The Department may, from time to time, by the written direction to the other Notice Parties, elect that either Subseries of Subordinate 2002 Bonds will bear interest at a Weekly Interest Rate. The direction of the Department will specify (a) the effective date of such Conversion to a Weekly Interest Rate, which will be (i) a Business Day not earlier than the thirtieth day following the second Business Day after receipt by the Trustee of such direction; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which either Subseries of

Subordinate 2002 Bonds would otherwise be subject to optional redemption if such Conversion did not occur; provided that, if prior to the Department making such election either Subseries of Subordinate 2002 Bonds will have been called for redemption and such redemption will not have theretofore been effected, the effective date of such Weekly Interest Rate Period will not precede such redemption date; (iii) in the case of a Conversion from a Daily Interest Rate Period or a Short-Term Interest Rate Period, the day immediately following the last day of the Interest Rate Period with respect to either Subseries of Subordinate 2002 Bonds; and (iv) in the case of a Conversion from an ARS Interest Rate Period, an ARS Interest Payment Date; and (b) the date of delivery of such Subseries of Subordinate 2002 Bonds to be purchased (if other than the effective date).

Conversion to Long-Term Interest Rate

The Department may, from time to time, by written direction to the other Notice Parties, elect that either Subseries of Subordinate 2002 Bonds will bear, or continue to bear, interest at a Long-Term Interest Rate, provided, in the event the duration of the Long-Term Interest Rate Period is less than two years or the Long-Term Interest Rate Period is not effective to the maturity date of the applicable Subseries of Subordinate 2002 Bonds, that the Letter of Credit or the Liquidity Facility, as the case may be, provides sufficient interest coverage. The direction of the Department will specify (a) the duration of the Long-Term Interest Rate Period (which will be 271 days or longer) during which either Subseries of Subordinate 2002 Bonds will bear interest at a Long-Term Interest Rate; (b) the effective date of the Long-Term Interest Rate Period, which date will be (i) in each case, a Business Day not earlier than the thirtieth day following the second Business Day after receipt by the Trustee of such direction; (ii) in the case of a Conversion from a Long-Term Interest Rate Period to another Long-Term Interest Rate Period, the day immediately following the last day of the then current Long-Term Interest Rate Period or a day on which either Subseries of Subordinate 2002 Bonds would otherwise be subject to optional redemption if such Conversion did not occur; provided that, if prior to the Department making such election either Subseries of Subordinate 2002 Bonds will have been called for redemption and such redemption will not have theretofore been effected, the effective date of such Long-Term Interest Rate Period will not precede such redemption date; (iii) in the case of a Conversion from a Daily Interest Rate Period, Weekly Interest Rate Period or Short-Term Interest Rate Period, the day immediately following the last day of such Interest Rate Period; and (iv) in the case of a Conversion from an ARS Interest Rate Period, an ARS Interest Payment Date; (c) the last day of the Long-Term Interest Rate Period (which last day will be the Maturity Date of each Series, or a day which both immediately precedes a Business Day and is at least 271 days after the effective date thereof); and (d) a date on or prior to which Bondholders of each Subseries of Subordinate 2002 Bonds, as the case may be, are required to deliver such Subseries of Subordinate 2002 Bonds to be purchased (if other than the effective date).

Conversion to Bond Interest Term Rates

The Department may, from time to time, by the written direction to the other Notice Parties, elect that either Subseries of Subordinate 2002 Bonds will bear interest at Bond Interest Term Rates, provided that the Letter of Credit or Liquidity Facility then in effect has an interest component of at least 270 days of interest coverage and the Department has received a Rating Confirmation. Such direction of the Department will specify (a) the effective date of the Short-Term Interest Rate Period (during which the applicable Subseries of Subordinate 2002 Bonds will bear interest at Bond Interest Term Rates), which will be (i) a Business Day not earlier than the thirtieth day following the second Business Day after receipt by the Trustee of such direction; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long-Term Interest Rate Period or a day on which the applicable Subseries of Subordinate 2002 Bonds would otherwise be subject to optional redemption if such Conversion did not occur; provided that, if prior to the Department making such election the applicable Subseries of Subordinate 2002 Bonds have been called for redemption and such redemption has not theretofore been effected, the effective date of such Short-Term Interest Rate Period will not precede such redemption date; (iii) in the case of a Conversion from a Daily Interest Rate Period or a Weekly Interest Rate Period, the day immediately following the last day of such Interest Rate Period; and (iv) in the case of a Conversion from an ARS Interest Rate Period, an ARS Interest Payment Date; and (b) the date of delivery of each Subseries of Subordinate 2002 Bonds to be purchased (if other than such effective date).

Conversion to Auction Rate

The Department may, from time to time, and by the written direction to the Notice Parties, elect that either Subseries of Subordinate 2002 Bonds will bear interest at an Auction Rate. The direction of the Department will specify (a) the proposed effective date of the Conversion to an Auction Rate, which will be (i) in each case, a Business Day not earlier than the thirtieth day following the second Business Day after receipt by the Trustee of such direction; (ii) in the case of a Conversion from a Long-Term Interest Rate Period, the day immediately following the last day of the then-current Long Term Interest Rate Period or a day on which either Subseries of Subordinate 2002 Bonds would otherwise be subject to optional redemption if such Conversion did not occur; provided that, if prior to the Department making such election either Subseries of Subordinate 2002 Bonds has been called for redemption and such redemption has not theretofore been effected, the effective date of such ARS Interest Rate Period will not precede such redemption date; (iii) in the case of a Conversion from a Short-Term Interest Rate Period, the day immediately following the last day of the Short-Term Interest Rate Period; and (iv) in the case of a Conversion from a Daily Interest Rate Period or a Weekly Interest Rate Period, the day immediately following the last day of such Interest Rate Period; and (b) the initial Auction Period for such Subseries of Subordinate 2002 Bonds.

Conversion to Fixed Interest Rate

The Department will have the option, exercisable one time for each Subseries of Subordinate 2002 Bonds (unless a Fixed Interest Rate is not determined as provided in the following paragraph in which case the Department may exercise the option until such Fixed Interest Rate is determined), to convert the interest payable with respect to each Subseries of Subordinate 2002 Bonds to a Fixed Interest Rate. Either Subseries of Subordinate 2002 Bonds converted to a Fixed Interest Rate will bear interest at such Fixed Interest Rate until the applicable maturity date of such Subseries of Subordinate 2002 Bonds. The Department may exercise such option by giving, not less than 30 days prior to the Fixed Interest Rate Date, notice to the other Notice Parties of its election to convert the interest payable with respect to the applicable Subseries of Subordinate 2002 Bonds to a Fixed Interest Rate. Such notice will specify the Fixed Interest Rate Date, which may be any Business Day for which Bondholders may be given timely notice of conversion as provided for in the Indenture. No later than the Business Day prior to the Fixed Interest Rate Date, the applicable Remarketing Agent will determine the Fixed Interest Rate, as provided in the Subordinate Indenture.

In the event the applicable Remarketing Agent fails, refuses or is unable to determine the Fixed Interest Rate prior to the Fixed Interest Rate Date, or if a court of competent jurisdiction determines that the Fixed Interest Rate is invalid or unenforceable, then such applicable Subseries of Subordinate 2002 Bonds will bear interest at the Weekly Interest Rate as provided under “– Determination of Interest Rates – Determination of Weekly Interest Rates” above, until such time as the Department elects a new Interest Rate Period as provided in the Subordinate Indenture or again exercises its option to convert to a Fixed Interest Rate. If, at the direction of the Department the applicable Remarketing Agent resumes determination of the Fixed Interest Rate pursuant to the following paragraph, the foregoing provisions will apply as if there had been no prior invalidation or failure by the applicable Remarketing Agent to determine the Fixed Interest Rate.

No later than the Business Day prior to the Fixed Interest Rate Date (or if such day is not a Business Day, then on the immediately preceding Business Day), the applicable Remarketing Agent will determine the interest rate which in its judgment, having due regard for prevailing financial market conditions, is the interest rate, but not in excess of the interest rate, which would enable the applicable Remarketing Agent to sell all of the applicable Subseries of Subordinate 2002 Bonds on the Fixed Interest Rate Date with a Fixed Interest Rate until maturity at 100% of the principal amount thereof plus accrued interest, if any, with respect thereto, plus a premium sufficient to pay any remarketing fees; provided, however, that if the Department exercises its option to have any of the applicable Subseries of Subordinate 2002 Bonds remarketed on the Fixed Interest Rate Date at a discount, the applicable Remarketing Agent will establish the Fixed Interest Rate taking into account any such discount specified by the Department; provided, however, the applicable Remarketing Agent has received a Favorable Opinion of Bond Counsel.

Failure to Receive a Favorable Opinion of Bond Counsel

In connection with a Conversion from an Adjustable Interest Rate to a different Adjustable Interest Rate or a Fixed Interest Rate, the Department will cause to be provided to the Notice Parties a Favorable Opinion of Bond Counsel on the effective date of such Conversion. In the event that Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on any such date, then the Interest Rate Period on the applicable Subseries of Subordinate 2002 Bonds will not be converted, and the applicable Subseries of Subordinate 2002 Bonds if bearing interest (a) at a Daily Interest Rate, a Weekly Interest Rate or Bond Interest Term Rate will continue to bear interest at a Daily Interest Rate, a Weekly Interest Rate or Bond Interest Term Rate, respectively, as in effect immediately prior to such proposed Conversion to the Interest Rate Period; (b) at an Auction Rate will bear interest at the Maximum ARS Rate for the first ARS Interest Rate Period following the failed Conversion and thereafter at the Applicable ARS Rate; and (c) at a Long-Term Interest Rate will continue to bear interest at a Long-Term Interest Rate as in effect immediately prior to such proposed Conversion to the Interest Rate Period until a new Long-Term Interest Rate and new Long-Term Interest Rate Period are set pursuant to the First Supplemental Subordinate Indenture and such Subseries of Subordinate 2002 Bonds (except ARS) will continue to be subject to mandatory purchase on the date which would have been the effective date of such adjustment.

Redemption of Subordinate 2002 Bonds

Optional Redemption of Subordinate 2002 Bonds Bearing Interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rate

Each Subseries of Subordinate 2002 Bonds bearing interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rate is subject to optional redemption by the Department, in whole or in part, in Authorized Denominations, on any Interest Payment Date during a Daily Interest Rate Period, a Weekly Interest Rate Period or a Short-Term Interest Rate Period at a redemption price equal to 100% of the principal being redeemed plus accrued interest, if any, to such Redemption Date, without premium.

Optional Redemption of Subordinate 2002 Bonds Bearing Interest at a Fixed Interest Rate or Long-Term Interest Rate

Each Subseries of Subordinate 2002 Bonds bearing interest at a Fixed Interest Rate or at a Long-Term Interest Rate are subject to optional redemption by the Department, in whole or in part, in Authorized Denominations, on any date after the start of the redemption periods specified below, at a redemption price equal to 100% of the principal being redeemed, plus accrued interest, if any, to such Redemption Date, without premium:

<u>Length of Fixed Interest Rate Period or Long-Term Interest Rate Period (Expressed in years)</u>	<u>Start of Redemption Period</u>
Greater than 10	after eight years
less than or equal to 10 and greater than seven	after six years
less than or equal to seven and greater than four	after four years
less than or equal to four	after two years

Notwithstanding the foregoing, upon any conversion of either Subseries of Subordinate 2002 Bonds to a Long-Term Interest Rate or a Fixed Interest Rate, the Department may establish a different schedule of dates and prices for optional redemption if a Favorable Opinion of Bond Counsel is provided to the Trustee.

Mandatory Sinking Fund Redemption

The Subseries 2002C1 Bonds are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium. The Subseries 2002C1 Bonds will be redeemed on the following dates and in the following amounts:

<u>Redemption Date</u> (May 15)	<u>Principal Amount</u>
2016	\$ 800,000
2017	8,300,000
2018	8,700,000
2019	9,000,000
2020 *	10,600,000

* Final Maturity

The Subseries 2002C2 Bonds are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, without premium. The Subseries 2002C2 Bonds will be redeemed on the following dates and in the following amounts:

<u>Redemption Date</u> (May 15)	<u>Principal Amount</u>
2016	\$ 700,000
2017	4,400,000
2018	4,500,000
2019	4,800,000
2020 *	5,600,000

* Final Maturity

Notwithstanding the mandatory sinking fund payments provided above, for so long as either Subseries of Subordinate 2002 Bonds bear interest at an Adjustable Interest Rate, the Department may modify such mandatory sinking fund payments in connection with the issuance of additional Subordinate Obligations pursuant to the Master Subordinate Indenture, such that the combined debt service on all Subordinate Obligations will, upon the commencement of amortization on either Subseries of Subordinate 2002 Bonds, be satisfactory to the Department. Additionally, notwithstanding the mandatory sinking fund payments provided above, the Department may modify such mandatory sinking fund payments at any time the Department decides to convert either Subseries of Subordinate 2002 Bonds from one Interest Rate Period to a different Interest Rate Period. In order for any such modification to become effective, the Department will first deliver to the Notice Parties a Favorable Opinion of Bond Counsel.

On or before the forty-fifth day prior to any mandatory sinking fund redemption date, the Trustee will proceed to select for redemption (by lot in such manner as the Trustee may determine), from each Subseries of Subordinate 2002 Bonds subject to such redemption, an aggregate principal amount of such applicable Subseries of Subordinate 2002 Bonds equal to the amount for such year as set forth in the appropriate table above and will call such Subseries of Subordinate 2002 Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

At the option of the Department, to be exercised by delivery of a written certificate to the Trustee on or before the sixtieth day next preceding any mandatory sinking fund redemption date, it may (a) deliver to the Trustee for cancellation either Subseries of Subordinate 2002 Bonds or portions thereof (in Authorized Denominations) of the stated maturity subject to such redemption purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of such Subseries of Subordinate 2002 Bonds or portions thereof (in Authorized Denominations) which prior to said date have been purchased or redeemed (otherwise than under the

provisions of this section) and previously cancelled by the Trustee at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Subseries of Subordinate 2002 Bonds or portion thereof so delivered or previously redeemed will be credited by the Trustee at 100% of the principal amount thereof against the obligation of the Department on such mandatory sinking fund redemption date.

Notices of Redemption to Bondholders; Conditional Calls

The Trustee will give notice of redemption, in the name of the Department, to Bondholders affected by redemption at least 15 days but not more than 60 days before each redemption and send such notice of redemption by first-class mail (or with respect to Subordinate 2002 Bonds held by DTC by an express delivery service for delivery on the next following Business Day) to each owner of a Subseries 2002 Bond to be redeemed; each such notice will be sent to the owner's registered address.

Each notice of redemption will specify the Subseries of Subordinate 2002 Bonds to be redeemed, the date of issue and the maturity date thereof, if less than all of a Subseries of Subordinate 2002 Bonds of a maturity are called for redemption, the numbers of the Subseries of Subordinate 2002 Bonds and the CUSIP number assigned to the Subseries of Subordinate 2002 Bonds to be redeemed, the principal amount to be redeemed and the interest rate applicable to the Subseries of Subordinate 2002 Bonds to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, the Trustee's name, that payment will be made upon presentation and surrender of the Subseries of Subordinate 2002 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 Subordinate 2002 Bond will not affect the validity of the call for redemption of any Subordinate 2002 Bond in respect of which no failure occurs. Any notice sent as provided herein will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, either Subseries of Subordinate 2002 Bonds called for redemption become due and payable on the redemption date at the applicable redemption price. In the event that funds are deposited with the Trustee sufficient for redemption, interest on the applicable Subseries of Subordinate 2002 Bonds to be redeemed will cease to accrue as of the redemption date.

The Department may provide that if at the time of mailing of notice of an optional redemption there shall not have been deposited with the Trustee moneys sufficient to redeem all the applicable Subseries of Subordinate 2002 Bonds called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Trustee not later than the opening of business five Business Days prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption will be cancelled and on such cancellation date notice of such cancellation will be mailed to the holders of such Subseries of Subordinate 2002 Bonds, in the manner provided in the form of such Subseries of Subordinate 2002 Bonds.

Effect of Redemption Call

On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Subordinate Indenture and moneys for payment of the redemption price being held in trust to pay the redemption price, the respective Subseries of Subordinate 2002 Bonds so called for redemption will become and be due and payable on the respective redemption date, interest on such Subseries of Subordinate 2002 Bonds will cease to accrue from and after such redemption date, such Subseries of Subordinate 2002 Bonds will cease to be entitled to any lien, benefit or security under the Subordinate Indenture and the owners of such Subseries of Subordinate 2002 Bonds will have no rights in respect thereof except to receive payment of the redemption price. Subordinate 2002 Bonds which have been duly called for redemption under this section and for the payment of the redemption price of which moneys will be held in trust for the holders of the respective Subseries of Subordinate 2002 Bonds to be redeemed, all as provided in the First Supplemental Subordinate Indenture will not be deemed to be Outstanding under the provisions of the Subordinate Indenture.

Payment of Subordinate 2002 Bonds Called for Redemption

Upon surrender to the Trustee or the Trustee's agent, Subordinate 2002 Bonds called for redemption will be paid at the redemption price stated in the notice, plus, when applicable, interest accrued to the redemption date.

Selection of Subordinate 2002 Bonds for Redemption

The Subordinate 2002 Bonds are subject to redemption in such order of maturity (except Subordinate 2002 Bonds redeemed pursuant to "– Mandatory Sinking Fund Redemption" above) as the Department may direct and by lot, selected in such manner as the respective Trustee deems appropriate, within a maturity.

Tender and Purchase of Subordinate 2002 Bonds

General

With respect to procedures to be followed by Beneficial Owners in connection with the tender of Subordinate 2002 Bonds held by Cede & Co., as nominee of DTC, see "APPENDIX F – BOOK-ENTRY ONLY SYSTEM." The following discussion is subject in its entirety to the provisions described in such section with respect to any Subordinate 2002 Bonds held in the book-entry system of DTC, and the provisions of the Subordinate Indenture described under this section will be applicable only to Cede & Co. as the registered owner of the Subordinate 2002 Bonds unless and until the Subordinate 2002 Bonds are no longer held in such book-entry system. NO REPRESENTATION IS MADE HEREIN AS TO THE TIMELY PAYMENT OF THE PURCHASE PRICE OF THE SUBORDINATE 2002 BONDS UPON TENDER OF BENEFICIAL INTERESTS IN SUCH SUBORDINATE 2002 BONDS UNDER THE BOOK-ENTRY SYSTEM. TENDERS OF BENEFICIAL INTEREST IN SUBORDINATE 2002 BONDS UNDER THE BOOK-ENTRY SYSTEM WILL BE GOVERNED BY THE PROCEDURES OF DTC, THE DIRECT PARTICIPANTS AND THE INDIRECT PARTICIPANTS IN EFFECT FROM TIME TO TIME.

Optional Tender

Optional Tender During Daily Interest Rate Period

During any Daily Interest Rate Period, either Subseries of Subordinate 2002 Bonds bearing interest at a Daily Interest Rate (provided such Subordinate 2002 Bond is an Eligible Bond) will be purchased (in whole) from its Bondholder at the option of the Bondholder on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Payment Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase will be an Interest Payment Date, in which case at a purchase price equal to the principal amount thereof, payable from Available Moneys, upon delivery to the Trustee at its Corporate Trust Office by no later than 9:00 a.m., New York City time, on such Business Day, of an irrevocable written notice (or a telephonic notice confirmed by a written notice) which states the principal amount of such Subseries of Subordinate 2002 Bonds and acknowledges that such Subseries of Subordinate 2002 Bonds will be purchased on such date. Any notice delivered to the Trustee after 9:00 a.m. New York City time will be deemed to have been received on the next succeeding Business Day.

Optional Tender During Weekly Interest Rate Period

During any Weekly Interest Rate Period, either Subseries of Subordinate 2002 Bonds bearing interest at a Weekly Interest Rate (provided such Subseries of Subordinate 2002 Bonds is an Eligible Bond) will be purchased (in whole) from its Bondholder at the option of the Bondholder on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, from and including the Interest Accrual Date immediately preceding the date of purchase through and including the day immediately preceding the date of purchase, unless the date of purchase will be an Interest Payment Date, in which case at a purchase price equal to the principal amount thereof, payable from Available Moneys, upon delivery to the Trustee at its Corporate Trust Office of an irrevocable written notice which states the principal amount of such Subseries of Subordinate 2002 Bonds and the date on which the same will be purchased, which date will be a Business Day not prior to the seventh day next succeeding the date

of the delivery of such notice to the Trustee. Any notice delivered to the Trustee after 4:00 p.m., New York City time, will be deemed to have been received on the next succeeding Business Day.

Mandatory Tender

Mandatory Tender for Purchase on First Day of Each New Interest Rate Period and Last Day of Each Bond Interest Term

Each Subseries of Subordinate 2002 Bonds is subject to mandatory tender for purchase on the first day of each new Interest Rate Period, or on the day which would have been the first day of a new Interest Rate Period had one of the events described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS – Failure to Receive a Favorable Opinion of Bond Counsel” not occurred which resulted in the interest rate on the applicable Subseries of Subordinate 2002 Bonds not being converted, at a purchase price, payable from Available Moneys, equal to the principal amount of and accrued interest on the applicable Subseries of Subordinate 2002 Bonds of the appropriate Series to, but not including, the date of redemption; provided, however, that in the case of any failed Conversion of ARS no mandatory purchase will apply.

On the day next succeeding the last day of each Bond Interest Term for a Subseries of Subordinate 2002 Bonds, unless such day is the maturity date or the first day of a new Interest Rate Period (in which event such Subseries of Subordinate 2002 Bonds will be subject to mandatory purchase as described in the preceding paragraph), such Subseries of Subordinate 2002 Bonds will be purchased from their Owners at a purchase price equal to the principal amount thereof payable from Available Moneys. The purchase price of any Subordinate 2002 Bond of the appropriate Subseries so purchased will be payable only upon surrender of such Subordinate 2002 Bond to the Trustee at its Corporate Trust Office accompanied, when such Subordinate 2002 Bond is not in a book-entry system, by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the Owner thereof or his duly authorized attorney, such signature, such signature guaranteed by a bank, trust company or member firm of the New York Stock Exchange.

Mandatory Tender for Purchase Upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility

If at any time the Trustee gives notice that either Subseries of Subordinate 2002 Bonds which, at such time, are subject to purchase under the Letter of Credit or a Liquidity Facility as then in effect, will, on the date specified in such notice, cease to be subject to purchase under such Letter of Credit or Liquidity Facility as a result of (a)(i) the termination or expiration of such Letter of Credit or Liquidity Facility; or (ii) such Letter of Credit or Liquidity Facility being replaced, in either case, with the effect that the purchase price of such Subordinate 2002 Bond is no longer payable from such Letter of Credit or Liquidity Facility (in each case, whether or not any Alternate Letter of Credit or Alternate Liquidity Facility has been obtained); or (b) the Letter of Credit Bank or the Liquidity Facility Provider notifying the Trustee that an “Event of Default” has occurred under the Letter of Credit or Liquidity Facility and that the Letter of Credit Bank or the Liquidity Facility Provider are terminating the Letter of Credit or Liquidity Facility in accordance with its terms, then on the second Business Day preceding any termination, replacement or expiration of the Letter of Credit or Liquidity Facility, each such Subordinate 2002 Bond will be purchased or deemed purchased as provided in the Subordinate Indenture.

Purchase of Subordinate 2002 Bonds

The Subordinate 2002 Bonds required to be purchased in accordance with the provisions described under the captions “– Optional Tender” and “– Mandatory Tender” above, will be purchased from the Owners thereof, on the date and at the purchase price at which such Subseries of Subordinate 2002 Bonds are required to be purchased. Funds for the payment of such purchase price will be derived from the following sources: (a) proceeds of the sale of such Subseries of Subordinate 2002 Bonds remarketed to any person (other than the Department) under the First Supplemental Subordinate Indenture and furnished to the Trustee by the applicable Remarketing Agent for deposit into the applicable account in the Remarketing Reimbursement Fund; (b) moneys furnished to the Trustee pursuant to a draw on the Letter of Credit or the Liquidity Facility, as the case may be, for deposit into the applicable account of the Remarketing Reimbursement Fund; and (c) Available Moneys (other than those provided in (a) and (b) above) furnished to the Trustee and deposited into the applicable account of the Remarketing Reimbursement Fund.

Except with respect to amounts included in the definition of Available Moneys, the Department shall not have any obligation to pay the purchase price of a Subseries of Subordinate 2002 Bonds required to be purchased pursuant to the First Supplemental Subordinate Indenture if the moneys from (a) through (c) above are insufficient to provide for such payment. In the event moneys on deposit with the Trustee are insufficient to pay the purchase price of the applicable Subseries of Subordinate 2002 Bonds to be purchased, the Trustee will determine the Subseries of Subordinate 2002 Bonds tendered for purchase with respect to which such insufficiency exists by lot from those Subordinate 2002 Bonds tendered for purchase and will return such appropriate Subseries of Subordinate 2002 Bonds to the Owners thereof together with notice of such insufficiency and the Owners thereof will thereafter have the right to again tender such Subseries of Subordinate 2002 Bonds for purchase to the extent provided by the First Supplemental Subordinate Indenture and no such insufficiency will constitute an Event of Default under the Subordinate Indenture.

Remarketing of Subordinate 2002 Bonds

Upon notice of the tender for purchase of a Subseries of Subordinate 2002 Bonds, the applicable Remarketing Agent will offer for sale and use its best efforts to sell such Subseries of Subordinate 2002 Bonds; provided, however, that the applicable Remarketing Agent will not remarket either Subseries of Subordinate 2002 Bonds at a price less than 100% of the principal amount thereof plus accrued interest (if any) and unless a Letter of Credit or alternate Liquidity Facility is then in effect with respect to such Subseries of Subordinate 2002 Bonds or unless such Subseries of Subordinate 2002 Bonds are being remarketed at a Fixed Interest Rate, at a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or greater, at a Long-Term Interest Rate whereby such Long-Term Interest Rate is effective to the maturity date of such applicable Subseries of Subordinate 2002 Bonds or at the Auction Rate.

Demand for Purchase Under the Letter of Credit or Liquidity Facility to Pay Purchase Price of the Subordinate 2002 Bonds

The Trustee will notify the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, as to the aggregate purchase price of tendered Subordinate 2002 Bonds required to be purchased by the Banks and to make a demand for purchase of such Subordinate 2002 Bonds under the Letter of Credit or Liquidity Facility in accordance with the terms thereof, such that the Trustee will have amounts sufficient to pay the purchase price plus accrued interest, if any, of the Subordinate 2002 Bonds tendered. The Trustee will deposit such purchase price in the applicable account of the Remarketing Reimbursement Fund. In determining the amount of any such purchase price then due, the Trustee will not take into consideration any purchase price due on the Subordinate 2002 Bonds registered in the name of the City, the Department or the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, or any affiliate of the City, the Department or the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, (to the extent identified to the Trustee) and no demand for purchase under the Letter of Credit or Liquidity Facility will be made to pay the purchase price of any of the Subordinate 2002 Bonds registered in the name of the City, the Department or the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, or any affiliate of the City or the Department.

The Remarketing Agents

Under each of the respective Remarketing Agreements, the applicable Remarketing Agent covenants to use its best efforts to remarket tendered Subordinate 2002 Bonds. The Department and the respective Remarketing Agent agree to indemnify each other from certain losses and damages under the applicable Remarketing Agreement.

Under the Subordinate Indenture, any Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Subordinate Indenture and the applicable Remarketing Agreement. Such resignation shall take effect on the forty-fifth day after the receipt by the Department of the notice of resignation. A Remarketing Agent may be removed at any time by the Department and a Remarketing Agent will be removed at any time by the Department if such Remarketing Agreement is in default under the applicable Remarketing Agreement by written notice given in accordance with the Subordinate Indenture.

THE LETTER OF CREDIT AND THE REIMBURSEMENT AGREEMENT

At all times during which a Subseries of Subordinate 2002 Bonds bears interest at an Adjustable Interest Rate (except for a Long-Term Interest Rate Period effective to the applicable maturity date of such Subseries of Subordinate 2002 Bonds, a Long-Term Interest Rate Period with a duration of two years or longer or an ARS Interest Rate Period), the Department is required to maintain a Letter of Credit or a Liquidity Facility in respect of such Subseries of Subordinate 2002 Bonds. No Letter of Credit or Liquidity Facility is required for a Subseries of Subordinate 2002 Bonds bearing interest at a Fixed Rate or at an Auction Rate.

Initially the Department will maintain a Letter of Credit to satisfy the requirements of the Subordinate Indenture; however, the Department may decide in the future to replace such Letter of Credit with a Liquidity Facility. The following is a summary of certain provisions of the Letter of Credit and the Reimbursement Agreement. The following summary does not purport to be a full and complete statement of the provisions of the Letter of Credit and the Reimbursement Agreement, which should be read in full for a complete understanding of all the terms and provisions thereof. During the offering period of the Subordinate 2002 Bonds, copies of the Letter of Credit and the Reimbursement Agreement may be obtained upon request from the Underwriters. See "THE BANKS" below for certain information regarding the Banks.

The Subordinate 2002 Bonds are payable from and secured by an irrevocable direct pay letter of credit to be issued by the Banks (the "Letter of Credit"). Pursuant to the terms of the Reimbursement Agreement, the Banks will issue the Letter of Credit for the Subordinate 2002 Bonds. Pursuant to the terms of the Letter of Credit, the Trustee is entitled to draw thereunder to pay the principal of, the redemption price and interest on the Subordinate 2002 Bonds. The Letter of Credit will expire April 23, 2005, but can be extended for one or more years thereafter on the request of the Department and with the approval of the Banks. Pursuant to the Reimbursement Agreement, the Department is required to give written notice to the Agent of the substitution or termination of the Letter of Credit at least 30 days prior to such substitution or termination date.

Subject to the satisfaction of certain conditions set forth in the Reimbursement Agreement, Liquidity Drawings (as defined in the Reimbursement Agreement) under the Letter of Credit will constitute Advances (as defined in the Reimbursement Agreement) to the Department. Pursuant to the Reimbursement Agreement, the Department promises to reimburse the Banks for each Advance under the Letter of Credit on the earliest of (i) the date on which the Letter of Credit is replaced by an alternate letter of credit or alternate liquidity facility pursuant to the Subordinate Indenture, (ii) the date which is the third anniversary of the date of such Advance, (iii) the date which is the third anniversary of the expiration date of the Letter of Credit as in effect as of the date such advance was made, (iv) the date on which any Subordinate 2002 Bonds purchased with funds disbursed under the Letter of Credit are redeemed, prepaid or canceled pursuant to the First Supplemental Subordinate Indenture, (v) the date on which any Subordinate 2002 Bonds purchased with funds disbursed under the Letter of Credit are remarketed pursuant to the First Supplemental Subordinate Indenture and (iv) the date which is 15 days following the date on which all of the Subordinate 2002 Bonds have been converted to a Fixed Interest Rate or an Auction Rate (each as defined in the First Supplemental Subordinate Indenture). All other drawings under the Letter of Credit are to be reimbursed by the Department on the date of such drawing.

Events of Default

If any of the following events shall occur, each such event shall constitute an Event of Default under the Reimbursement Agreement:

- (a) The Department fails to pay, or cause to be paid, when due (i) any principal of or interest on any Drawing or any Advance under the Letter of Credit or (ii) any principal of or interest on any Subordinate 2002 Bonds for any reason other than the failure of any Bank to perform its obligations under the Reimbursement Agreement; or
- (b) Any representation, warranty or statement made by or on behalf of the Department in the Reimbursement Agreement or in any Program Document (as defined in the Reimbursement Agreement) or in any certificate delivered pursuant thereto shall prove to be untrue in any material respect on the date as of which made or deemed made; or the documents, certificates or statements of the Department (including

unaudited financial reports, budgets, projections and cash flows of the Department and the Airport System) furnished to the Agent and the Banks by or on behalf of the Department in connection with the transactions contemplated by the Reimbursement Agreement, when taken as a whole, are materially inaccurate in light of the circumstances under which they were made and as of the date on which they were made; or

(c) (i) The Department fails to perform or observe certain terms, covenants or agreements contained in the Reimbursement Agreement or (ii) the Department fails to perform or observe certain other terms, covenants or agreements contained in the Reimbursement Agreement and any such failure cannot be cured or, if curable, remains uncured for 60 days after written notice thereof to the Department; or

(d) The Department shall (i) default in any payment of any obligation (other than the Subordinate 2002 Bonds and any obligations pursuant to the Reimbursement Agreement) secured by a charge, lien or encumbrance on the Pledged Revenues with a priority of payment from Pledged Revenues that is senior to, or on a parity with, the Subordinate 2002 Bonds and any obligations pursuant to the Reimbursement Agreement, including, without limitation, Senior Lien Revenue Bonds and Subordinate Obligations ("Secured Debt"), beyond the period of grace, if any, provided in the instrument or agreement under which such Secured Debt was created, or (ii) default in the observance or performance of any agreement or condition relating to any Secured Debt or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Secured Debt (or a trustee or agent on behalf of such holder or holders) to cause (determined without regard to whether any notice is required), any such Secured Debt to become due prior to its stated maturity; or

(e) A court or other governmental authority with jurisdiction to rule on the validity of the Reimbursement Agreement, the Subordinate Indenture or any other Program Document, shall find, announce or rule that (x) any material provision of the Reimbursement Agreement or any other Program Document or (y) any provision of the Subordinate Indenture relating to the security for the Subordinate 2002 Bonds or any payment obligations of the Department pursuant to the Reimbursement Agreement as specified therein (the "Obligations"), the Department's ability to pay the Obligations or perform its obligations under the Reimbursement Agreement or the rights and remedies of the Banks, is not a valid and binding agreement of the Department or (ii) the Department shall contest the validity or enforceability of the Reimbursement Agreement, any other Program Document or any provision of the Subordinate Indenture relating to the security for the Subordinate 2002 Bonds or the Obligations, the Department's ability to pay the Obligations or perform its obligations under the Reimbursement Agreement or the rights and remedies of the Agent and the Banks, or shall seek an adjudication that the Reimbursement Agreement, any other Program Document or any provision of the Subordinate Indenture relating to the security for the Subordinate 2002 Bonds, the Department's ability to pay the Obligations or perform its obligations under the Reimbursement Agreement or the rights and remedies of the Banks, is not valid and binding on the Department; or

(f) Any provision of the Subordinate Indenture relating to the security for the Subordinate 2002 Bonds or the Obligations, the Department's ability to pay the Obligations or perform its obligations under the Reimbursement Agreement or the rights and remedies of the Agent and the Banks, or any other Program Document, except for any Remarketing Agreement which has been terminated due to a substitution of the Remarketing Agent, or any material provision thereof shall cease to be in full force or effect, or the Department or any person acting by or on behalf of the Department shall deny or disaffirm the Department's obligations under the Subordinate Indenture or any other Program Document; or

(g) A final judgment or order for the payment of money in excess of \$10,000,000 (in excess of the coverage limits of any applicable insurance therefor) shall have been rendered against the Department and such judgment or order shall not have been satisfied, stayed, vacated, discharged or bonded pending appeal within a period of ninety (90) days from the date on which it was first so rendered; or

(h) (i) A debt moratorium, debt restructuring, debt adjustment or comparable restriction is imposed on the repayment when due and payable of the principal of or interest on any obligation secured by a lien, charge or encumbrance upon the Subordinate Pledged Revenues, or (ii) under any existing or

future law of any jurisdiction relating to bankruptcy, insolvency, reorganization or relief of debtors, the Department seeks to have an order for relief entered with respect to it or the Airport System or seeking to adjudicate it or the Airport System insolvent or bankrupt or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or the Airport System or its debts or those of the Airport System, or (iii) the Department seeks appointment of a receiver, trustee, custodian or other similar official for itself or the Airport System or for any substantial part of the Department's property, or the Department shall make a general assignment for the benefit of its creditors, or (iv) there shall be commenced against the Department or the Airport System any case, proceeding or other action of a nature referred to in clause (ii) and the same shall remain undismissed, or (v) there shall be commenced against the Department or the Airport System any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its property which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal, within 60 days from the entry thereof, or (vi) the Department takes action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in (i), (ii), (iii), (iv) or (v) above, or (vii) the Department or the Airport System shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(i) Each of Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard and Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") shall have downgraded its rating of any Senior Lien Revenue Bonds to below "BBB-" (or its equivalent), "Baa3" (or its equivalent), and "BBB-" (or its equivalent) respectively, or suspended or withdrawn its rating of the same.

(j) An Event of Default, as defined in the Reimbursement Agreement dated as of April 1, 2002 among the Department, the Agent and the Banks relating to the Department's Subordinate Commercial Paper Notes shall have occurred.

Remedies

Upon the occurrence of any Event of Default the Agent, as directed by the Required Banks, (as defined in the Reimbursement Agreement) may exercise any one or more of the following rights and remedies in addition to any other remedies herein or by law provided:

(a) By written notice to the Department require that the Department immediately prepay the Banks in immediately available funds an amount equal to the Available Amount (as defined in the Reimbursement Agreement) (such amount to be held by the Agent on behalf of the Banks as collateral security for the Obligations), provided, however, that in the case of an Event of Default set forth in subsection (h) above, such prepayment obligations shall become immediately due and payable without any notice;

(b) by notice to the Department, declare all Subordinate 2002 Bonds to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Department; *provided* that upon the occurrence of an Event of Default set forth in subsection (h) above, such acceleration shall automatically occur (unless such automatic acceleration is waived by the Agent in writing);

(c) by notice of the occurrence of any Event of Default to the Trustee directing the Trustee to cause a mandatory tender of the Subordinate 2002 Bonds pursuant to the terms of the Subordinate Indenture thereby causing the Letter of Credit to expire fifteen (15) days thereafter;

(d) pursue any rights and remedies it may have under the Program Documents; or

(e) pursue any other action available at law or in equity.

THE BANKS

The following information relates to and has been furnished by the Banks for inclusion herein. The Department and the Underwriters cannot and do not make any representation as to the accuracy or completeness of such information. The delivery of this Official Statement will not create any implication that there has been no change in the affairs of the Banks since the date hereof or that the information contained or referred to in this section is correct as of any time subsequent to the date hereof.

Bayerische Landesbank

Bayerische Landesbank ("BayernLB") was incorporated as a public law financial institution (*Rechtsfaehige Anstalt des Oeffentlichen Rechts*) by the Law Establishing Bayerische Landesbank (*Gesetz ueber die Errichtung der Bayerischen Landesbank*) of June 27, 1972, as amended, as adopted by the Parliament of the Free State of Bavaria, and is subject to the German Federal Banking Act of July 10, 1961, as amended (*Gesetz ueber das Kreditwesen*) (the "Federal Banking Act"). Its statutes authorize BayernLB to provide universal financial services including both commercial and investment banking as well as brokerage activities. The Free State of Bavaria owns 50% of BayernLB's share capital, the other 50% being owned by the Bavarian Savings Bank and Clearing Association (*Bayerischer Sparkassen-und Giroverband*) (which is the central organization of the Bavarian Savings Banks).

BayernLB is equipped to provide a full range of domestic and international banking services; with regard to local banking functions, BayernLB also makes use of the Bavarian Savings Bank's network. In the domestic field, BayernLB places emphasis on wholesale banking, lending to federal and local authorities and mortgage lending, together with industrial credit. BayernLB holds the function of a banker of the Free State of Bavaria and its municipalities, and also finances public and private development projects, administers public funds and performs certain treasury functions for the Free State of Bavaria.

The Free State of Bavaria and the Bavarian Savings Bank and Clearing Association are jointly and severally liable for the obligations of BayernLB if the liabilities cannot be satisfied from BayernLB's assets (*Gewahrtraeger*). The owners of BayernLB also have an obligation to maintain BayernLB in a financial position which enables it to carry out its functions. This liability (*Anstaltslast*), which is peculiar to German law, obliges the owners to provide funds for BayernLB that are necessary to enable it to fulfill its functions, to meet its liabilities and to keep its finances sound. As an additional safeguard, it is noted that as a public law institution BayernLB can only be put into liquidation through a specific law to this effect.

BayernLB established a Representative Office in New York in October 1979 and obtained a license from the office of the Comptroller of the Currency in October 1981 to operate through a branch located in the City of New York.

The New York Branch engages in a diversified banking business, and is a major wholesale lending participant throughout the United States, offering a full range of domestic and international financial services, including loans, foreign exchange and money market operations.

All banking institutions in the Federal Republic of Germany are subject to governmental supervision and regulation exercised by the Federal Banking Supervisory Authority (*Bundesaufsichtsamt fuer das Kreditwesen*), an independent federal authority with regulatory powers and by the Deutsche Bundesbank (the "German Federal Central Bank") in accordance with the Federal Banking Act. The Federal Banking Act contains major rules for banking supervision and regulates BayernLB's business activities, capital adequacy and liquidity. In addition to the above-mentioned general banking supervision, the group of Landesbanks is subject to special supervision by their respective federal states.

As reported in BayernLB's Annual Report for the Fiscal Year ended December 31, 2001, BayernLB had total assets of EURO ("EUR") 301.3 billion (\$265.5 billion at \$0.8813 = EUR 1.00 at 12/31/01) on a consolidated basis. Business volume (balance sheet total, own drawings charged to borrowers, endorsement liabilities, and guarantees) expanded by 5.7% to EUR 321.7 billion (\$283.5 billion) from the previous year end. BayernLB's consolidated lending volume increased 1.7% to EUR 206.7 billion (\$182.2 billion) from year end 2000. Total equity

of BayernLB, including, among other items, nominal capital of EUR 1.2 billion (\$1.06 billion), profits participation rights with a nominal value of EUR 2.83 billion (\$2.49 billion) and capital contributions of silent partners in an amount of EUR 2.89 billion (\$2.55 billion), totaled EUR 11.1 billion (\$9.78 billion) or 3.7 % of the consolidated balance sheet. Net income amounted to EUR 254.0 million (\$223.9 million), a decrease of 53.8% compared to year end 2000. EUR 82.3 million (\$72.5 million) of such amount has been allocated to revenue reserves, raising BayernLB's published reserve to EUR 4.13 billion (\$3.6 billion). The accounting principles applied in the preparation of BayernLB's financial statements comply with generally accepted accounting principles in the Federal Republic of Germany and may not conform to generally accepted accounting principles applied by United States banks. (At 5/7/02, \$0.9155 = EUR 1.00).

The rate of exchange between the EUR and the dollar is determined by the forces of supply and demand in the foreign exchange markets, which, in turn, are affected by changes in the balance of payments and other economic and financial conditions, government intervention, speculation and other factors. The foregoing information relating to BayernLB is based upon facts and circumstances present on the dates referenced above. Such facts and circumstances may change from time to time. BayernLB shall have no obligation to update the foregoing information to reflect any such change.

Copies of BayernLB's Annual Report for the most recent available fiscal year may be obtained at the New York Branch in person during normal business hours or by mail by writing to the New York Branch at: Bayerische Landesbank, 560 Lexington Avenue, New York, New York 10022, Attention: Corporate Finance.

BayernLB has supplied the information relating to it in the previous paragraphs. BayernLB does not accept responsibility for any information contained in this Official Statement other than the information contained in this section relating to BayernLB.

JPMorgan Chase Bank

JPMorgan Chase Bank is a wholly owned bank subsidiary of J.P. Morgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities. JPMorgan Chase Bank resulted from the merger on November 10, 2001 of The Chase Manhattan Bank and Morgan Guaranty Trust Company of New York. As of September 30, 2002, JPMorgan Chase Bank had total assets of \$605.1 billion, total net loans of \$175.6 billion, total deposits of \$285.7 billion, and total stockholder's equity of \$36.0 billion. As of December 31, 2001, JPMorgan Chase Bank had total assets of \$537.8 billion, total net loans of \$174.9 billion, total deposits of \$280.5 billion, and total stockholder's equity of \$33.3 billion.

Additional information, including the most recent Form 10-K for the year ended December 31, 2001 of J.P. Morgan Chase & Co. (formerly known as "The Chase Manhattan Corporation"), the 2001 Annual Report of J.P. Morgan Chase & Co. and additional annual, quarterly and current reports filed with the Securities and Exchange Commission by J.P. Morgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, J.P. Morgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained herein relates to and has been obtained from JPMorgan Chase Bank. This data has been taken from the Consolidated Reports of Condition and Income filed with the Board of Governors of the U.S. Federal Reserve System compiled in accordance with regulatory accounting principles. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

Landesbank Baden-Württemberg

Landesbank Baden-Württemberg ("LBBW") is a public law institution (*rechtsfähige Anstalt des öffentlichen Rechts*) owned and controlled jointly by the State of Baden-Württemberg ("Baden-Württemberg"), the Savings Banks Association of Baden-Württemberg (*Sparkassenverband Baden-Württemberg*, the "Association")

and the City of Stuttgart (“Stuttgart”; collectively with Baden-Württemberg and Association the “Guarantors”). LBBW carries on the functions of its three legal predecessors, Südwestdeutsche Landesbank Girozentrale, Landesgirokasse öffentliche Bank und Landessparkasse and Landeskreditbank Baden-Württemberg Marktteil, which merged to form LBBW by virtue of the Landesbank Baden-Württemberg Act (*Gesetz über die Landesbank Baden-Württemberg*) (“LBBW Act”), effective 1 January 1999; pursuant to the Landeskreditbank Baden-Württemberg - Förderbank Act (*Gesetz über die Landeskreditbank Baden-Württemberg-Förderbank*), the state development business (*Förderteil*) of Landeskreditbank Baden-Württemberg was separated from the commercial banking business (Marktteil) of Landeskreditbank Baden-Württemberg with effect from 1 December 1998 and transferred as of that date to the newly created Landeskreditbank Baden-Württemberg Förderbank.

Among the establishing public entities and institutions, Baden-Württemberg and the predecessors of the Association have both contributed 39.5% of LBBW’s endowment capital and Stuttgart has contributed 21% of LBBW’s endowment capital. The LBBW-Act authorizes LBBW to engage in all types of banking and financial service activities as well as in all other activities that are useful to LBBW. LBBW is authorized to issue mortgage-backed bonds (*Pfandbriefe*), public debt backed bonds (*Kommunalobligationen*) and other debt obligations. LBBW is a universal bank and an international commercial bank. It is both a retail and a wholesale bank and the central banking institution of the savings banks in Baden-Württemberg. In this regard, it conducts its activities with due consideration of the interests of the Savings Banks. LBBW furthermore performs the duties of a savings bank in the territory of Stuttgart.

As a German “universal bank” LBBW provides a comprehensive range of commercial banking and investment banking services to businesses, other banking institutions, governmental entities, counties, municipalities, other organizations and individuals. LBBW makes loans, extends guaranties, underwrites, deals and trades in debt and equity securities, and makes equity investments. LBBW underwrites and trades in, and acts as paying agent and Trustee with respect to, Baden-Württemberg government debt securities.

LBBW is the principal banker of Baden-Württemberg and Stuttgart. The combination of these manifold functions makes LBBW a special credit institution in Germany’s banking community.

With a balance sheet total of EUR 293 billion at Group level (as at December 31, 2000), LBBW numbers among the ten largest German banks and among the 50 largest credit institutions worldwide .

Liability for the Obligations of Landesbank Baden-Württemberg

General

The solvency and the obligations of LBBW are currently, by virtue of the maintenance obligation (*Anstaltslast*) (the “Maintenance Obligation”) and the guarantee obligation (*Gewährträgerhaftung*) (the “Guarantee Obligation”), jointly and severally backed by the State of Baden-Württemberg, the Savings Banks Association of Baden-Württemberg and the City of Stuttgart (together, the “Guarantors”). Under the Maintenance Obligation, the Guarantors are jointly and severally responsible to maintain LBBW’s economic viability and to keep it in a position to perform its functions at any time and to enable it to fulfill its obligations when due. In addition, under the Guarantee Obligation, the Guarantors are jointly and severally directly liable to all creditors of LBBW for all obligations of LBBW if and to the extent creditors have not been satisfied out of the assets of LBBW.

Result of Settlement Discussions with the European Commission

On 8 May 2001 the Commission of the European Communities (the “Commission”) took a decision proposing to the Federal Republic of Germany (the “Federal Republic”) the appropriate measures it should take in order to make the guarantee system of Maintenance Obligation and Guarantee Obligation compatible with the state aid rules of the Treaty Establishing the European Community (the “EC Treaty”). On 17 July 2001 the Commission reached an understanding with the Federal Republic on the future application of Maintenance Obligation and Guarantee Obligation in conformity with the decision of 8 May 2001 (the “Understanding”). Following further discussions between the Federal Republic and the Commission, on 28 February 2002 the Commission and the Federal Republic reached conclusions which spelled out the key measures for implementing the Understanding (the “Conclusions”).

The Understanding and the Conclusions were transformed by the Commission into a new proposal of appropriate measures which was submitted to the Federal Republic on 27 March 2002. The Federal Republic accepted the proposal on 11 April 2002. The accepted proposal provides, *inter alia*, for the following:

- The Guarantee Obligation will be abolished.
- The Maintenance Obligation will be replaced in accordance with the principles set forth in the Understanding which means, in particular, that (i) the financial relationship between the Landesbanks and their respective public owners shall be no different from a normal commercial relationship governed by market economy principles and (ii) the Landesbanks shall be subject to the same insolvency rules as private credit institutions.
- The German authorities have undertaken to assure that all proposals for the legal measures necessary for the implementation on federal and state level will be submitted to the respective legislative bodies by 31 March 2002 at the latest (in special cases by 31 May 2002 at the latest) and will be adopted by 31 December 2002 at the latest.
- Liabilities existing at 18 July 2001 will continue to be covered by Guarantee Obligation until their maturity runs out. There will be a transitional period which will last until 18 July 2005 and during which Maintenance Obligation and Guarantee Obligation can be maintained in their present form. As of the final date of this transitional period any liability existing by then and traded after 18 July 2001 will continue to be covered by Guarantee Obligation under the condition that its maturity does not go beyond 31 December 2015.
- The owners will immediately honor their obligations from Guarantee Obligation *vis-à-vis* the creditors of liabilities agreed until 18 July 2005 as soon as they have stated, when these liabilities come due, in due manner and in writing that the creditors of these liabilities cannot be satisfied out of the assets of the institution.

The procedure described in the last paragraph above does not require a notification in accordance with European Union state aid law. It provides the opportunity to honor liabilities immediately upon their maturity once the owners have completed the procedure described above.

Implementing Legislation of the State of Baden-Württemberg

The State of Baden-Württemberg will amend the Landesbank Baden-Württemberg Act (*Gesetz über die Landesbank Baden-Württemberg*) by 31 December 2002 so that it complies with the changes to the guarantee mechanisms agreed by the Federal Republic and the Commission. The appropriate legislative measures have been initiated on the basis of a draft bill resolved by the cabinet on 19 March 2002.

SECURITY AND SOURCES OF PAYMENT FOR THE SUBORDINATE 2002 BONDS

The following is a summary of certain provisions of the Subordinate Indenture, including, among other things, 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 and the issuance of Additional Subordinate Obligations. These summaries do not purport to be comprehensive or definitive. See "APPENDIX C - SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE INDENTURE" for a more complete description of these provisions of the Subordinate Indenture.

Subordinate Pledged Revenues

The Subordinate 2002 Bonds are limited obligations of the Department payable solely from and secured by a pledge of Subordinate Pledged Revenues. Except for the Parity Subordinate Obligations to be issued from time to time pursuant to the Subordinate Trust Indenture, dated as of April 1, 2002 (the “Parity Subordinate Indenture”) between the Department and U.S. Bank Trust National Association, as issuing and paying agent, the Department has not created any charge or lien on any security interest in the Subordinate Pledged Revenues and the Department covenants that, until all the Subordinate Obligations authorized and issued under the provisions of the Subordinate Indenture and the interest thereon shall have been paid or are deemed to have been paid, it will not, except as otherwise specifically provided in the Master Subordinate Indenture, the Parity Subordinate Indenture and that certain Master Indenture dated as of April 1, 1995 by and between the Department, acting through the Board, and the BNY Western Trust Company (successor to U.S. Trust Company National Association), as amended and supplemented (the “Senior Lien Trust Indenture”), grant any prior or parity pledge of or any security interest in the Subordinate Pledged Revenues or any of the other security which is pledged pursuant to the Master Subordinate Indenture. The Department may, under certain circumstances, as provided in the Master Subordinate Indenture, grant a lien on or security interest in the Subordinate Pledged Revenues ranking junior and subordinate to the charge or lien of the Subordinate Obligations issued or incurred in accordance with the terms of the Master Subordinate Indenture. The Subordinate 2002 Bonds are also secured by amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

The term “Subordinate Pledged Revenues” is defined in the Master Subordinate Indenture to mean, for any given period, Pledged Revenues (as defined below) for such period less, for such period, amounts required to be deposited in the debt service funds for the Senior Lien Revenue Bonds pursuant to the Senior Lien Trust Indenture and the payment of amounts required to be deposited in the reserve fund pursuant to the Senior Lien Trust Indenture. The Subordinate 2002 Bonds are also secured by amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

The term “Pledged Revenues” is defined in the Senior Lien Trust Indenture to mean, except to the extent specifically excluded in the Senior Lien Trust Indenture or under the terms of any supplemental indenture, “LAX Revenues.” Pledged Revenues also include any additional revenues designated as Pledged Revenues pursuant to a supplemental 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 Board from the imposition of ad valorem taxes; (b) gifts, grants and other income otherwise included in LAX Revenues which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Lien Revenue Bonds or the Subordinate Obligations; (c) insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Board from the sale of LAX Airport Facilities under the threat of condemnation, to the extent the use of such proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Lien Revenue Bonds or the Subordinate Obligations and (d) LAX Special Facilities Revenue. The following, including any investment earnings thereon, are excluded from Pledged Revenues unless designated as Pledged Revenues under the terms of a supplemental indenture: (a) Swap Termination payments paid to the Department pursuant to a Qualified Swap; (b) Facilities Construction Credits; (c) PFCs collected with respect to LAX; and (d) all revenues of the Airport System not related to LAX. Swap Termination payments, Facilities Construction Credits, PFCs and other revenues of the Airport System not related to LAX have not been designated as Pledged Revenues under the terms of a supplemental indenture. See “APPENDIX D – PROPOSED AMENDMENTS TO THE SENIOR LIEN TRUST INDENTURE.”

The term “LAX Revenues” is defined in the Senior Lien Trust Indenture to mean, except to the extent specifically excluded therefrom, all income, receipts, earnings and revenues received by the Board 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 Board 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 Board 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 Board 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 Board 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 of the Airport Revenue Fund, any Construction Fund allowed to be pledged by the terms of a supplemental indenture, the Debt Service Reserve Fund created under the Senior Lien Trust Indenture and allocated earnings on the Maintenance and Operations Reserve Fund established pursuant to the Charter. See "APPENDIX D – PROPOSED AMENDMENTS TO THE SENIOR LIEN TRUST INDENTURE."

THE SUBORDINATE 2002 BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTION, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SUBORDINATE 2002 BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT 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 SUBORDINATE 2002 BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SUBORDINATE 2002 BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE INDENTURE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE SUBORDINATE 2002 BONDS."

Rate Covenant

Under the Subordinate Indenture, the Department has covenanted that, while any of the Subordinate Obligations and Parity Subordinate Obligations remain Outstanding (but subject to all prior existing contracts and legal obligations of the Department), it shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that Net Subordinate Pledged Revenues in each Fiscal Year will be at least equal to the payments required under the Subordinate Indenture and the Parity Subordinate Indenture. The Department has further covenanted 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 Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 110% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations and the Outstanding Parity Subordinate Obligations for that Fiscal Year. For purposes of the previous sentence, the amount of any Transfer taken into account will not exceed 10% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations and the Outstanding Parity Subordinate Obligations in such Fiscal Year.

The Department has agreed that if Net Subordinate Pledged Revenues, together with any Transfer (only as applied as described above), in any Fiscal Year are less than the amounts described above, the Department will retain and direct a Consultant to make recommendations as to the revision of the Department's business operations and its schedule of rentals, rates, fees and charges for the use of LAX and for services rendered by the Department in connection with LAX, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made the Department shall take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Subordinate Pledged Revenues, together with any Transfer (only as applied as described above), in the amounts specified above in the next succeeding Fiscal Year.

In the event that Net Subordinate Pledged Revenues for any Fiscal Year are less than the amounts specified above, but the Department has promptly taken, prior to or during the next succeeding Fiscal Year, all lawful measures to revise the schedule of rentals, rates, fees and charges as required by the paragraph above, such deficiency in Net Subordinate Pledged Revenues will not constitute an Event of Default under the provisions of the Subordinate Indenture. Nevertheless, if after taking the measures required by the paragraph above to revise the

schedule of rentals, rates, fees and charges, Net Subordinate Pledged Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Department for such Fiscal Year) are less than the amounts specified above, such deficiency in Net Subordinate Pledged Revenues will constitute an Event of Default under the provisions of the Subordinate Indenture.

In addition to the requirements of the Indenture, the Charter requires the Board 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.

The following table shows historical debt service coverage on all Senior Lien Revenue Bonds for Fiscal Years 1998 through 2002.

TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 1998-2002
(DOLLARS IN THOUSANDS)

	<u>1998⁽¹⁾</u>	<u>1999⁽¹⁾</u>	<u>2000⁽¹⁾</u>	<u>2001⁽¹⁾</u>	<u>2002</u>
Pledged Revenues⁽²⁾					
Total Operating Revenues	\$ 378,679	\$ 358,441	\$ 375,664	\$ 403,821	\$ 397,104
Interest Income	<u>25,045</u>	<u>27,878</u>	<u>28,264</u>	<u>26,596</u>	<u>22,687</u>
Total Pledged Revenues	\$ 403,724	\$ 386,319	\$ 403,928	\$ 430,417	\$ 419,791
LAX Maintenance and Operations Expenses⁽³⁾	<u>(216,270)</u>	<u>(229,164)</u>	<u>(276,949)</u>	<u>(346,556)</u>	<u>(316,981)</u>
Net Pledged Revenues⁽⁴⁾	<u>\$ 187,454</u>	<u>\$ 157,155</u>	<u>\$ 126,979</u>	<u>\$ 83,861</u>	<u>\$ 102,811</u>
Total Senior Lien Debt Service	\$ 41,886	\$ 37,620	\$ 37,187	\$ 37,491	\$ 19,655 ⁽⁵⁾
Coverage of Senior Lien Debt Service	4.48x	4.18x	3.41x	2.24x	5.23x

⁽¹⁾ Restated.

⁽²⁾ As defined in the Senior Lien Trust Indenture.

⁽³⁾ As defined in the Senior Lien Trust Indenture. Excludes depreciation and expenses of LAX payable from other than Pledged Revenues.

⁽⁴⁾ As defined in the Senior Lien Trust Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

⁽⁵⁾ Does not include \$15,750,000 of debt service on Senior Lien Revenue Bonds which was prepaid and defeased from sources other than Pledged Revenues.

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

Flow of Funds

Pursuant to the Charter, 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. The Board has created two separate revenue and expense accounts within the Airport Revenue Fund: one for LAX, PMD and VNY and one for ONT. The Board has the power to direct that monies in such separate accounts be used solely for a specified purpose related to the specific airport from which the moneys were derived or to which such monies have been allocated. Pursuant to the Charter and the Senior Lien Trust Indenture, the Board has established the LAX Revenue Account in the Airport Revenue Fund and has covenanted to deposit certain LAX Revenues in such account and such LAX Revenues will immediately upon receipt thereof become subject to the lien and pledge of the Senior Lien Trust Indenture, the Parity Subordinate Indenture and the Master Subordinate Indenture. The Board has notified the City Treasurer (the "City Treasurer") of the pledge of, lien on and interest in LAX Revenues granted by the Senior Lien Trust Indenture, the Parity Subordinate Indenture and the Master Subordinate Indenture and has instructed the City Treasurer that all such LAX Revenues are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Board or the City.

The amount of Subordinate Pledged Revenues required by the Senior Lien Trust Indenture and the Subordinate 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 may 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 the Senior Lien Trust Indenture and the Subordinate Indenture.

Pursuant to the Senior Lien Trust Indenture, all moneys in the LAX Revenue Account will be set aside for the payment of the following amounts or transferred to the following funds and accounts in the order listed:

(a) Pledged Revenues credited to the LAX Revenue Account will first be applied as follows and in the order set forth below:

FIRST, to the payment of amounts required to be deposited in the debt service funds for the Senior Lien Revenue Bonds pursuant to the Senior Lien Trust Indenture and any supplemental indenture;

SECOND, to the payment of amounts required to be deposited in the reserve fund pursuant to the Senior Lien Trust Indenture and any supplemental indenture;

(b) After application of moneys as provided in (a) above, excess Pledged Revenues will be applied as follows and in the order set forth below:

THIRD, to the payment of debt service on any indebtedness, other than the Senior Lien Revenue Bonds, including Subordinated Obligations (which include the Subordinate Obligations and the Parity Subordinate Obligations), if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FOURTH, to the payment of any reserve requirement for debt service for any indebtedness, other than the Senior Lien Revenue Bonds, including Subordinated Obligations (which include Subordinate Obligations and the Parity Subordinate Obligations), if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

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

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

SEVENTH, to the payment of such amounts as are directed by the Board for discretionary purposes as authorized by the Charter which include capital projects, defraying the expenses of any pension or retirement system applicable to the employees of the Department, for reimbursement to another department or office of the City on account of services rendered, or materials, supplies or equipment furnished to support purposes of the Department, for transfer to the City General Fund of money determined by the Board to be surplus, but only to the extent not inconsistent with federal or state law, regulation or contractual obligations and for any other lawful purpose of the Department, and only to the extent any such purposes relate to LAX.

With respect to the application of LAX Revenues described in subparagraphs FIFTH through SEVENTH above, the Department need apply only such amount of LAX Revenues pursuant to the provisions of such subparagraphs as is necessary, after taking into account all other moneys and revenues available to the Department for application for such purposes, to pay the amounts required by such subparagraphs.

Notwithstanding the provisions of the Senior Lien Trust Indenture, the Parity Subordinate Indenture and the Master Subordinate Indenture, nothing therein shall preclude the Board from making the payments described in paragraphs FIRST through SEVENTH above from sources other than Pledged Revenues.

In July 2000 the City amended its Charter whereby certain provisions governing the use and deposit of LAX Revenues were amended. The Charter no longer requires the deposit of moneys in certain funds, including, among others, the LAX Maintenance and Operation Reserve Account, however, the Board, pursuant to the Indenture, has covenanted to continue using moneys on deposit in the LAX Revenue Account as described in the flow of funds detailed above. The Charter may be further amended in the future in any respect by an affirmative vote of a majority of the voters within the City at a special or general election. However, a proposed Charter amendment could not affect the pledge of Pledged Revenues under the Senior Lien Trust Indenture or any supplemental indenture to secure the payment of the Senior Lien Revenue Bonds and the Subordinate Obligations.

Permitted Investments

Moneys held by the applicable trustee under the Senior Lien Trust Indenture and the Subordinate Indenture, including moneys in the applicable debt service funds (and the accounts therein) and in the applicable reserve funds, may be invested and reinvested as directed by the Board in Permitted Investments (as defined herein), subject to the restrictions set forth in the Senior Lien Trust Indenture and the Subordinate Indenture and subject to the investment restrictions imposed upon the Board by the Charter and the laws of the State.

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."

Additional Subordinate Obligations

Pursuant to the Subordinate Indenture, the Department may issue Additional Subordinate Obligations on a parity with the Subordinate 2002 Bonds subject to the requirement that there will first be delivered to the Trustee either (a) a certificate prepared by an Authorized Representative showing that the Net Subordinate Pledged Revenues for any twelve consecutive months out of the most recent eighteen consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Obligations or preceding the first issuance of the proposed Subordinate Program Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Program Obligations, Parity Subordinate Obligations and the proposed Series of Subordinate Obligations, calculated as if such proposed Series of Subordinate Obligations and the full 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 Net Subordinate Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the most recent 24 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Obligations or the establishment of a Program were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations and Parity Subordinate Obligations; (ii) for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with the rate covenant of the Department (as set forth under the caption "-- Rate Covenant" above); and (c) the estimated Net Subordinate Pledged Revenues for each of the first three Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations and Parity Subordinate Obligations, and calculated as if the proposed Series of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding.

For purposes of subparagraphs (a) and (b) above, no Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Representative or the Consultant. Since the Subordinate 2002 Bonds will be Initial Subordinate Obligations, neither the Department nor a Consultant will be required to deliver the certificates described above.

Further, neither of the certificates described above shall be required:

- (a) if the Subordinate Obligations being issued are Initial Subordinate Obligations;
- (b) if the Subordinate Obligations being issued are for the purpose of refunding then Outstanding Subordinate Obligations and there is delivered to the Trustee, instead, a certificate of the Authorized Representative showing that Maximum Aggregate Annual Debt Service after the issuance of such Refunding Subordinate Obligations will not exceed Maximum Aggregate Annual Debt Service prior to the issuance of such Refunding Subordinate Obligations;
- (c) if the Subordinate Obligations being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Department will be in compliance with the rate covenant described herein; or
- (d) 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 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 and (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 Subordinate Obligations previously issued for such purpose).

See "APPENDIX C – SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE INDENTURE."

The Department has covenanted under the Parity Subordinate Indenture that it will not issue any additional Parity Subordinate Obligations or Subordinate Obligations in excess of a combined \$300,000,000 aggregate principal amount, unless the Rating Agencies then rating the Parity Subordinate Obligations confirm their respective ratings and there is first delivered to the issuing and paying agent under the Parity Subordinate Indenture (a) a certificate to be prepared by an Authorized Representative showing that Net Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed additional Parity Subordinate Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service, calculated as if such proposed additional Parity Subordinate Obligations were then Outstanding; or (b) a certificate prepared by a Consultant showing that: (i) the Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed additional Parity Subordinate Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service and; (ii) the estimated Net Pledged Revenues for two Fiscal Years following the date of issuance of the proposed additional Parity Subordinate Obligations will be at least equal to 110% of

Maximum Aggregate Annual Debt Service, taking into account the rates, fees and charges in effect at the time of issuance of the proposed additional Parity Subordinate Obligations. Since at the date of issuance of the Subordinate 2002 Bonds the Department will have less than \$300,000,000 of Subordinate Obligations and Parity Subordinate Obligations Outstanding, the Department will not be required to deliver any of the certificates described in this paragraph.

Events of Default and Remedies; No Acceleration

Events of Default under the Subordinate Indenture and related remedies are described in the summary of certain provisions of the Subordinate Indenture attached as APPENDIX C. The occurrence of an Event of Default does not grant any right to accelerate payment of the Subordinate 2002 Bonds to either the Trustee or the holders of the Subordinate Obligations. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture.

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Lien Revenue Bonds

The Department as of the date of this Official Statement has \$211,885,000 aggregate principal amount of Senior Lien Revenue Bonds outstanding. The Department intends to issue, contemporaneously with the issuance of the Subordinate 2002 Bonds, the Series 2002A Bonds.

The following table presents the principal amounts outstanding and final maturity dates for the Senior Lien Revenue Bonds.

**TABLE 2
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
SENIOR LIEN REVENUE BONDS
AS OF DECEMBER 1, 2002**

<u>Series</u>	<u>Principal Amount Outstanding</u>	<u>Final Maturity (May 15)</u>
Series 1995A	\$ 125,740,000	2010
Series 1995B	34,240,000	2004
Series 1995C	4,950,000	2010
Series 1995D	<u>46,955,000</u>	2015
Total	<u>\$211,885,000</u>	

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

Parity Subordinate Obligations

During Fiscal Year 2002 the Department implemented a commercial paper note program, with a program authorization of up to \$300,000,000. At the date hereof the Department has outstanding Parity Subordinate Obligations in the amount of \$15,500,000. The Parity Subordinate Obligations are secured by a direct pay letter of credit and a subordinate lien on Pledged Revenues.

Debt Service Requirements

The following table sets forth debt service requirements on the Senior Lien Revenue Bonds, the Subordinate 2002 Bonds and the Parity Subordinate Obligations:

**TABLE 3
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
DEBT SERVICE REQUIREMENTS***

Fiscal Year	Senior Lien Revenue Bonds⁽¹⁾	Subseries 2002C1 Bonds⁽²⁾	Subseries 2002C2 Bonds⁽²⁾	Subordinate Commercial Paper⁽³⁾	Total
2003	\$35,689,348	\$ 527,186	\$ 281,918	\$627,677	\$37,126,128
2004	35,338,740	1,310,803	700,964	627,677	37,978,184
2005	33,165,895	1,307,197	699,036	752,214	35,924,342
2006	32,827,575	1,309,000	700,000	752,214	35,588,789
2007	31,118,505	1,309,000	700,000		33,127,505
2008	30,903,786	1,310,803	700,964		32,915,553
2009	30,678,286	1,307,197	699,036		32,684,519
2010	30,352,799	1,309,000	700,000		32,361,799
2011	6,784,524	1,309,000	700,000		8,793,524
2012	6,784,164	1,310,803	700,964		8,795,931
2013	6,785,445	1,307,197	699,036		8,791,678
2014	6,783,508	1,309,000	700,000		8,792,508
2015	7,978,583	1,309,000	700,000		9,987,583
2016	8,100,638	2,110,803	1,400,964		11,612,405
2017	8,098,325	9,579,236	5,074,570		22,752,130
2018	8,096,325	9,690,500	5,021,500		22,808,325
2019	11,340,688	9,686,000	5,164,000		26,190,688
2020		10,971,511	5,796,270		16,767,781

* Totals may not add due to rounding.

⁽¹⁾ Assumes the issuance of \$32.45 million of Series 2002A Bonds at an average interest rate of 4.61%.

⁽²⁾ Assumes an average interest rate of 3.50%.

⁽³⁾ Assumes commercial paper issuance of \$26.3 million in FY 2003 and \$50.1 million in FY 2005 with refunding by Senior Lien Revenue Bonds in FY 2004 and FY 2006. An interest rate of 3.00% is assumed.

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

Junior 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 may be incurred at such times and upon such terms as the Department may determine, provided that: (a) any resolution or indenture of the Department authorizing the issuance of any subordinate 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 will be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Subordinate Obligations or to replenish the Debt Service Reserve Fund, if any, are then current in accordance with the Subordinate Indenture. The Department does not currently have any junior obligations outstanding.

Future Financings

Department staff is currently reviewing plans to issue approximately \$187,000,000 of additional bonds (exclusive of the Series 2002A Bonds, the Subordinate 2002 Bonds and the Subordinate 2003 Bonds) to fund its capital improvement program between Fiscal Years 2003 and 2006. Department staff has prepared a capital

improvement plan for Fiscal Years 2003-2006 which has not been approved by the Board. See "CAPITAL IMPROVEMENT PLANNING" and "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT." Additionally, the Department continuously evaluates refunding opportunities and, when economically beneficial, may refund one or more series of Senior Lien Revenue Bonds.

Other Obligations

Repayment Obligations

Under certain circumstances, the obligation of the Board, 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 Subordinate Pledged Revenues on a parity with the Subordinate Obligations. If a Credit Provider or Liquidity Provider advances funds to pay principal of or purchase Bonds, all or a portion of the Department's Repayment Obligation may be afforded the status of a Subordinate Obligation under the Subordinate Indenture. The Board currently does not have any Repayment Obligations outstanding. See "APPENDIX C – SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE INDENTURE."

LAX Special Facility Obligations

The Board may designate an existing facility or a planned facility as a "LAX Special Facility" and may incur indebtedness in order to acquire, construct, renovate or improve such facility or to finance the acquisition, construction, renovation or improvement thereof by a third party. Additionally, the Board may provide that all contractual payments derived by the Board from such LAX Special Facility, together with other income and revenues available therefrom (but only to the extent such payments, income and revenue are necessary to make the payments of principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special Facility not paid for by the operator thereof or by a party other than the Board and all sinking fund, reserve or other payments required by the resolution authorizing the LAX Special Facility Obligations as the same become due), will constitute "LAX Special Facilities Revenue" and will not be included as Pledged Revenues. Such indebtedness will constitute a "LAX Special Facility Obligation" and will be payable solely from the LAX Special Facilities Revenue. The LAX Special Facility Obligations are payable solely from LAX Special Facilities Revenue, which include contractual payments derived by the Board from a contract relating to the LAX Special Facility between the Board and the entity operating the LAX Special Facility.

When LAX Special Facility Obligations issued for a LAX Special Facility (including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations) are fully paid or otherwise discharged, all revenues of the Board from such facility will be included as Pledged Revenues. To the extent LAX Special Facility Revenues exceed the amounts required to pay the principal of and interest on LAX Special Facility Obligations when due, to the extent not otherwise encumbered, the excess may constitute Pledged Revenues as determined by the Board.

The Department does not have any outstanding LAX Special Facility Obligations and currently does not have any plans to issue LAX Special Facility Obligations or to designate a facility, existing or planned, as an LAX Special Facility.

Rental Credits

During the 1970s, the Department planned and began construction of a second level roadway in the central terminal area ("CTA") of LAX. This project was completed in time for the 1984 Summer Olympics. As part of the expansion, all existing terminals required a second level connection as well as other improvements. To finance these improvements, Regional Airports Improvement Corporation ("RAIC") issued bonds payable by certain airlines. See "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings" for additional information regarding RAIC. In addition to financing the specific facilities used by the airlines, the proceeds of the bonds financed "public areas." "Public areas" include public lobbies and corridors, public restrooms, concession areas, elevators and escalators and utility systems. In accordance with the leases

entered into with certain airlines for terminal facilities at LAX, the Department agreed to reimburse the airlines for the financing costs associated with the public areas. Rather than reimbursing the airlines directly for such costs, the Department agreed to give rental credits to the airlines each year in an amount equal to the public areas portion of the debt service on the bonds issued for such improvements.

These rental credits are applied as an offset to amounts owed to the Department by such airlines. Upon application of the rental credit to outstanding invoices owed to the Department the accounts receivable of the Department is considered paid in the amount of such rental credit applied. Since the credit is taken before any revenue is received, the Department actually collects less moneys from those airlines than what is actually owed by such airlines. Thus, even though rental credits are not secured by any pledge of the Department's revenues, the use of the rental credits results in the creation of a higher payment priority for the rental credits than for Bonds.

In March 2002 the Department prepaid certain rental credits owed to American Airlines ("American"), and in November 2002, the Department prepaid certain rental credits owed to United and Delta Air Lines ("Delta") from excess moneys in the LAX Revenue Account. The Department plans to prepay a portion of certain rental credits owed to Continental Airlines ("Continental") from excess moneys in the LAX Revenue Account in early 2003. Additionally, the Department expects to use a portion of the proceeds of the Subordinate 2003 Bonds, if and when issued, to prepay certain rental credits owed to LAX TWO Corp. ("LAX TWO"). After the prepayment of rental credits to LAX TWO the Department will only owe certain remaining rental credits to Continental, which remaining rental credits are expected to be paid in full in 2003. After payment of the remaining rental credits owed to Continental, the Department will not owe rental credits to any airlines operating at LAX. Additionally, the Department does not plan to enter into future building leases using this method of financing. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Leases."

Subsidization of Other Airports

In addition to LAX, the City, acting through the Department, owns, operates and maintains ONT, VNY and PMD. 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, which included any operating losses and major catastrophic or other liabilities of such airports. Although the current Charter does not contain any requirement to subsidize the other airports of the Airport System, the Department anticipates that LAX Revenues will continue to be used in the future for subsidizing any deficiencies incurred by the other airports in the Airport System.

The two separate accounts within the Airport Revenue Fund reflect the Department's expectation that ONT will be operated as an entirely self-sufficient enterprise and LAX Revenues will continue to subsidize VNY, if necessary, and PMD. However, the Board may elect to provide partial funding for various enhancements to the Airport System as part of its regional planning efforts.

In Fiscal Year 2002 LAX provided a \$4,788,471 subsidy to VNY and a \$1,583,316 subsidy to PMD. Since VNY serves as a reliever airport for LAX, the VNY subsidy was recovered by LAX through an increase in landing fees at LAX. Landing fees at LAX are calculated based on LAX's operating costs which include certain costs associated with VNY. Although the amount of such subsidy has remained fairly constant and is expected to remain constant in the foreseeable future, there can be no assurance that major catastrophic liabilities or other unanticipated events may occur with respect to one or more of the other airports in the Airport System which would require a substantial transfer of LAX Revenues to such airports.

RISK FACTORS

The purchase and ownership of the Subordinate 2002 Bonds involve investment risk. Prospective investors are urged to read this Official Statement in its entirety. The factors set forth below, among others, may affect the security for the Subordinate 2002 Bonds. See also "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events."

Reduction in Air Travel

Prior to the September 11 Events, a number of airlines were experiencing financial difficulties. Since that date, numerous airlines have been downgraded by the rating agencies and many have announced cutbacks in service and layoffs of employees in response to a reduction in passenger demand. It is anticipated that most major airlines will further reduce their flight schedules. The Department cannot predict the duration or extent of this reduction in air travel or the extent of the adverse impact on the financial condition of the Department. In addition, the Department cannot predict what the impact is likely to be on any of the airlines operating at LAX, or the potential that these incidents or the reduction in activity may cause airlines to file for bankruptcy protection or cease operations. Further, the Department cannot predict the likelihood of future incidents similar to the September 11 Events, the likelihood of future air transportation disruptions or the impact on the Department or the airlines operating at LAX from such incidents or disruptions.

Key factors that affect airline traffic at LAX and, therefore, the amount of Pledged Revenues available for payment of the Subordinate 2002 Bonds, include: local, regional, national and international economic and political conditions; aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations; availability and price of aviation fuel; capacity of the national air traffic control and airport systems; capacity of LAX and competition from other airports, among others. Many of these factors, most of which are outside the Department's control, are discussed in detail in the Report of the Airport Consultant. If aviation activity and enplaned passenger traffic at LAX do not meet forecast levels, a corresponding reduction would occur in forecasted Pledged Revenues (absent an increase in Department rentals, fees and charges). See "REPORT OF THE AIRPORT CONSULTANT" herein and "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT."

Financial Condition of the Airlines

Recent events, including the September 11 Events, and the general economic downturn, have had a significant negative effect on airline industry profitability. Vanguard, US Airways and United have filed for bankruptcy protection. American has also reported financial difficulties. Vanguard, US Airways, United and American comprised approximately 32% of enplanements at LAX in Fiscal Year 2002. Future airline traffic will be affected by, among other things, the growth or decline of the population of LAX's service region, national and international economic conditions, acts of war and terrorism, federal regulatory actions, the financial condition of the airlines, air fare levels and the operation of the air traffic control systems. See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT" for a discussion of certain factors affecting future airline traffic.

On September 22, 2001, President Bush signed into law the Air Transportation Safety and System Stabilization Act (the "Stabilization Act"), which for all U.S. airlines and air cargo carriers provides for, among other things: (a) \$5 billion in compensation for direct losses (including lost revenues) incurred as a result of the federal ground stop order imposed by the FAA on September 11, 2001, prohibiting all flights to, from and within the United States until September 13, 2001, and for incremental losses incurred through December 31, 2001 as a direct result of the September 11 Events; (b) subject to certain conditions, the availability of up to \$10 billion in federal government guarantees for certain loans made to air carriers for which credit is not reasonably available as determined by the newly established ATSB; (c) at the discretion of the Secretary of Transportation, a \$100 million limit on the liability of any air carrier to third parties with respect to acts of terrorism committed on or to such air carrier during the 180-day period following the enactment of the Stabilization Act (now expired); (d) the extension of the due date for the payment by air carriers of certain excise taxes; and (e) compensation to individual claimants who were physically injured or killed as a result of the September 11 Events. The Stabilization Act further provides that, notwithstanding any other provision of law, liability for all claims, whether compensatory or punitive, arising

from the September 11 Events, against any air carrier shall not exceed the liability coverage maintained by the air carrier.

Several airlines including American, Delta and United (which three airlines accounted for approximately 39% of all enplaned passengers at LAX during Fiscal Year 2002) have received compensation pursuant to the Stabilization Act, for losses resulting from airport closures and other losses resulting from the effects of the September 11 Events. As of September 30, 2002, pursuant to their respective filings with the Commission, American, Delta and United had received total compensation in the amounts of approximately \$866 million, \$727 million and \$782 million, respectively. In addition, several airlines have applied for federal loan guarantees, including United. On December 4, 2002, the ATSB rejected United's application for \$1.8 billion of federal loan guarantees. See "AIRLINE INDUSTRY INFORMATION" for additional information on the airlines operating at LAX.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the context of potential international hostilities and terrorist attacks, may influence passenger travel behavior and air travel demand. These concerns have intensified in the aftermath of the September 11 Events. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Since the September 11 Events, intensified security precautions have been instituted by government agencies, airlines and airport operators. These precautions include the strengthening of aircraft cockpit doors, changes to prescribed flight crew responses to attempted hijackings, increased presence of armed sky marshals, federalization of airport security functions under the newly created Transportation Security Administration (the "TSA") and revised procedures and techniques for the screening of passengers and baggage for weapons and explosives. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

The Aviation and Transportation Security Act ("ATSA") was signed into law by the President on November 19, 2001. The ATSA makes airport security the responsibility of the U.S. Department of Transportation. The ATSA created the TSA which is part of the U.S. Department of Transportation (the "U.S. DOT"). The ATSA requires, among other things, that all security screeners at airports become federal employees in a transition period lasting approximately one year. Security screeners will undergo background checks and will have to be U.S. citizens. In three years (not later than 2005), airports that meet increased security guidelines have the option to continue using federal employees or return to using private security companies. Airports are permitted to use state or local law enforcement to provide security services. The new federal security screening services will be paid for by charging passengers \$2.50 per departure or connection, not to exceed \$5.00 per trip. In addition to the fee charged to passengers, to the extent necessary, a fee may also be imposed on air carriers which fee may not exceed, in the aggregate, the total amount paid in calendar year 2000 by the air carriers for screening passengers and property.

The TSA assumed most passenger screening functions nationwide in February 2002, largely by contracting with private sector security providers; and by November 2002, the TSA had taken over screening functions at all terminals at LAX. To comply with the checked baggage screening requirements imposed by the ATSA, all checked baggage must either be screened by explosive detection systems or by some other manner, such as positive bag match, manual search, canine explosive detection or other approved means. Moreover, the ATSA requires that by December 31, 2002, sufficient explosive detection systems be deployed at airports in the United States to screen all checked baggage. While the cost of such systems will be borne by the TSA and the airlines, structural modifications to the terminal complex to facilitate installation and operation of the new systems may be necessitated at a cost to the Department that has not yet been determined. Interim measures to screen all checked baggage for explosives were implemented in January 2002 at LAX.

The Department has done the necessary planning studies to allow TSA contractors to make infrastructure improvements and is prepared to meet the January 1, 2003 start date for screening of all checked baggage provided the TSA has the required personnel and equipment available. As the TSA attempts to implement a current Congressional mandate for the screening of all checked baggage for explosives by the end of 2002, there is the potential for significantly increased inconvenience and delays at many airports, including LAX. These increased inconveniences and delays may affect air travel demand at LAX and throughout the air transportation system.

These or other security measures may adversely affect the Department's operations and revenues. In general, a reduction of non-airline derived revenues has the effect of increasing the costs of airlines to utilize LAX.

According to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. The Department cannot predict whether LAX or any of its other airports will be targets of terrorists in the future. The United States government launched a military offensive against the terrorists believed to be responsible for the September 11 Events and warned that any such offensive may continue for years and that the terrorists may strike again. The Department cannot predict the likelihood of future attacks or the effect on the air transportation system if hostilities escalate further. Any such action could directly or indirectly reduce passenger traffic and depress airline industry revenues and Pledged Revenues. The Department cannot predict the duration or extent of the reduction in air travel or the extent of the impact on Pledged Revenues or the financial condition of the Department or any of the airlines operating at LAX, including the potential that these incidents may cause any of the airlines to seek bankruptcy protection.

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant incorporates numerous assumptions regarding the utilization of LAX and other matters and states that any forecast is subject to uncertainties. Four such significant assumptions in the Report of the Airport Consultant are: (a) domestic activity at LAX will reach Fiscal Year 2001 levels by Fiscal Year 2005 or Fiscal Year 2006, (b) population will continue to grow in the Los Angeles Consolidated Metropolitan Statistical Area (the "Los Angeles CMSA") and the economic conditions in the Los Angeles CMSA will continue to be strong through the forecast period, (c) no major national security events will occur during the projection period and (d) origin and destination passengers will continue to account for a high percentage of enplaned passengers at LAX and any consolidations/mergers or bankruptcies in the airline industry are not likely to negatively impact passenger activity at LAX. 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 these or any of the other assumptions contained in the Report of the Airport Consultant will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "REPORT OF THE AIRPORT CONSULTANT" herein and "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT."

Forward-Looking Statements

This Official Statement, including particularly the Report of the Airport Consultant, contains statements relating to future results that are "forward looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "anticipate," "intend," "expect" and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. See "FORWARD-LOOKING STATEMENTS."

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 applicable to all airports in the United States. In the aftermath of the September 11 Events, LAX has been required to implement enhanced security measures mandated by the FAA, the TSA and Airport management. Among these measures is the requirement that by December 31, 2002 (an extension of which date has been requested by numerous airports, excluding, however, LAX), sufficient explosive detection systems be deployed at airports in the United States to screen all checked

baggage. Although the cost of such systems is to be borne by the TSA and the airlines, structural modifications to the terminal complex to facilitate installation and operation of the new systems may be necessitated at a cost to the Department.

It is not possible to predict whether future restrictions or limitations on Airport operations will be imposed, whether future legislation or regulations will affect anticipated federal funding or PFC collections for capital projects for LAX or whether such restrictions or legislation or regulations would adversely affect Pledged Revenues.

Effect of Airline Bankruptcies

The profitability of the airline industry has declined since 2000, with many airlines reporting substantial financial losses and several airlines filing for bankruptcy protection, due not only to the September 11 Events, but also to a general economic slowdown, increased aviation fuel costs, inclement weather throughout the nation, labor disruptions and other factors. In December 2000, National Airlines, which accounted for less than 1% of revenues at LAX in Fiscal Year 2002, filed for bankruptcy protection and subsequently ceased operations in November 2002. In 2001, Trans World Airlines ("TWA") filed for bankruptcy protection and was integrated into American after substantially all of TWA's assets and certain liabilities were purchased by American; in August 2001, Midway Airlines, which accounted for less than 1% of revenues at LAX in Fiscal Year 2002, filed for bankruptcy protection and subsequently ceased operations; in July 2002, Vanguard, which also accounted for less than 1% of revenues at LAX in Fiscal Year 2002, filed for bankruptcy protection and has suspended all operations; and in August 2002, US Airways, which accounted for less than 2% of revenues at LAX in Fiscal Year 2002, filed for bankruptcy protection but is continuing operations, although certain routes and flights could be affected; and on December 9, 2002, UAL, the parent of United, which accounted for approximately 19% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. 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 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 the City (i) within 60 days or later, if ordered by the court, with respect to its use agreement or other leases of real property, or (ii) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption, the airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the applicable agreement. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Department and 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 such airline for 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 would 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 PFC on each enplaning revenue passenger at LAX. See "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges." The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (*i.e.*, the Department) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC 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 PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC 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 PFCs 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 PFCs owed to the Department or whether the bankruptcy estate would have sufficient moneys to pay the Department in full for the PFCs owed by such airline. PFCs are not pledged to the repayment of Subordinate Obligations, including the Subordinate 2002 Bonds.

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. Damage in excess of \$11 million was sustained at VNY and LAX; of which almost all of the damage was at VNY. As of June 2001, the Department had received \$224,973 of a total of \$3,314,000 in expected funds from the Federal Emergency Management Agency ("FEMA"), and \$234,162 from the State Governor's Office of Emergency Services to offset the cost of earthquake damage. An additional \$1.5 million will be advanced by FEMA once work is completed on Hangar 902 at VNY, which has been delayed due to litigation matters with the current tenant. In addition, the Department received \$7,131,606 from its insurance carrier for the earthquake damage at VNY. 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.

THE DEPARTMENT OF AIRPORTS

General Description

The City, acting through the Department, currently owns, operates and maintains four airports in the Los Angeles area. The airports are LAX, ONT, VNY and PMD. The Airport System is operated as a financially self-sufficient enterprise, without General Fund support. Within the Airport System, LAX has historically subsidized and is expected to continue to subsidize the operation and maintenance expenses of VNY (if necessary) and PMD. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Subsidization of Other Airports" herein.

LAX is the major facility in the Airport System accounting for approximately 90% of the total passenger traffic, 80% of the air cargo volume and 86% of the air carrier operations of the Airport System for Fiscal Year 2002. See "LOS ANGELES INTERNATIONAL AIRPORT" for additional information on LAX.

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. ONT is located approximately 35 miles east of downtown Los Angeles and occupies approximately 1,677 acres. ONT currently serves about 6.4 million annual passengers, representing about 10% of the total air passenger traffic of the Airport System for Fiscal Year 2002. In addition to 12 passenger carriers and one commuter carrier that serve ONT, it is also served by more than 20 unscheduled air passenger and air cargo carriers.

VNY is located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is ranked as one of the busiest general aviation airports in the world. In Fiscal Year 2002, VNY had approximately 482,634 aircraft operations. More than 100 businesses are located on the airport including six major fixed-base operators and numerous aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs. There are approximately 800 aircraft based at VNY including 60 helicopters, 137 jets and 548 propeller aircraft.

PMD, located in the Antelope Valley, is approximately 50 miles north of downtown Los Angeles. The airport is located on United States Air Force Plant 42 ("Plant 42") property and operated through a Joint Use Agreement with the United States Air Force. The Department owns approximately 17,750 acres of land east of Plant 42 for the potential future development of a new airport. PMD features a newly refurbished 9,000 square foot terminal capable of handling up to 300,000 passengers annually.

Comparison of Four Airports in Airport System

By way of comparison of the airports in the Airport System, certain operating data for each of these airports is set forth below. The Department uses the method of counting passengers and cargo that is used by the ACI, the effect of which is to include transit passengers and cargo.

TABLE 4
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
OPERATING DATA FOR THE AIRPORT SYSTEM
FISCAL YEAR 2002

<u>Airport</u>	<u>Net Operating Revenues (000's)⁽¹⁾</u>	<u>Enplanements and Deplanements</u>	<u>Scheduled Aircraft Arrivals and Departures⁽²⁾</u>	<u>Total Landed Weight⁽³⁾</u>	<u>Cargo Traffic (Tons) Freight Plus Air Mail</u>
LAX	\$ 58,731	56,113,582	625,457	53,440,139	1,878,015
ONT	18,986	6,415,153	104,494	7,051,020	485,716
VNY ⁽⁴⁾	(3,430)	0	0	17,036	0
PMD	(1,863)	0	0	0	0
Total	<u>\$ 72,424</u>	<u>62,528,735</u>	<u>729,951</u>	<u>60,508,195</u>	<u>2,363,731</u>

⁽¹⁾ Operating revenues less operating expenses, before depreciation. This definition of Net Revenues varies from the definition of the term "Net Pledged Revenues" as defined in the Senior Lien Trust Indenture.

⁽²⁾ For revenue-related operations only.

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

⁽⁴⁾ General Aviation Facility

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

Board of Airport Commissioners

The Department is governed by the Board which is responsible for the formulation of policy for the Airport System. The Board is comprised of 7 members. Each member is appointed by the Mayor for revolving five-year terms. 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 as follows:

<u>Member</u>	<u>Occupation</u>	<u>Date of Appointment</u>	<u>Current Term Expires</u>
Theodore O. Stein, President	Attorney	July 2001	June 30, 2006
Eileen N. Levine	Educator	July 2001	June 30, 2004
Alan Llorens	Public Relations Executive	November 2002	June 30, 2005
Cheryl K. Petersen	Businesswoman	September 2000	June 30, 2007
Armando Vergara	Labor Executive	July 2001	June 30, 2003
Peter Weil	Attorney	November 2002	June 30, 2004
Leland Wong	Public Affairs Executive	July 2001	June 30, 2005

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. If the City Council chooses to assert jurisdiction over the action, the City Council may, by a two-thirds vote, veto the action within 21 calendar days of bringing 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.

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, appointed by the Mayor of the City (the "Mayor"), subject to confirmation by the City Council of the City, is empowered to appoint and remove, subject to Board approval, the heads of the Airport Divisions, which include Airport Operations, Long Range Planning, Governmental and External Affairs, Technology and Environmental Affairs, Business Development, Public and Community Relations, Finance, Project and Facilities Development and Administrative Services. Within each Division, there are various bureaus which are assigned certain responsibilities for the efficient operation and development of the Airport System. As of July 1, 2002, there were 2,866 authorized positions for the Airport System. The principal administrative officers are named below:

Lydia H. Kennard, Executive Director. Lydia H. Kennard was appointed as Executive Director on March 10, 2000. Since August 1999, Ms. Kennard, former Deputy Executive Director, Planning and Engineering, served as Interim Executive Director, replacing John J. Driscoll, Executive Director, Operations and Administration upon his retirement. She was appointed to the position of Deputy Executive Director for Design and Construction, in April 1994, and she was responsible for overseeing the activities of the bureaus relating to planning, engineering, design, construction, real estate and facilities for the Airport System. Prior to joining the Department, Ms. Kennard was President/Principal-in-Charge of KDG Development Consulting, a position she had held since 1980. The Los Angeles based firm specializes in land use planning, development, programming and construction management for

both public and private sector clients. She was a member of the Los Angeles Planning Commission from 1991 to 1993, and served as Vice Chair from 1992 to 1993. Ms. Kennard earned a Bachelor of Arts degree in Urban Planning and Management from Stanford University, her Juris Doctorate degree from Harvard University and a Masters degree in City Planning from the Massachusetts Institute of Technology.

Paul L. Green, Chief Operating Officer. Mr. Green was appointed to the position of Chief Operating Officer in November 2000. He is responsible for operational and administrative functions for the Airport System. Prior to joining the Department, Mr. Green was the Chief Executive Officer for the Marine Division of the Washington State Department of Transportation for six years. Prior to that position, Mr. Green worked for United and held a variety of progressively more responsible positions, rising to the level of Senior Vice President. Mr. Green holds a Bachelor of Science degree in Business Administration from the University of Arkansas.

Karen L. Sisson, Chief Financial Officer. Ms. Sisson was appointed Chief Financial Officer in December 1996. Her responsibilities include all rates and charges issues, including calculating landing fees, overseeing the preparation of the Department's budget, revenue forecasting, capital budgets development and directing debt issuance and management. Prior to her appointment she was a Vice President with Public Resources Advisory Group. She previously worked as a Senior Finance Officer for the Community Redevelopment Agency of the City and as Assistant Treasurer for the City of Pasadena. In addition, she has held positions with Chemical Bank, New York, and Countrywide Funding Corporation. Ms. Sisson holds a Bachelor of Arts degree from Pomona College and a Masters degree in Business Administration from the University of Chicago.

William A. Bruce, Director of Airports Administration. Mr. Bruce was appointed Director of Airports Administration in May 1999. He oversees the activities of the Human Resources, Procurement Services, Purchasing, Risk Management and Small Business and Job Opportunities Divisions and their support of the Airport System. His major responsibilities include reviewing these bureaus, their interrelationships and how they support the Airport System. Mr. Bruce has worked for the City for over 30 years, most recently with the Community Development Department where he was responsible for managing the annual consolidated plan process for \$150 million in federal grant programs. In addition, his other responsibilities included departmental information systems, risk management and environmental review activities, records retention, insurance support and environmental review. Prior to that post, he was appointed to lead the City's federal jobs training program. Mr. Bruce started his government career with the City Administrative Officer in 1969, where he spent eleven years as a budget analyst and chief negotiator for employee relations matters. Mr. Bruce earned a Bachelor of Arts degree in 1967 from the University of California at Los Angeles and a Master of Public Administration degree in 1971 from California State University, Los Angeles. For the past nine years, he has also been a Lecturer in Public Administration and State and Local Government at California State University, Los Angeles.

Kim Day, Deputy Executive Director, Project and Facilities Development. Ms. Day was appointed to the position of Deputy Executive Director, Project and Facilities Development in November 1999. She is an architect with more than 20 years of experience in diverse building types, including substantial work on aviation projects, in all phases of design and implementation. Ms. Day was with Daniel, Mann, Johnson and Mendenhall for 20 years and was the first woman architect to be made an officer in 1989. As a Vice President, she participated in the leadership of that 1,500 person firm, and was involved with strategic planning, policy making and development of the next generation of leaders. Most recently, Ms. Day was with the firm of Gensler in Santa Monica focused primarily on aviation and transportation projects including Corpus Christi International Airport and Will Rogers World Airport in Oklahoma City. Ms. Day earned a Bachelor of Architecture degree from Cornell University in 1977 and has completed graduate course work for the Haas School of Business at the University of California, Berkeley.

Philip Depoian, Deputy Executive Director, Government & External Affairs. Mr. Depoian was appointed to the position of Deputy Executive Director, Government & External Affairs in June 1993. He is responsible for oversight and management of the Bureaus of Noise Management, Public Relations and Community Affairs, and Environmental Management. In addition, he manages and oversees the Government Affairs functions of the Department, including maintaining liaison with the Federal Government, as well as the City. From 1973 through 1993, Mr. Depoian worked with the City, most recently as Special Counsel to the Mayor of the City in all areas of policy development and implementation. In this position, he represented the Mayor at all levels of local, state and federal government. He was the Mayor's liaison to the Department, interfacing with the Board on all matters

pertaining to airport management, including government management, and legislative analysis and governmental affairs.

Michael DiGirolamo, Deputy Executive Director, Airports Operations. Mr. DiGirolamo was appointed in June 1996. He returned to the Department of Airports from five years in the position of Deputy Executive Director of Operations at Dallas-Fort Worth International Airport. He was previously Airport Manager for ONT for seven years. Mr. DiGirolamo holds a Bachelor of Arts degree in urban studies from California State University, Northridge, and has completed advanced training in airport management at Texas Christian University in Fort Worth, Texas, and the Aviation Management Institute in Montreal, Canada.

Paul Haney, Deputy Executive Director, Public & Community Relations. Mr. Haney was appointed to Deputy Executive Director of Public and Community Relations in April 2001. He is responsible for the Public and Community Relations for the Airport System. His career has spanned three decades working for large news, airline and aerospace organizations. Prior to his appointment with LAX, he spent ten years at Lockheed and Lockheed Martin corporations, holding four positions, including Corporate News and Information Director, and Ethics and Corporate Compliance Program Director. He joined American in 1979 as News Services Manager at the airline's Dallas/Fort Worth headquarters, where he went on to hold three airline operations positions, including serving as American's General Manager at LAX from 1987 to 1991. Haney began his news media experience in 1969 as a reporter for the *Rochester (N.Y.) Times-Union*, and worked as a reporter, bureau manager and business executive at United Press International from 1971 to 1979. Mr. Haney holds a Bachelor of Science degree in journalism from the University of Kansas.

Richard M. Janisse, Deputy Executive Director, Properties and Concessions. Mr. Janisse was appointed to Deputy Executive Director, Properties and Concessions in June 2001. He is responsible for overseeing all property management, concessions and new business development within the Airport System. He brings to the position more than 27 years of experience in aviation business development. Before joining LAX, Mr. Janisse served as founder and president of RMJ & Associates, LLC in Orange County, California, a consulting services firm that provided airports with economic development planning, marketing and sales, business recruitment, airport privatization, planning, air cargo operations and facilities analysis, air cargo service development, asset management, land development and financial analysis. Previously, he served as President and CEO of Martin Aviation, Inc., a \$30 million general aviation fueling, air charter aircraft sales and hangar storage business. He has also served as President of World Airways, Inc., President and CEO of AMR Services Corp. and in several other positions with American. Mr. Janisse holds a Bachelor of Science degree in management from the University of Detroit.

Roger A. Johnson, Deputy Executive Director, Technology & Environmental Affairs. Mr. Johnson was appointed to the position of Deputy Executive Director, Technology & Environmental Affairs in July 2000. He is responsible for oversight of the Technology Management, Environmental Management, Residential Soundproofing and Residential Acquisition Divisions. In addition to these responsibilities, Mr. Johnson is involved in the environmental processing in support of the proposed LAX Master Plan. Prior to joining the Department, Mr. Johnson was Vice President of Camp Dresser & McKee Inc. and has over 20 years experience in environmental engineering, environmental regulatory compliance, hazardous materials/waste investigations, construction and construction management. For the past 13 years, his experience has focused on environmental issues facing the aviation industry. Mr. Johnson graduated *magna cum laude* from California State Polytechnic University, Pomona, with a Bachelor of Science degree in Engineering.

Edward James "Jim" Ritchie, Deputy Executive Director, Long Range Planning. Mr. Ritchie was appointed to the position of Executive Director, Long Range Planning in November 1999. He has 32 years of aviation experience combined with extensive strategic planning experience. His career highlights include six years as the Marine Corps West Coast Director for Base Realignment and Closures followed by a consulting assignment as Program Manager for Orange County's Base Transition Plan (El Toro). Most recently, Mr. Ritchie has been the General Manager of Mercury Air Center at LAX. As West Coast Director for Base Realignment and Closure, Mr. Ritchie developed a \$934 million budget with construction contracts in excess of \$455 million. He has personally supervised three master plan efforts and initiated five environmental statements, one of which was a joint EIS/EIR. Mr. Ritchie earned a Bachelors degree in Social Sciences from California State University, Long Beach in 1966; a Masters degree in Systems Management from the University of Southern California in 1975; a Masters

degree in National Security and Strategic Studies from the Naval War College, Newport, Rhode Island in 1988; and a Masters degree in International Relations from Salve Regina College, Newport, Rhode Island in 1989. He also completed a fellowship in Foreign Politics and the National Interest at the Massachusetts Institute of Technology in 1990.

Eduardo Alfonso Angeles, Managing Assistant City Attorney. Mr. Angeles became the Managing Assistant City Attorney of the Airport Division of the City Attorney's Office on October 15, 2002. As chief legal counsel for the Department, Mr. Angeles is responsible for the supervision of attorneys and support staff assigned to provide legal counsel to the Department. As legal counsel for the Department, Mr. Angeles is in charge of providing advice to both the Department and the Board, negotiating and drafting leases, permits, licenses, contracts, concession agreements and other transactional documents. In addition, Mr. Angeles is responsible for all Department litigation matters. Prior to joining the Airport Division, Mr. Angeles was the Chief Attorney of the Public Protection Team and the General Counsel of the San Francisco Police Department for the San Francisco City Attorney's Office. During his tenure in San Francisco, he also served eight years as a Principal Deputy City Attorney for the San Francisco International Airport Legal Division. Mr. Angeles received a Bachelor of Arts degree from the University of California at Santa Barbara and his law degree from the University of California, Hastings College of the Law.

Employees/Labor Relations

The Department is a civil service organization, which, as of July 1, 2002, had 2,866 authorized positions. As of July 1, 2002, approximately 2,383 were authorized at LAX, approximately 384 were authorized at ONT, and approximately 99 were authorized at VNY and PMD. These employees are employed in over 233 different civil services classifications. This wide range of job classifications is grouped into eight job categories which include Officials and Administrators, Professionals, Technicians, Protective Service, Paraprofessionals, Administrative Support, Skilled Craft and Service Maintenance. Following the September 11 Events, the Department offered voluntary separation packages to numerous employees. As a result of these separation packages and attrition, the Department saved approximately \$1.2 million in salaries and benefits in Fiscal Year 2002.

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 21 separate labor agreements between management and unions ("Memoranda of Understanding"). Several Memoranda of Understanding have expired and are currently being negotiated. Until new Memoranda of Understanding are entered into, the terms of the expired Memoranda of Understanding govern labor relations.

The following table sets forth all Memoranda of Understanding between the Department and labor and management unions.

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

<u>Bargaining Unit</u>	<u>Expires</u>
Service Employees International Union Local 347	
Equipment Operation & Labor Unit No. 4	June 2004
Service & Crafts Unit No. 14	June 2004
Service Employees Unit No. 15	June 2004
Safety / Security Unit No. 18	June 2004
Municipal Construction Inspectors Association	
Inspectors Unit No. 5	June 2004
Los Angeles Professional Managers Association	
Management Employees Unit No. 36	June 2004
American Federation of State, County and Municipal Employees	
Clerical Unit No. 3	June 2004
Executive Secretaries Unit No. 37	Expired June 2001
Engineers and Architects Association	
Administrative Unit No. 1	Expired June 2001
Professional Engineering & Scientific Unit No. 8	Expired June 2001
Supervisory Professional Engineers Unit No. 17	Expired June 2001
Supervisory Technical Unit No. 19	Expired June 2001
Supervisory Administrative Unit No. 20	Expired June 2001
Technical Rank & File Unit No. 21	Expired June 2001
International Union of Operating Engineers, Local 501	
Plant Equipment Operation and Repair Representation Unit No. 9	June 2004
Los Angeles City Supervisors and Superintendents Association, Laborer's International Union of North America, Local 777	
Supervisory Blue Collar Unit No. 12	June 2004
Los Angeles County Building and Construction Trades Council	
Building Trades Unit No. 2	June 2004
Supervisory Building Trades Unit No. 13	June 2004
Los Angeles Airport Police Officers Association	
Peace Officers Unit No. 30	June 2004
Airport Supervisory Police Officers' Association of Los Angeles	
Supervisory Peace Officers Unit No. 39	Expired June 2000
Airport Police Command Officers Association of Los Angeles	
Management Peace Officers Unit No. 40	Expired June 2000

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

The Human Resources Division of the Department is responsible for advising managers and employees in all phases of employee relation matters on an ongoing basis. These responsibilities include counseling employees and managers regarding proper personnel procedures and rules; representing management in contract negotiations with unions; maintaining a comprehensive strike plan for the 28 bureaus/divisions; acting as hearing officer in disciplinary meetings; representing management in grievance arbitration hearings; preparing, implementing and monitoring the Department's Affirmative Action Programs; coordinating Employee Suggestion Award programs; providing recommendations to management on staffing needs and providing training to employees and supervisors.

On a few occasions, represented employees have held one day protests. These protests did not cause any material adverse impact on the Department's operations or finances.

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 3,586 acres in an area generally bounded on the north by Manchester Avenue, on the east by the San Diego (405) Freeway, 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, using intermediate passenger facilities, 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. LAX is the major facility in the Airport System accounting for approximately 90% of the total passenger traffic of the Airport System for Fiscal Year 2002. In calendar year 2001, 67% of enplanements at LAX represented originating and destination passengers. The remaining 33% of enplanements represented connections to or from regional markets as well as domestic connections to or from international markets. The relatively high percentage of connecting passengers at LAX is primarily due to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets in the State; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the diversity of airlines serving LAX. LAX is classified by the FAA as a large hub airport.

Recent Events

Since the September 11 Events, the Department has experienced materially increased operating costs and a significant decline in aviation activity which has resulted in a decline in PFCs, concession revenues and parking revenues. The Department's increased costs are due primarily to compliance with federal and management-mandated security requirements. The decline in airline activity can be attributed to both the September 11 Events and a general downturn in the national and local economies.

According to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. The Department cannot predict whether LAX or any of its other airports will be targets of terrorists in the future. As part of its program of proactively addressing heightened security concerns and requirements, in April 2002 the Department entered into contracts with several architectural and engineering firms under which such firms analyzed the Department's security systems and provided recommendations for enhancements focusing on baggage screening for explosive devices, federalization of security screening checkpoints, perimeter security, access control and communication systems, improved protection of public areas and architectural design standards. The firms included Gensler, which was responsible for the Airport's domestic terminals; Parsons Brinckerhoff, which was responsible for the Airport's international facilities, including Tom Bradley International Terminal ("TBIT"); Bechtel/JGM, a Joint Venture, for ground access, airside/perimeter/parking structures and other miscellaneous airport facilities and CH2M Hill for facilities at ONT. In addition, the Mayor has directed the Department to seek to implement certain security enhancements in advance of otherwise applicable legal deadlines. Based on the results of the analyses conducted by such firms, the Department is actively evaluating various possible enhancements, and has obtained Board approval to amend three of the contracts to proceed to the next phase of work on perimeter security and baggage and passenger screening system enhancements.

The Department expects that there will be an ongoing material reduction in revenues, including, among other things, PFCs, concession revenue, parking revenues and landing fees for a period of time and to an extent which cannot presently be determined. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX."

Senior management is aggressively addressing the Department's financial situation in light of the September 11 Events and the economy in general. The Department has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. For example:

- The Department plans to reduce the size of the Capital Improvement Program (“CIP”) over the next five Fiscal Years (which in the case of the Department, currently consist of the period July 1 of each year through June 30 of the immediately subsequent year). See “CAPITAL IMPROVEMENT PLANNING”;
- The Department received authority from the Internal Revenue Service to utilize approximately \$39 million of unspent proceeds of certain prior bonds to reimburse the Department for prior pay-as-you-go spending on capital projects;
- The Department raised landing fees effective January 2, 2002 and is planning for further increases in upcoming Fiscal Years, if necessary, subject to Board approval;
- On October 15, 2002, the Board approved the sale of advertising space at LAX and authorized the solicitation of bids from companies to administer the advertising program; advertising revenues are expected to partially offset security costs and reduced concession and parking revenues;
- The Department received approval from the FAA to use up to \$150 million of PFCs previously collected and on deposit with the Department for temporary loans to the Airport Revenue Fund, for additional safety and security costs not anticipated in the operating budget. Any such loan is subject to Board approval and must be implemented on or before March 5, 2003. To date no such loans have been made;
- The LAX Revenue Account was reimbursed approximately \$20 million for a previous advance to ONT for land acquisition costs;
- The Department is in the process of seeking FAA approval to increase the PFC to \$4.50 from \$3.00 to fund specific CIP projects, subject to Board approval; and
- The Department has revised its internal policy to allow for the acceptance of FAA Airport Improvement Program grants. The Department has received approximately \$41,778,000 of such grants to reimburse the Department for capital projects within the Airport System for security-related costs and improvements to the easterly end of Taxiway C at LAX.

Facilities

The central terminal complex is comprised of approximately 265 acres and 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 4.1 million square feet.

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 and/or underground tunnels to field arrival/departure areas, each of which accommodates gate positions for eight to sixteen aircraft. LAX currently has a total of 144 gate positions. Several of the jet gates accommodate commuter airplanes. American recently completed a \$300-million improvement project at Terminal 4 which expanded the main check-in lobby, security checkpoints and baggage claim areas. The project included a new U.S. Customs and Immigration facility that can handle up to 1,200 passengers per hour, with a moving walkway linked to the TBIT. The project expanded the main ticket counter area and almost doubled the number of check-in positions.

There are two pairs of parallel east-west runways at LAX, all capable of handling fully loaded wide-body aircraft. These consist of Runways 25L/7R (11,095 ft.) and 25R/7L (12,090 ft.) on the south side of LAX and Runways 24L/6R (10,285 ft.) and 24R/6L (8,925 ft.) on the north side of LAX. For approaches during Instrument Flight Rules conditions, instrument landing systems are installed on all four runways.

Within the Central Terminal Area, approximately 54 acres have been developed for public parking mainly in eight three- to five-level parking structures. In addition to approximately 9,038 parking spaces in the Central Terminal Area, remote surface lots have parking capacity for approximately 11,081 cars, for a total of approximately 20,119 spaces available for public parking.

Cargo terminals at LAX provide approximately 2.1 million square feet of floor space. A total of approximately 194 acres is devoted exclusively to cargo. Rental car company facilities, major commercial airline maintenance hangars and office buildings, a 12-story administration building, a control tower, a central utilities plant and FAA and U.S. Coast Guard facilities are also located at LAX.

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Air Carriers Serving LAX

The following table sets forth the air carriers serving LAX as of July 1, 2002.

TABLE 6
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR CARRIERS SERVING LAX
AS OF JULY 1, 2002

<u>Scheduled U.S. Carriers (20)</u>	<u>Foreign Flag Carriers (43)</u>	<u>Non-Scheduled Carriers (22)</u>	<u>All-Cargo Carriers (30)</u>
Air Wisconsin	Aer Lingus	Access Air	Aeromexpress
Alaska	Aero California	Air Atlanta Icelandic	Air Transport International
America West	Aeroflot	Air Group	ABX Air
American	AeroMexico	Air Mobility Command	Ameriflight
American Eagle	Air Canada	Air 2000	Ameristar
American Trans Air	Air China	Allegiant Air	Atlas Air
Continental	Air France	Champion Air	Capital Cargo
Delta	Air Jamaica	Classic Limited	Cargolux
Frontier	Air New Zealand	Clay Lacy Aviation	Contract Air Cargo
Hawaiian	Air Pacific	Florida West	Custom Air Transport
Horizon	Air Tahiti Nui	Legend	DHL Airways
Mesa	All Nippon	Miami Air	Empire
Midwest Express	Allegro	North American	Evergreen International
National ⁽¹⁾	Asiana	Omni Air International	Express.Net
Northwest	Avianca	Peterson Aviation	Fast Air
SkyWest	British Airways	Premier Aircraft	FedEx
Southwest	Cathay Pacific	Sky Service	Gemini
Spirit	China	Sports Jet	Kalitta Air
United ⁽²⁾	China Eastern	Sun Country	Kitty Hawk
US Airways ⁽³⁾	China Southern	Trans Meridian	MAS Air Cargo
	CMA Mexicana	West Air	McNeely Charter
	Copa	World Airways	Nippon Cargo Airlines
	Corsair		Polar
	El Al Israel		Ryan International
	Eva Airways		Singapore Airlines Cargo
	Japan		Southern Air
	KLM Royal Dutch		Union Flights
	Korean		United Parcel Service
	LACSA		USA Jet
	LanChile		Zantop
	Lot Polish		
	LTU International		
	Lufthansa		
	Malaysian		
	Martinair Holland		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	Taca		
	Thai Airways International		
	Varig Brazilian		
	Virgin Atlantic		

⁽¹⁾ National Airlines filed for bankruptcy protection in December 2000, and subsequently ceased operations in November 2002.

⁽²⁾ United filed for bankruptcy protection on December 9, 2002, and has announced that it will continue operating while in bankruptcy proceedings.

⁽³⁾ US Airways filed for bankruptcy protection on August 11, 2002, and while the airline is continuing operations, certain routes and flights have been affected by service reductions.

Sources: Department of Airports of the City of Los Angeles, California.
 Compiled by Ricondo & Associates, Inc.

Aviation Activity

For calendar year 2001, LAX was the 3rd busiest airport in the world in terms of total passenger volume and the 4th busiest airport in the world in terms of volume of air cargo and total operations according to ACI. According to preliminary statistics collected by ACI through June 2002, LAX is ranked as the 5th busiest airport for both passenger traffic and cargo volume. The following table shows the air passenger activity, total operations and cargo volume at LAX relative to the world's busiest airports.

TABLE 7
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP 10 WORLDWIDE RANKING – CALENDAR YEAR 2001

<u>Rank</u>	<u>Airport</u>	<u>Total</u> <u>Passengers</u>	<u>Airport</u>	<u>Total</u> <u>Operations</u>	<u>Airport</u>	<u>Total</u> <u>Cargo (tons)</u>
1	Atlanta (ATL)	75,858,500	Chicago (ORD)	911,917	Memphis (MEM)	2,631,631
2	Chicago (ORD)	67,448,064	Atlanta (ATL)	890,494	Hong Kong (HKG)	2,100,276
3	Los Angeles (LAX)	61,606,204	Dallas/Fort Worth (DFW)	783,546	Anchorage (ANC)	1,873,750
4	London (LHR)	60,743,084	Los Angeles (LAX)	738,114	Los Angeles (LAX)	1,774,402
5	Tokyo (HND)	58,692,688	Phoenix (PHX)	553,310	Tokyo (NRT)	1,680,937
6	Dallas/Fort Worth (DFW)	55,150,693	Paris (CDG)	523,400	Miami (MIA)	1,639,760
7	Frankfurt (FRA)	48,559,980	Detroit (DTW)	522,132	Frankfurt (FRA)	1,613,179
8	Paris (CDG)	47,996,529	Minneapolis (MSDP)	501,465	Paris (CDG)	1,591,310
9	Amsterdam (AMS)	39,531,123	Las Vegas (LAS)	493,722	Singapore (SIN)	1,529,930
10	Denver (DIA)	36,092,806	Denver (DIA)	486,030	Louisville (SDF)	1,468,837

Sources: Airports Council International
 Compiled by Ricondo & Associates, Inc.

Domestic passenger growth entered a strong recovery period at LAX after a period of slow or no growth between 1988 and 1993. Previous downturns in domestic growth have been related to national and local economic cycles and more specifically to local events such as civil unrest and a major earthquake that occurred during this period. These events affected tourism and business development for a short period of time. Since 1993, however, domestic passengers increased at a compound annual growth rate of 4.2% through 2001 and then decreased 16.4% in 2002.

International passenger volume at LAX has steadily increased from approximately 11.8 million passengers in Fiscal Year 1993 to approximately 17.5 million passengers in Fiscal Year 2001, representing a compound annual growth rate of 5.1% (note: statistical information prior to 1997 excluded transient passengers from passenger count). This growth is generally attributable to the position of LAX as a major international gateway capturing a substantial share of the U.S. air traffic to major world regions. From Fiscal Year 2001 to Fiscal Year 2002 international passenger volume decreased 16.7%.

The following table presents historical total operations (landings and takeoffs) and total domestic and international enplanements and deplanements and at LAX for Fiscal Years 1993 through 2002 and the first four months of Fiscal Year 2003.

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

<u>Fiscal Year</u>	<u>Total Operations⁽¹⁾</u>	<u>Operations Growth</u>	<u>Enplanements and Deplanements</u>			<u>Passenger Growth</u>
			<u>Domestic⁽²⁾</u>	<u>International⁽²⁾</u>	<u>Total⁽²⁾</u>	
1993	632,690	2.36%	35,710,742	11,792,496	47,503,238	2.84%
1994	647,832	2.39	36,745,058	12,163,450	48,908,508	2.96
1995	700,459	8.12	40,028,894	13,109,337	53,138,231	8.65
1996	732,250	4.54	42,278,067	13,893,382	56,171,449	5.71
1997	737,036	0.65	44,519,371	14,119,585	58,638,956	4.39
1998	735,596	-0.20	45,879,451	15,135,442	61,014,893	4.05
1999	769,938	4.67	47,173,340	15,404,356	62,577,696	2.56
2000	745,421	-3.18	49,570,344	16,510,467	66,080,811	5.60
2001	795,723	6.75	49,639,031	17,553,941	67,192,972	1.68
2002	625,457	-21.40	41,490,373	14,623,209	56,113,582	-16.49
July 2001	67,909	—	4,964,495	1,680,374	6,374,869	—
July 2002	56,654	-16.57	3,962,962	1,425,824	5,388,786	-15.47
Aug 2001	68,380	—	4,900,946	1,723,774	6,624,720	—
Aug 2002	57,469	-15.96	4,184,601	1,474,207	5,658,808	-14.58
Sept 2001	51,356	—	2,570,175	1,023,280	3,593,455	—
Sept 2002	53,454	4.09	3,090,514	1,175,513	4,266,027	18.72
Oct 2001	55,185	—	1,482,851	491,050	1,973,901	—
Oct 2002	55,903	1.30	1,670,716	612,806	2,283,522	15.68
Compounded Annual Growth Rate						
1993-2002	-0.1%		1.7%	2.4%	1.9%	
1993-2001	2.9		4.2	5.1	4.4	
2001-2002	-21.4		-16.4	-16.7	-16.5	

⁽¹⁾ For revenue-related operations only.

⁽²⁾ Enplaned and deplaned passengers.

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

Enplanements at LAX for the largest air carriers for the previous five Fiscal Years and for the first three months of Fiscal Year 2003 are shown in the table below.

TABLE 9
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
(RANKED BY FISCAL YEAR 2002 RESULTS)
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE

Airline	Fiscal Year 1998		Fiscal Year 1999		Fiscal Year 2000		Fiscal Year 2001		Fiscal Year 2002		First four months of FY 2003	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 United	6,947,061	22.6%	7,192,369	22.8%	7,711,998	23.2%	7,194,065	21.3%	5,290,373	18.8%	1,731,014	17.42%
2 American ⁽²⁾ ⁽³⁾	3,316,921	10.8%	3,350,656	10.6%	4,105,585	12.4%	4,774,104	14.1%	3,829,598	13.6%	1,394,372	14.03%
3 Southwest	3,396,545	11.1%	2,838,483	9.0%	3,865,114	11.6%	3,860,380	11.4%	3,311,548	11.8%	1,172,080	11.80%
4 Delta	2,834,495	9.2%	2,705,019	8.6%	2,651,724	8.0%	2,585,904	7.6%	2,260,347	8.0%	724,041	7.29%
5 Alaska	986,124	3.2%	1,160,832	3.7%	1,147,236	3.5%	1,142,074	3.4%	1,108,714	3.9%	381,951	3.84%
6 Northwest	1,314,112	4.3%	1,180,675	3.7%	1,374,630	4.1%	1,356,444	4.0%	1,061,976	3.8%	370,414	3.73%
7 SkyWest	857,196	2.8%	1,096,978	3.5%	959,111	2.9%	987,910	2.9%	925,688	3.3%	385,964	3.88%
8 Continental	1,054,866	3.4%	1,116,767	3.5%	997,489	3.0%	985,257	2.9%	890,826	3.2%	304,826	3.07%
9 America West	723,044	2.4%	715,822	2.3%	738,146	2.2%	790,128	2.3%	681,813	2.4%	253,648	2.55%
10 US Airways ⁽⁴⁾	827,310	2.7%	749,656	2.4%	680,705	2.0%	771,107	2.3%	638,973	2.3%	232,357	2.34%
11 CMA Mexicana	505,850	1.6%	508,131	1.6%	640,948	1.9%	677,830	2.0%	517,625	1.8%	187,071	1.88%
12 American Eagle	404,898	1.3%	456,042	1.4%	495,927	1.5%	551,485	1.6%	495,554	1.8%	196,883	1.98%
13 Air Canada	314,843	1.0%	278,191	0.9%	305,903	0.9%	487,765	1.4%	460,618	1.6%	157,361	1.58%
14 Qantas	312,417	1.0%	320,825	1.0%	411,692	1.2%	491,456	1.5%	440,369	1.6%	160,349	1.61%
15 Air New Zealand	386,604	1.3%	468,974	1.5%	488,349	1.5%	498,083	1.5%	423,787	1.5%	143,457	1.44%
16 American Trans Air	328,149	1.1%	379,105	1.2%	422,593	1.3%	441,376	1.3%	400,667	1.4%	175,423	1.77%
17 Hawaiian	339,116	1.1%	371,134	1.2%	481,881	1.5%	466,834	1.4%	380,035	1.4%	133,769	1.35%
18 Korean	391,023	1.3%	399,776	1.3%	416,008	1.3%	398,120	1.2%	325,007	1.2%	117,740	1.19%
19 AeroMexico	190,720	0.6%	235,620	0.7%	322,851	1.0%	322,851	1.0%	267,579	1.0%	82,304	0.83%
20 Japan	331,661	1.1%	374,132	1.2%	331,562	1.0%	383,746	1.1%	267,239	0.9%	95,431	0.96%
21 Lufthansa	—	—	—	—	—	—	—	—	—	—	87,298	0.88%
Other	<u>4,974,927</u>	<u>16.2%</u>	<u>5,586,274</u>	<u>17.7%</u>	<u>4,682,270</u>	<u>14.1%</u>	<u>4,673,050</u>	<u>13.8%</u>	<u>4,153,325</u>	<u>14.8%</u>	<u>1,447,448</u>	<u>14.57%</u>
Airport Total ⁽⁵⁾	30,737,882	100.0%	31,485,461	100.0%	33,231,722	100.0%	33,839,969	100.0%	28,131,661	100.0%	9,935,201	100.00%

⁽¹⁾ United filed for bankruptcy protection on December 9, 2002, and has announced that it will continue operating while in bankruptcy proceedings.

⁽²⁾ Includes passengers enplaned by Reno Air in Fiscal Year 1998 through Fiscal Year 2000 after its merger with American in early 2000.

⁽³⁾ TWA filed for bankruptcy protection in January 2001, and substantially all of the assets and certain liabilities of TWA were subsequently acquired by American through the bankruptcy proceedings. TWA was integrated into American during 2001 and effectively ceased to be operated as a separately named airline in December 2001.

⁽⁴⁾ US Airways filed for bankruptcy protection on August 11, 2002, and while the airline is continuing operations, certain routes and flights have been affected with service reductions.

⁽⁵⁾ Totals may not add due to individual rounding.

Sources: Department of Airports of the City of Los Angeles, California.
 Compiled by Ricondo & Associates, Inc.

The following table presents the total revenue landed weight for the largest air carriers serving 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
(RANKED ON FISCAL YEAR 2002 RESULTS)
(LBS.)

<u>Airline</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>% of 2002 Total⁽¹⁾</u>
1. United Air Lines ⁽²⁾	11,200,038	11,617,488	12,857,574	12,066,767	9,252,061	17.31
2. American Airlines ^{(3) (4)}	5,605,853	5,626,160	6,467,683	7,577,223	6,688,177	12.52
3. Southwest Airlines	5,087,080	4,559,264	4,834,389	4,871,684	4,579,383	8.57
4. Delta Air Lines	5,023,926	4,841,886	4,073,843	4,570,301	4,002,913	7.49
5. Northwest Airlines	2,206,389	2,067,873	2,457,207	2,404,460	1,836,994	3.44
6. Federal Express	1,464,242	1,464,242	1,607,824	1,640,848	1,817,327	3.40
7. Alaska Airlines	1,534,944	1,647,362	1,663,496	1,705,023	1,570,644	2.94
8. SkyWest	1,480,396	1,711,118	1,661,449	1,618,382	1,412,865	2.64
9. Continental Airlines	1,673,493	1,671,238	1,460,642	1,503,215	1,276,978	2.39
10. Korean Airlines	788,232	781,604	978,000	1,303,882	1,061,072	1.99
11. Qantas Airlines	1,448,558	1,423,076	1,254,737	1,113,212	1,047,020	1.96
12. America West Airlines	998,602	1,072,025	1,186,311	1,135,245	965,928	1.81
13. US Airways ⁽⁵⁾	912,519	989,798	1,006,221	1,010,197	920,940	1.72
14. Air New Zealand	899,350	1,089,580	904,809	1,130,818	861,181	1.61
15. Japan Airlines	706,094	972,832	805,548	1,096,778	750,676	1.40
16. American Eagle	550,582	454,821	754,000	794,955	743,398	1.39
17. CMA Mexicana Airlines	699,424	705,620	881,974	919,890	727,772	1.36
18. Air Canada	---	---	---	---	707,154	1.32
19. Singapore Airlines	---	---	---	---	667,530	1.25
Subtotal	<u>42,279,722</u>	<u>42,695,987</u>	<u>44,855,707</u>	<u>46,462,880</u>	<u>40,890,013</u>	<u>76.51</u>
All Others	<u>14,846,416</u>	<u>15,034,109</u>	<u>15,960,673</u>	<u>16,371,893</u>	<u>12,550,126</u>	<u>23.49</u>
TOTAL	<u>57,126,138</u>	<u>57,730,096</u>	<u>60,816,380</u>	<u>62,834,773</u>	<u>53,440,139</u>	<u>100.00%</u>

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ United filed for bankruptcy protection on December 9, 2002, and has announced that it will continue operating while in bankruptcy proceedings.

⁽³⁾ Includes passengers enplaned by Reno Air in Fiscal Year 1998 through Fiscal Year 2000 after its merger with American Airlines in early 2000.

⁽⁴⁾ TWA filed for bankruptcy protection in January 2001, and substantially all of the assets and certain liabilities of TWA were subsequently acquired by American through the bankruptcy proceedings. TWA was integrated into American during 2001 and effectively ceased to be operated as a separately named airline in December 2001.

⁽⁵⁾ US Airways filed for bankruptcy protection on August 11, 2002, and while the airline is continuing operations, certain routes and flights have been affected with service reductions.

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

In Fiscal Year 2002, according to traffic reports submitted by the airlines and cargo carriers, LAX total air cargo volume was approximately 1.9 million tons, including U.S. mail and freight shipments. According to ACI, in calendar year 2001, LAX ranked 4th in the world in air cargo volume. The following chart provides information concerning cargo traffic data over the last ten Fiscal Years.

TABLE 11
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
CARGO TRAFFIC DATA
AIR CARGO ON AND OFF
(TONS)

<u>Fiscal Year</u>	<u>Total Freight</u>	<u>Total Mail</u>	<u>Total Cargo</u>
1993	1,237,752	167,504	1,405,256
1994	1,390,333	180,083	1,570,416
1995	1,539,529	190,660	1,730,189
1996	1,637,860	198,104	1,835,964
1997	1,770,687	205,045	1,975,732
1998	1,813,447	244,577	2,058,024
1999	1,832,131	253,645	2,085,776
2000	1,977,945	251,238	2,229,183
2001	1,915,800	235,419	2,151,319
2002	1,756,697	121,318	1,878,015
Compounded Annual Growth Rate			
1993-2002	4.0%	-3.5%	3.3%
1993-2001	5.6	4.3	5.5
2001-2002	-8.3	-48.5	-12.7

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

Competition for Domestic Flights

The LAX market area includes the five county area of Los Angeles, Orange, Riverside, San Bernardino and Ventura counties, and, for long range and international markets, extends as far north as Santa Barbara and as far south as San Diego. There are nine air carrier airports within the five county region. LAX is the primary airport in the five county region with approximately 71% of the region's scheduled air service in calendar year 2001. Three secondary airports, ONT (which is a member of the Airport System), Burbank-Glendale-Pasadena Airport ("BUR"), and John Wayne Airport ("SNA") in Orange County, provide supporting air service to major domestic markets and together accounted for approximately 28% of the region's air service for calendar year 2001. One other secondary airport, Long Beach Airport ("LGB") provides limited air service to destinations outside of the Los Angeles region and accounted for approximately 1 percent of the region's air service in 2001. In August 2001, Jet Blue added two daily non-stop flights between LGB and John F. Kennedy International Airport which resulted in significant increases in passenger activity. The Los Angeles region has two commuter service airports, Oxnard and PMD, that provide or have provided in the recent past intra-region flights. See "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT" for additional information regarding competing airports within the LAX service region.

Certain Other Matters Related to LAX

Airport/Tenant Relations

The Department believes that its relations with airlines and other tenants are satisfactory in spite of several complaints and lawsuits at any point in time. The Department does not believe that an unfavorable determination in any pending disputes with airlines and other tenants would have a material adverse effect on its finances. See "LITIGATION."

Conduit Financings

In addition to the improvements financed or planned to be financed at LAX through the issuance of revenue bonds, interest income, PFCs and grants-in-aid, other improvements have been undertaken through the issuance of bonds by RAIC and the California Statewide Communities Development Authority (the "CSCDA"). RAIC is a nonprofit public benefit corporation organized under the laws of the State for the purpose of assisting the City by financing and otherwise acquiring, constructing, reconstructing, replacing, extending, enlarging or improving airports, heliports and the facilities thereof. Bonds of RAIC have been issued for a variety of improvements, including terminal building facilities, hangars, cargo buildings, flight kitchens, fuel systems and special equipment. While RAIC may finance improvements at any facility in the Airport System, to date, all RAIC financings have provided funds for improvements at LAX, except for one financing which was a small short term financing for facilities at ONT. RAIC has approximately \$600 million aggregate principal amount of bonds outstanding. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits."

CSCDA is a joint exercise of powers agency whose members include over 150 California counties, cities and other local governments. CSCDA bonds have been issued for improvements to Terminals 6, 7 and 8 and certain cargo facilities, all leased by United. There is approximately \$224.8 million aggregate principal amount of bonds issued by CSCDA for improvements to LAX currently outstanding.

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 they finance and, with respect to 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 City may, at any time, purchase the financed facilities by retiring the bonds used to finance those facilities. This could be done by the City through use of moneys in the Airport Revenue Fund or the issuance of revenue bonds. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Leases" for a description of the buy-back rights.

Landing Fee Issues

The landing fee rates to be charged during each Fiscal Year are based upon the Department's then current budget. At the end of each Fiscal Year, the landing fee rates for that Fiscal Year are adjusted to reflect the actual expenses incurred and as necessary to satisfy the rate covenant under the Indenture. All adjustments for deficiencies are billed when determined and overages are refunded to the affected airlines. The relevant airline agreements provide that the airline landing fee rates are to be forecasted and adjusted annually. During each Fiscal Year, the Board and the airlines may adjust rates up or down to maintain a balance between actual and forecasted billing rates.

The Board, under Resolution Number 18530 adopted on June 28, 1993, approved new, higher landing fees at LAX based on a market value rather than historical cost calculation. Such fees were challenged by several actions which were delayed pending the final resolution of the dispute in the fee calculation. On February 5, 1999, the federal Appellate Court in the D.C. Circuit filed a decision upholding the ruling of the U.S. DOT that it was unreasonable for the Department to charge the airlines fair market value rent for use of LAX property and that landing fee calculations must be based on historical costs. The Department's petition to the United States Supreme Court for a *Writ of Certiorari* was denied, thereby upholding the earlier federal decision. Accordingly, during Fiscal Year 2000 the Department refunded \$112.8 million to various airlines in settlement of the landing fee dispute, however final payment of approximately \$9 million is pending. The most recent landing fee increase took place in January 2002, and has not been challenged.

Caltrans Transfer

In February 1994, the Department requested permission from the U.S. DOT to transfer funds received from the California Department of Transportation ("Caltrans") to the City's General Fund. The Caltrans funds were received by the Department for the land and rights-of-way for the Century Freeway, a new freeway located immediately south of LAX. The funds were deposited in the Airport Revenue Fund. The Department based its request on the assumption that the land properly belonged to the City of Los Angeles, not exclusively the

Department, and that the City's General Fund should therefore receive the funds. On February 18, 1995, the Department received a letter from the U.S. DOT, which stated that it would not oppose a transfer of the Caltrans funds to the City's General Fund. The Board approved a transfer of \$58,467,000 in principal and interest from the Department to the City at its regular meeting on March 7, 1995. The transfer was thereafter made.

Two nearly identical U.S. DOT administrative proceedings involving formal complaints that requested administrative proceedings were filed in March and May 1995 concerning this transfer. The complainants – the Air Transport Association (“ATA”) and Aircraft Owners and Pilots Association (“AOPA”) – allege that the transfer is a violation of the Airport and Airways Improvement Act of 1982 (“AAIA”) governing the use of airport revenues and certain grant assurances executed pursuant to AAIA.

The complainants seek an order barring the City from expending the funds for non-airport uses, directing the City to repay to the Department's Airport Revenue Fund the amount already transferred, suspending LAX's eligibility for grant funds pending compliance with its grant assurances and imposing a civil penalty of \$50,000. The FAA failed to act on the complainants' request for a preliminary ruling that the City be barred from using the funds while proceedings are pending. Answers to both complaints have been filed. In December 1995, the FAA denied a motion to dismiss the complaints. On June 19, 2000, the FAA issued a Preliminary Determination requiring the City to implement a corrective action plan to lawfully correct the diversion of revenues and restore same to the Department, plus interest attributable to severance damages and temporary construction easements. The Department has responded to the FAA's request and its response is under consideration. The Department is unable to predict the outcome of this action at this time, nor the future potential financial consequences of an adverse final determination.

Emergency Preparedness

The Emergency Preparedness Coordinator, an individual who reports to the Department's Deputy Executive Director, Airport Operations, has the responsibility to coordinate and provide support for the design and development of the Department's Emergency Preparedness Program. This includes the following: (i) function as a liaison between the Department and the City Emergency Operations Organization; (ii) ensure that sufficient emergency supplies are on hand, or available, to feed City employees during an emergency event; (iii) establish a protocol for coordination within the Department during a Citywide emergency event; (iv) conduct comparative studies of emergency response and preparedness systems at local, State, federal and international levels concerning airport emergency operations and (v) provide disaster preparedness information and training to Department employees and airport tenants.

LAX is in compliance with FAA Regulation Part 139 (“FAR 139”), which requires that air carrier airports (of which LAX is one) develop and maintain an airport emergency plan. The purpose of this plan is to set forth emergency procedures that are intended to ensure prompt response to all emergencies and unusual conditions in order to minimize the possibility and extent of personal and property damage on Airport property. The Department has set forth these emergency procedures in the Rules and Regulations for Los Angeles International Airport. Additional stipulations of FAR 139 include the requirement by the FAA that each airport hold full-scale airport emergency plan exercises at least once every three years. In compliance with this requirement, LAX conducted a full-scale emergency exercise in April 2001.

AIRLINE INDUSTRY INFORMATION

Certain of the major scheduled domestic airlines serving LAX (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act, as amended, and in accordance therewith file reports and other information with the Commission. Certain information, including financial information as of particular dates concerning each of the airlines (or their respective parent corporations) is disclosed in certain reports and statements filed with the Commission. Such reports and statements can be inspected in the Public Reference Room of the Commission at 450 Fifth Street, NW, Washington, DC 20549, and the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 233 Broadway, New York, New York 10279. Copies of such reports and statements can be obtained from the Public Reference Section of the Commission at the above address at prescribed rates. The Commission maintains a web site at

<http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. None of the information contained on that web site is incorporated into this Official Statement. In addition, each airline is required to file periodic reports of financial and operating statistics with the U.S. DOT, which can be obtained from the U.S. DOT, Research and Special Programs Administration, Office of Airline Statistics at Room 4125, 400 Seventh Street, SW, Washington, DC 20590, at prescribed rates.

Neither the City nor the Department undertake any responsibility for and make no representations as to the accuracy or completeness of the content of information available from the Commission or the U.S. DOT as discussed in the preceding paragraph, including, but not limited to, updates of such information or links to other Internet sites accessed through the Commission's web site.

Airlines owned by foreign governments, or foreign corporations operating airlines (unless such foreign airlines have American Depository Receipts registered on a national securities exchange), are not required to file information with the Commission. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the U.S. DOT.

A number of factors can affect the Department's ability to generate revenues from the operation of LAX in an amount sufficient to satisfy all of the requirements of the Indenture. Certain of these factors are beyond the control of the Department. These factors relate principally to the airline industry in general, and to the airlines serving LAX. See also "RISK FACTORS – Financial Condition of the Airlines," "– Aviation Security Concerns" and "– Effect of Airline Bankruptcies."

AGREEMENTS FOR USE OF AIRPORT FACILITIES

General

The Department has entered into, and receives payments under, different permits and agreements with various airlines and other parties, including operating permits relating to landing fees, leases with various airlines for the leasing of space in terminal buildings, other building and miscellaneous leases regarding the leasing of cargo and hangar facilities, concession agreements relating to the sale of goods and services at the Airport and capital leases relating to the construction of buildings and facilities for specific tenants.

Operating Permits – Landing Facilities

The Department has entered into separate, but substantially similar operating permits covering the use of landing facilities with air carriers serving LAX. These operating permits grant operating rights to the airlines typically for a five-year term, and are commonly referred to as the "Non-Exclusive Operating Permits" or the "Permits." The City has authorized the Department to issue Permits for a five year term which will expire June 30, 2007. The Permits require each airline to pay a landing fee to the City for each aircraft that lands at LAX. The landing fee is calculated as the product of (i) the number of thousands of pounds of maximum gross landed weight of the airline multiplied by (ii) the landing fee rate currently in effect. Even in the absence of such Permits, carriers are required to comply with all LAX operating procedures and regulations, including the uninterrupted payment of landing fees. The landing fee rates to be charged during each Fiscal Year are based upon the Department's then current budget. At the end of each Fiscal Year, the landing fee rates for that Fiscal Year are adjusted to reflect the actual expenses incurred and as necessary to satisfy the rate covenant set forth in the Indenture. All adjustments for deficiencies are billed when determined and overages are refunded to the affected airlines. The Permits provide that the airline landing fee rates are to be forecasted and adjusted annually. During the Fiscal Year, the Board and the airlines may adjust rates up or down to maintain a balance between actual and forecasted billing rates. The Department anticipates no material impact on LAX operations with respect to the status of such Permits. See "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Landing Fee Issues."

Building Leases

The Department has entered into essentially two types of terminal building leases at LAX, depending on whether the terminal financing was accomplished with Department funds or with airline-sponsored funds.

The first type of lease, the terms of which are applicable to 37 airlines, is used for property in the TBIT, Terminal 1 and Terminal 3. These leases generally provide for the lease of ticket counter, office, operations and certain baggage service space on an exclusive use basis and holdroom, baggage claim and certain other baggage service space on a joint-use basis. Rental rates are cost-based, and include maintenance and operating expenses, debt service and ground rent attributable to TBIT, Terminal 1 and Terminal 3. The leases generally provide for a 5-year term subject to earlier termination, in part or whole, depending on whether the facilities are being sufficiently utilized for their specified purposes as determined solely by the Executive Director.

The second type of lease, the terms of which are applicable to four airlines and one corporation, is used for property at Terminals 2, 4, 5, 6, 7 and 8. For many of these leases, the costs to construct an entire terminal or to improve significant portions of an existing terminal were financed by third party debt payable solely from payments made by the airline tenants of each facilities (the "Type 2 Signatory Airlines"). See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits" for a description of rental credits granted under these leases and "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings." These long-term (15-40 year) leases generally contain the following provisions:

(1) The City may, at any time, "buy back" all of the Type 2 Signatory Airlines' interest by (i) defeasing the debt obligations relative to the terminal building and (ii) reimbursing the Type 2 Signatory Airline for the unamortized value of improvements financed with other sources of airline funds. If the City, after exercising its "buy back" right, continues to use the facilities as an airport passenger terminal, then the Type 2 Signatory Airline has the option to continue or renew the lease. Title passes to the City on the date of beneficial occupancy or when the debt obligations are retired, depending on the agreement.

(2) The Type 2 Signatory Airlines have agreed to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective *pro rata* direct costs plus a reasonable administrative fee.

(3) Rental rates on pre-existing terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value.

(4) In the event that the leased premises are damaged or destroyed such that the Department can not make repairs, replacements or reconstruction within a reasonable time, the applicable lease may be terminated at the Type 2 Signatory Airline's option. If the Type 2 Signatory Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from LAX, by any final action, order or ruling of any governmental authority, the Type 2 Signatory Airlines may, at their option, terminate their respective Leases by 30 days written notice.

Concession, Parking and Rental Car Agreements

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

There are a total of 11 food and beverage agreements at LAX (13 including vending machine contracts), with the largest tenant being HMS Host Corporation. The concession agreements with these food and beverage operators extend for various periods, with some expiring in Fiscal Year 2005 and others in Fiscal Year 2006. The agreements provide for a concession fee equal to the greater of a minimum annual guarantee ("MAG") or a

percentage of gross revenues. The percentage rentals generally range from 14% to 24% on food and 20% to 24% on alcoholic beverages. In total, the MAGs for these agreements are approximately \$14.3 million.

The primary gift and news operator at LAX is WH Smith, Inc. ("WH Smith"). The current agreement with WH Smith has expired, and provides for a concession fee equal to the greater of a \$15.61 million or 17% of gross receipts. A proposed new agreement has been approved by the Board and is subject to the approval of the City Council. Under the proposed new agreement, optional locations may be added, which would increase the MAG to \$15.68 million. There are also four smaller operators which have agreements that expire July 2006 and provide total MAGs of \$750,000.

Duty free revenues at LAX are generated from the sale of duty free merchandise at LAX. The duty free operator at LAX is DFS Group L.P. ("DFS"), which has been the duty free concessionaire at LAX since 1982. The Department entered into a new exclusive 5-year agreement with DFS, that expires on May 31, 2005, with a 5-year renewal option. The agreement with DFS, provides a MAG to the Department of \$36.0 million the first year, \$37.0 million the second and third years and \$37.5 million the last two years or 30% of gross receipts. DFS also has a specialty retail contract for seven stores with a total MAG of \$2,007,664. As a result of the September 11 Events and the subsequent decrease in international passengers at LAX, duty free revenues have been impacted dramatically. Fiscal Year 2002 duty free revenues were \$25.9 million, down from \$45.4 million in Fiscal Year 2001, representing a decrease of 43%. DFS made a payment to the Department in Fiscal Year 2003 to meet the MAG (less amounts credited under the Relief Program, as defined below).

On December 4, 2001 the Board approved a Concession Relief Program (the "Relief Program") to provide temporary cost relief to certain concessionaires. The Relief Program provided temporary rent reductions for certain concessionaires for the period September through December 31, 2001 and the deferral for one year of capital improvements required to be undertaken by certain concessionaires. Effective January 1, 2002, the concessionaires returned to the original contract provisions. In Fiscal Year 2003 food and beverage and specialty retail concessions are anticipated to be impacted by the expansion of the security checkpoints in each terminal.

The Department has entered into an agreement with Five Star Parking ("Five Star") for the management of certain parking facilities at LAX and VNY. The current agreement will expire May 31, 2006. The agreement requires Five Star to remit the gross revenues from the parking facilities it operates, on a daily basis, to the Department. The Department compensates Five Star for certain personnel expenses incurred in the management and operation of the parking facilities. For Fiscal Year 2002 such expenses were approximately \$29 million.

The Department has agreements with several rental car companies for on- and off-airport car rentals. The on-airport agreements require the concessionaires to pay the greater of a MAG or a percentage of their total gross revenues from airport operations to the Department annually. For Fiscal Year 2002, on-airport rental car companies paid a MAG of \$27.5 million to the Department, which was greater than the otherwise applicable percentage of total gross revenues; however, historically, on-airport rental car companies have paid a percentage of their total gross revenues ranging between \$33 million and \$37 million. All the agreements with rental car companies for on-airport rentals will expire January 31, 2003. The Department intends to request bids from rental car companies for new agreements to begin in 2003. The off-airport agreements currently require the rental car companies to pay the greater of a MAG or a percentage of their gross revenues from airport customers in excess of \$1 million to the Department annually as well as a trip fee for the right to have shuttle buses run to and from LAX.

ANC Rental Corporation ("ANC"), the parent company of Alamo Rent-A-Car, Inc. ("Alamo") and National Car Rental System, Inc. ("National") (both of which provide on-airport car rentals at LAX), filed for Chapter 11 reorganization in November 2001. ANC's filing included its U.S. operating subsidiaries, including Alamo and National, as well as several other domestic entities, but did not include its international or Canadian operations, or its independent franchisees. In addition, Budget Rent a Car Systems, Inc., which provides on-airport car rentals at LAX, together with its parent company, Budget Group, Inc. ("Budget"), and certain other domestic subsidiaries thereof, filed for Chapter 11 reorganization in July 2002. Both companies are keeping current on post-petition obligations to the Department, and the Department has surety bonds in place with respect to pre-petition obligations. On November 22, 2002 Cendant Corporation ("Cendant") (which owns Avis Rent A Car System, Inc. ("Avis")) acquired substantially all of the assets of Budget. Cendant has stated that it intends to continue to operate Budget and Avis as separate companies.

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 1998 through 2002. The presentation of information for the Fiscal Years 2000 through 2002 has been changed to reflect recent pronouncements of the Governmental Accounting Standards Board ("GASB"). See "APPENDIX B – AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001."

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

	<u>1998</u>	<u>1999</u>		<u>2000</u>	<u>2001</u>	<u>2002</u>
Operating Revenue			Operating revenue:			
Aviation Revenue	\$ 210,168	\$ 180,759	Aviation revenue	\$ 192,658	\$ 105,189	\$ 116,334
Concession Revenue	175,234	184,770	Landing fees		58,729	78,614
Airport Sales & Services	2,991	2,550	Building rentals		39,203	40,387
Miscellaneous Revenues	<u>1,136</u>	<u>1,208</u>	Other aviation revenue		205,335	156,128
Total Operating Revenues	389,529	369,287	Concession revenue	188,680	3,431	3,765
			Airport sales and services		<u>1,641</u>	<u>1,727</u>
			Miscellaneous revenue		<u>386,410</u>	<u>413,244</u>
			Total operating revenue			<u>398,551</u>
Operating Expenses			Operating expenses:			
Maintenance and Operation			Salaries and benefits	104,084	124,812	135,416
Maintenance and Repairs	71,371	73,161	Contractual services	98,987	107,009	97,389
Administrative Expense	75,447	88,778	Administrative expense	14,428	43,936	7,035
General Operating Expenses	34,173	36,966	Material and supplies	17,454	34,714	39,211
Security Expense	32,437	36,824	Utilities	14,614	20,000	19,843
Cost of Sales and Service	<u>4,051</u>	<u>3,377</u>	Advertising and public relations	4,969	5,882	6,113
Total Maintenance and Operation	217,479	239,106	Other operating expenses	<u>32,247</u>	<u>16,609</u>	<u>34,813</u>
			Total operating expenses before depreciation and amortization	<u>286,783</u>	<u>352,962</u>	<u>339,820</u>
Depreciation and Miscellaneous			Income from operations before depreciation and amortization	99,627	60,282	58,731
Depreciation	37,885	38,265	Depreciation and amortization	<u>(44,592)</u>	<u>(48,108)</u>	<u>(46,126)</u>
Depreciation-Grants/Other Aid	<u>5,255</u>	<u>4,844</u>	Operating income	<u>55,035</u>	<u>12,174</u>	<u>12,605</u>
Total Dep. and Misc.	<u>43,140</u>	<u>43,109</u>	Non-Operating revenues (expenses):			
Total Operating Expenses	260,619	282,215	Passenger facility charges	79,858	85,745	67,166
			Federal Grant Revenue	—	—	5,763
Income from Operations	128,910	87,072	Interest income	40,192	38,343	32,017
			Net increase (decrease) in fair value of			
Non-Operating Revenue			Investments	(216)	8,899	(3,667)
Interest Income	32,887	38,605	Loss on sale of securities	—	—	(462)
Passenger Facility Charges	<u>26,443</u>	<u>73,766</u>	Other non-operating revenue	—	1,623	361
Income Before Interest Expense	188,240	199,443	Interest expense	(24,144)	(21,384)	(18,135)
			Bond expense	(324)	(163)	(163)
Interest and Other Expense	28,131	25,311	Other non-operating expenses	<u>(15,903)</u>	<u>(1,821)</u>	<u>(1,821)</u>
			Net non-operating revenue (expenses)	<u>(9,390)</u>	<u>97,160</u>	<u>81,059</u>
Net Income	\$ 160,109	\$ 174,132	Income before capital grant contributions and transfers		109,334	93,664
			Landing fees legal settlement	(104,756)	—	—
			Capital grant contributions	—	2,701	35,916
			Inter-agency transfers	—	—	(17,553)
			Change in net assets	45,645	112,035	112,027
			Residual equity transfers (to) from other funds	(71)	—	—
			Net assets, beginning of year, as restated	<u>1,112,140</u>	<u>1,400,085</u>	<u>1,512,120</u>
			Net assets, end of year	<u>\$1,157,714</u>	<u>\$1,512,120</u>	<u>\$1,624,147</u>

¹ Totals may not add due to independent rounding.

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

Management Discussion of LAX Finances

For the Fiscal Year ended June 30, 2002, LAX had a change in net assets (formerly referred to as net income; the new definition is used to comply with GASB Rule 34) of approximately \$112.0 million, which was approximately the same result as Fiscal Year 2001. Income from operations increased 3.5% over the prior Fiscal Year to \$12.6 million. A discussion of the results and major causes for the change in net assets of LAX for Fiscal Year 2002 follows. (Note: numbers have been rounded.)

1. Fiscal Year 2002 results are attributable to the net impact of: a) operating revenues of \$398.6 million, decreasing \$14.7 million, or 3.4%; b) a \$13.1 million, or 3.7% drop in operating and administrative expenses which totaled \$339.8 million; c) net non-operating income of \$81.1 million which was lower by \$16.1 million, or 16.6%; and d) a \$33.2 million increase in capital grant revenue.
2. The most significant items affecting the financial results were:
 - a. Building rentals increased \$19.9 million, or 33.9%, over the prior Fiscal Year due primarily to higher rental rates. In addition, landing fees increased by \$11.1 million or 10.6%, while airport sales and services revenue, and other aviation revenue, increased \$1.6 million and \$1.2 million, respectively.
 - b. Concession revenue decreased \$49.2 million to \$156.1 million, or 24.0%, as the result of daily sales declines caused by lower passenger volume and increased airport security which restricts access by customers to concessionaires and to parking facilities due to the September 11 Events.
 - c. Depreciation and amortization expense was \$2.0 million lower than Fiscal Year 2001 due to fewer capital assets acquired and fewer capital project completions during Fiscal Year 2002.
 - d. PFC revenues decreased \$18.6 million, or 21.7%. This decrease was due primarily to a 16.5% reduction in air passenger traffic from 67.2 million passengers in Fiscal Year 2001 to 56.1 million passengers in Fiscal Year 2002. A significant portion of this decrease is attributable to the September 11 Events.
 - e. Capital grant receipts increased \$33.2 million from Fiscal Year 2001 due to the receipt of federal grant reimbursements of \$35.9 million for the LAX Taxiway "C" project. In addition, a non-capital grant reimbursement of \$5.6 million was received from the FAA for incremental security costs incurred following the September 11 Events.
 - f. The continued slow, but upward, trend in aviation revenue reflects a recovery in air traffic since the September 11 Events. However, with overall air passenger traffic reduced, concession revenue significantly declined from the prior Fiscal Year. Coupled with lower passenger volume and the hampering impacts of increased security due to terminal configuration, revenue from duty free sales decreased by \$21.5 million, or 47.3%, from the prior Fiscal Year. Additionally, parking revenues decreased \$20.6 million, or 31.6%, below the previous Fiscal Year.

Total operating and administrative expenses of \$339.8 million were \$13.1 million, or 3.7%, lower than the prior Fiscal Year. This reduction occurred despite a material increase in LAX's security costs following the September 11 Events. The newly imposed compliance requirements for expanded federal and management-mandated security and other operating measures caused LAX to incur approximately \$15.6 million in incremental security costs during Fiscal Year 2002. These costs included \$4.1 million of overtime pay for security officers and other essential employees, plus \$11.5 million for additional materials and supplies, utilities and necessary contractual services. Due to intense efforts by Department management to put effective cost containment programs into place, overall operating expenses were reduced from the prior Fiscal Year. Noteworthy changes from the prior Fiscal Year occurred in the following operating expense categories:

1. Salaries and benefits expense increased \$10.6 million, or 8.5%, due to additional permanent staff increases and overtime pay incurred for increased security, re-badging and re-fingerprinting efforts at LAX arising from the September 11 Events.
2. Contractual services for Fiscal Year 2002 were lower by \$9.6 million, or 9.0%, when compared to the prior Fiscal Year. This reduction was the direct result of the cost containment program at LAX which curtailed major project expenditures due to the September 11 Events.
3. Materials and supplies increased \$4.5 million, or 13.0%, as the result of incremental activity associated with initial security efforts after the September 11 Events. This impact caused food and accommodation costs to be incurred for a period of time, plus several K-9 unit acquisitions and related training were necessary.
4. Administrative expenses of \$7.0 million were \$36.9 million, or 84%, lower than the prior Fiscal Year due substantially to reduced expansion and development costs, training expenses, education and communication.
5. Other operating expenses increased \$18.2 million over the previous Fiscal Year due primarily to higher noise mitigation costs for the FAA noise mitigation program, which increased \$15.0 million over the prior Fiscal Year. Although most of the payments made for this program are authorized under the Department's capital budget, all program expenditures at LAX must be classified as operating expenses. This is because noise mitigation costs cannot be capitalized under Generally Accepted Accounting Principles.

Total non-operating revenue for Fiscal Year 2002 was \$81.1 million, or \$16.1 million lower than the prior Fiscal Year. This reduction was due to several significant items:

1. The reduction of PFC revenue by \$18.6 million, or 21.7%, from the prior Fiscal Year.
2. A net decrease of \$3.7 million in the Fiscal Year for the fair value of investments held by the City was allocated to LAX. By comparison to the prior year, which reflected an increase of \$8.9 million in fair value, there was a net reduction of \$12.6 million as a result of this Fiscal Year's allocation to LAX from the City.
3. Interest income of \$32.0 million was lower by \$6.3 million, or 16.5%, when compared to the prior Fiscal Year. The reduction was the result of lower money market rates, although they were applied to higher average investable unrestricted and restricted cash balances. Average cash balances of \$607.8 million at LAX earned an overall yield of 4.44%, while held with the City Treasurer.
4. Other non-operating expenses of \$1.8 million was \$14.1 million lower than in the prior Fiscal Year. This was due primarily to the additional provision for claims and litigation taken in the prior Fiscal Year for \$15.9 million.

The following table sets forth the top ten revenue providers for LAX for Fiscal Year 2002.

TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS (LAX)
FISCAL YEAR 2002
(DOLLARS IN THOUSANDS) ⁽¹⁾

1.	Five Star Parking	\$55,166
2.	American Airlines ⁽²⁾	41,157
3.	United Air Lines ⁽³⁾	31,442
4.	DFS Group L.P.	25,908
5.	W.H. Smith, Inc.	15,562
6.	Delta Air Lines	15,380
7.	Southwest Airlines	15,345
8.	Hertz Corporation	9,120
9.	Continental Airlines	8,387
10.	Avis Car Rental	6,575

⁽¹⁾ Net of rental credits.

⁽²⁾ TWA filed for bankruptcy protection in January 2001, and substantially all of the assets and certain liabilities of TWA were subsequently acquired by American through the bankruptcy proceedings. TWA was integrated into American during 2001 and effectively ceased to be operated as a separately named airline in December 2001.

⁽³⁾ United filed for bankruptcy protection on December 9, 2002, and has announced that it will continue operating while in bankruptcy proceedings.

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

Budgeting Process

The development, adoption and amendment of the budget for the Airport System is the sole responsibility of the Board assisted by the Department. Each year the Department's proposed budget is submitted to the Mayor by the Executive Director and the Mayor includes the Department's proposed budget as a part of the overall City budget, for information purposes only. The final budget, as adopted by the Board, is included in the City's adopted budget. Neither the Mayor nor the City Council may amend or otherwise change either the proposed budget or the adopted budget; provided, however, that no action of the Board shall become final until the expiration of five meeting days of the City Council during which the council has convened in regular session. The City Council may veto the action of the Board within 21 days of voting to bring the matter before it, whereupon the matter is remanded to the Board, or the action of the Board shall become final, as provided in Section 245(a) of the Charter.

Fiscal Year 2003 Budget

Department management developed the Fiscal Year 2003 Operating Budget driven by a number of factors including recent years' operating revenue and expenditure trends, and uncertainties surrounding revenue collections. Managers prepared and submitted their budget requests in December 2001. The Chief Operating Officer and Chief Financial Officer conducted budget hearings with deputies and directors in January and February 2002. Budget hearings focused on (1) requests to fulfill FAA/TSA or other regulatory mandates, (2) expenditures necessary for security or safety of airport operations, and (3) strategic objectives, like the proposed LAX Master Plan, directed by the Board and Department executive staff.

The major focus of operational expenses for Fiscal Year 2003 is on the safety and security of passengers and employees, continued efforts toward implementation of the LAX Master Plan with a new alternative, as well as a strategic reorganization of the Department to maximize organizational efficiencies. To this end, the proposed operational expenses, including salaries and benefits, material supplies and services, and assets for Fiscal Year 2003 have increased by 4% from the Fiscal Year 2002 budget.

In an effort to control salaries and benefits expenditures for Fiscal Year 2003, the Department has taken action to eliminate vacant positions, where possible. Salaries and benefits will, however, increase significantly due to new security personnel, security-related overtime, cost of living adjustments retroactive to July 1, 2001 and any negotiated and approved separation incentives offered to Department employees.

Investment Practices of the City Treasurer

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 14
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
POOLED INVESTMENT FUND ⁽¹⁾
ASSETS AS OF JUNE 30, 2002
(DOLLARS IN MILLIONS)

	City's (Carrying) Value ⁽²⁾	Percent of Total	Department (LAWA) Carrying Value ⁽³⁾	LAX Carrying Value ⁽⁴⁾	ONT Carrying Value ⁽⁴⁾	LAX, VNY & PMD Carrying Value ⁽⁴⁾
Deposits	\$ 246.9	6.1%	\$ 57.3	\$ 49.3	\$ 7.5	\$ 49.8
US Treasury Securities	361.0	8.9%	83.6	72.0	10.9	72.7
Federal Agency						
Securities	1,983.1	48.8%	386.9	333.1	50.3	336.6
Commercial Paper	268.3	6.6%	59.6	51.3	7.8	51.8
Medium-Term Corporate						
Notes	739.1	18.2%	171.2	147.4	22.2	149.0
Repurchase Agreements	462.0	11.4%	96.6	83.2	12.6	84.0
Sweep Account	0.5	0.0%	—	—	—	—
State Local Agency						
Investment Fund	4.5	0.0%	1.2	1.0	—	1.2
Total	\$4,065.4	100.0%	\$856.4⁽⁵⁾	\$737.3⁽⁵⁾	\$111.3⁽⁵⁾	\$745.1⁽⁵⁾

⁽¹⁾ Based on General Pool Portfolio Percentage Distribution Report, dated June 30, 2002 furnished by City Treasurer's Office.

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

⁽³⁾ The Department's share of the Fund including restricted assets.

⁽⁴⁾ Unaudited; inclusive of restricted cash; fund not segregated from other funds in the Pool.

⁽⁵⁾ Including securities lending collateral.

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

The average life of the investment portfolio in the Pool as of June 30, 2002 was 834 days.

The City's treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The investment policy is reviewed and approved by the City Council on an annual basis. Investments are managed conservatively, the goals of which are safety, liquidity and rate of return. Standard & Poor's confirmed its 'AAAF' credit quality rating and an 'S1' volatility rating for the City's General Pool on November 21, 2002.

The City Treasurer does not invest in securities that include, but are not limited to, 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.

The Investment Advisory Committee, comprised of the City Treasurer, the Office of the Mayor, City Controller, Chief Legislative Analyst, the City Administrative Officer, the Director – Office of Finance and a contracted investment advisor, has oversight responsibility to ensure conformity with the City’s investment policy and California State Government Code.

Risk Management and Insurance

The Senior Lien Trust 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 to carry insurance against losses due to seismic activity.

The Department carries commercial liability insurance with coverage of \$750 million for losses arising out of liability for airport operations. The Department has also purchased a “war and allied perils” endorsement with coverage of up to \$150 million with a deductible of \$10,000 per occurrence. Coverage under the “war and allied perils” endorsement terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two of 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. Annually the Department hosts the Van Nuys Air Show and purchases a separate Van Nuys Air Show Liability policy to cover this special event.

The Department purchases commercial insurance to cover property, flood and earthquake losses. The all-risk property insurance has coverage of \$1 billion per occurrence with a \$100,000 deductible for property losses and a 5% deductible for earthquake losses. The Department also carries excess earthquake and flood coverage in the amount of \$100 million per occurrence with a 5% deductible for earthquake losses. The Department has purchased special insurance for losses arising out of terrorism or similar activities with coverage of \$100 million per occurrence and a deductible of \$1 million per occurrence.

The Department maintains an insurance reserve fund, pursuant to Board policy. This fund has been established to handle uninsured and under-insured catastrophic losses with respect to all of the airports in the Airport System. As of June 30, 2002, there was approximately \$77.6 million in this fund. This fund is maintained pursuant to Board action only; there is no other requirement that it be maintained.

The Department is currently self-insured for workers’ compensation liability or off-premises automobile liability. The Department has an active loss prevention program, which includes four full-time risk managers, a full-time industrial hygienist, property loss control engineering by insurers, ongoing employee training programs and an automated claims information system. In addition, the Department purchases travel insurance for employees, with a \$3 million limit, and an Employee Fidelity or Crime Insurance coverage with a limit of \$2 million.

CAPITAL IMPROVEMENT PLANNING

Capital Improvement Program

Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for information purposes only, to the Mayor and 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, (ii) the proposed method(s) of financing such proposed expenditures including a discussion, if relevant, of financing alternatives and (iii) a description of any proposed debt financings.

Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, City Council and City Controller every two years in conjunction with submittal of its annual budget. The Board adopted a debt accountability and major capital improvement plan on July 18, 2000 and the most recent plan provided for in the Charter was presented to City Council on November 28, 2000 for

information purposes only. That plan covered capital improvements at LAX through Fiscal Year 2003. After the September 11 Events, the Department suspended capital projects except those that were necessary for safety or security or were substantially completed.

Department staff has prepared a CIP for Fiscal Years 2003-2006 which has not been approved by the Board. The proposed CIP is set forth below, however it is subject to change. The proposed CIP does not include any costs of capital improvements that may be associated with a master plan, if and when adopted. See “- Master Plan – Airport Capacity and Future Capital Improvements” below.

The proposed CIP identifies the planned capital improvement projects for LAX, VNY and PMD for the Fiscal Years 2003 through 2006. Approximately \$1 billion in capital projects have been identified. About \$183 million of the CIP is scheduled to be funded initially with Senior Lien Revenue Bonds or Subordinate Commercial Paper Notes. Approximately \$517 million is expected to be funded with PFC and AIP grant funds, combined, and about \$322 million is expected to be funded from revenue.

Following is a summary of the Department’s proposed CIP for the four-year period July 1, 2003 through June 30, 2006.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PROPOSED CAPITAL IMPROVEMENT PLAN*
FISCAL YEARS 2003 – 2006
(DOLLARS IN THOUSANDS)

Sources of Plan Funds:	
Commercial Paper and new Revenue Bonds	\$ 183,240
Passenger Facility Charges	446,345
Airport Improvement Program Grants	70,455
Cash	322,128
Other Funds ⁽¹⁾	<u>5,400</u>
Total	<u>\$1,027,568</u>
Uses of Plan Funds:	
Security Projects	\$ 239,800
Safety Projects	68,883
Infrastructure Upgrade	278,640
Environmental Projects	318,000
PMD Projects	8,400
VNY Projects	<u>113,845</u>
Total	<u>\$1,027,568</u>

* Preliminary, subject to change.

⁽¹⁾ Anticipated to be funded by a third party.

Source: Department of Airports of the City of Los Angeles, California and Ricondo & Associates, Inc.

The estimated costs of, and the projected schedule for, the proposed CIP and the Department’s other capital projects are subject to a number of uncertainties. The ability of the Department to complete the CIP and the Department’s other capital projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (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 obligations and may result in increased costs per enplaned passenger to the airlines.

Master Plan – Airport Capacity and Future Capital Improvements

The Department is currently preparing a master plan to address the long-term issues of airport capacity, ground access, security and environmental impacts at LAX (the “LAX Master Plan”). The LAX Master Plan is being developed in three phases. Phase I included detailed data gathering regarding the existing airport and environmental conditions, analysis of LAX’s role in the regional airport system and the forecast of aviation demand through the year 2015. Forecasts completed in Phase I indicate that LAX could attract annually up to 98 million passengers and 4.2 million tons of cargo by 2015. Phase II involved establishing facility requirements to accommodate projected future activity levels and an alternative concept development process to evaluate potential options. Phase III, now underway, includes the environmental impact assessment and review processes, as well as the development of an airport layout plan and implementation plan for the selected development alternative.

Phases I and II and a subsequent public hearing process resulted in four alternative concepts that were refined and analyzed as three “build” alternatives and a no action/no project alternative in the environmental process in Phase III. A draft Environmental Impact Statement/Environmental Impact Report (the “Draft EIS/EIR”) was released for a public comment period which ended November 9, 2001.

Following the September 11 Events, the Mayor asked the Board to develop an additional alternative to the LAX Master Plan, focused on safety and security at LAX. In July 2002 the Mayor unveiled a new alternative for the LAX Master Plan (“Alternative D”) to reduce the impact on surrounding neighborhoods, meet new federally mandated security requirements, improve airport safety and improve ground transportation measures.

The Department is completing the environmental analysis of Alternative D and will subsequently release a Supplemental Draft EIS/EIR for public review and comment.

Preliminary estimates of the cost of the LAX Master Plan alternatives range from approximately \$6 to \$12 billion exclusive of mitigation costs. None of the costs of the LAX Master Plan alternatives is included in the Department’s CIP for Fiscal Years 2003 through 2006.

Passenger Facility Charges

The PFC Acts permit public agencies controlling certain commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge enplaning passengers using the airport a \$1.00, \$2.00 or \$3.00 PFC with certain qualifying airports permitted to charge a maximum PFC of \$4.50. Public agencies wishing to impose and use these PFCs must apply to the FAA for such authority and satisfy the requirements of the PFC Acts. In addition, an application for the imposition of PFCs by certain public agencies (not including the Department) after October 1, 2000, requires the submission to the FAA of an acceptable airport competition plan.

The purpose of the charge is to develop additional capital funding sources to provide for the expansion of the national airport system. The proceeds from PFCs must be used to finance eligible airport-related projects that serve or enhance safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system or furnish opportunities for enhanced competition between or among air carriers. PFC revenues are not included in the definition of LAX Revenues and therefore are not pledged to the payment of Subordinate Obligations, including the Subordinate 2002 Bonds. However, pursuant to the Senior Lien Trust Indenture and the Master Subordinate Indenture, the Department has the ability to provide for the inclusion of PFC revenues in the definition of LAX Revenues through the adoption of a supplemental indenture or a Supplemental Subordinate Indenture. The Department does not have any current plans to include PFC revenues in the definition of LAX Revenues.

Effective February 1, 1998, the FAA approved the collection of a \$3.00 PFC at LAX for a Noise Mitigation program, including a Land Acquisition and Soundproofing program, for a total program of \$150 million, which was later amended to \$440 million. The combined program authorizations are estimated to expire on January 31, 2004. The Department’s Land Acquisition program involves the voluntary acquisition of properties and relocation assistance for residential neighbors near LAX who expressed a preference for acquisition in lieu of sound insulation. The program reduced the number of residences in areas impacted by noise from LAX operations. The Department

plans to submit an additional amendment to its application to the FAA in which it will seek approval to: (a) increase PFC collections to \$890 million for its Noise Mitigation program (\$405 million for soundproofing and \$485 million for land acquisition), (b) increase to a \$4.50 PFC, and (c) extend the authorization to February 1, 2009. See also "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Noise Standards."

Additionally, the Department plans to submit a new application to the FAA for the collection of a \$4.50 PFC for costs associated with security improvements in Terminals 1 through 7 and TBIT and for interior improvements to TBIT. The application will ask for approval to collect a total of \$144 million of PFCs with an expiration date of February 1, 2009.

The actual amount of PFC revenues received each Fiscal Year will vary depending on the number of qualifying passenger enplanements at the Airport. As discussed in "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events" and throughout this Official Statement, the September 11 Events and a nationwide economic slowdown have caused a reduction in the number of enplaned passengers and a corresponding reduction in PFC revenues.

With respect to an airline operating at the Airport which is involved in bankruptcy proceedings, it is unclear whether the Department would be afforded the status of a secured creditor with regard to PFCs collected or accrued with respect to that airline. See also "RISK FACTORS – Effect of Airline Bankruptcies."

The FAA may terminate the Department's authority to impose the PFC, 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 City otherwise violates the PFC Acts or regulations. The Department's authority to impose the PFC may also be terminated if the Department violates certain provisions of the Airport Noise and Capacity Act of 1990 (the "Noise Act") and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under the Noise Act also contain procedural safeguards to ensure that the Department's authority to impose a PFC would not be summarily terminated. No assurance can be given that the Department's authority to impose the PFC will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or 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 PFC to be collected. In the event the FAA or Congress reduced or terminated the Department's ability to collect PFCs, the Department may need to find other sources of funding, including issuing additional parity securities, to finance the projects currently being paid for with PFC revenues.

Federal Grants

Under the FAA's Airport Improvement Program ("AIP") the FAA awards grant moneys to airports around the country for capital improvement projects. AIP grants include entitlement funds, which are apportioned annually based upon enplaned passengers, and discretionary funds which are available at the discretion of the FAA based on a national priority system. In recent years the City had made it a policy not to accept federal grant moneys. In January 2002, the Mayor reversed this policy and allowed the Department to begin collecting federal grants. On May 7, 2002, the Board authorized the acceptance of federal grants totaling \$46,246,764. The grants cover partial reimbursements for security costs incurred at LAX and ONT for implementing new security measures between September 11, 2001, and January 18, 2002, and for construction improvements to an airfield taxiway over Sepulveda Boulevard near LAX.

The Department has, to date, received \$5,763,334 in federal grant funds for LAX and \$572,930 for ONT for security-related costs and \$35,915,713 for the completion of a realignment of Taxiway C to improve safety and efficiency of aircraft and vehicles. The Department expects to receive an additional \$3,994,787 in 2003 for the Taxiway C improvement.

The security-related reimbursements, provided pursuant to Section 119 of the ATSA, will help LAX and ONT defray costs associated with additional law enforcement personnel, airport surveillance and the revalidation of all airport-issued and approved identification.

The Taxiway C project included an aircraft taxiway bridge, taxiway paving, related airfield lighting system, storm drains, relocation of an airfield access security post and modification of a tunnel ventilation building, fire station and an airline maintenance facility. The total project cost was \$53,214,000, with the AIP federal grants covering 75% of the costs and PFCs covering the remaining 25%.

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

There are several significant environmental matters which have direct and indirect impacts on the Department and LAX. These include aircraft noise reduction, clean air requirements and hazardous substance cleanup. The ultimate impact of these environmental factors on the Department and LAX cannot be determined at this time.

Noise Standards

In 1990, Congress adopted the Airport Noise and Capacity Act of 1990 ("ANCA"), which provided for a phaseout of Stage 2 aircraft by December 31, 1999, and which also limits the scope of the local airport operator's regulatory discretion for adopting new aircraft operational restrictions for noise purposes. The FAA has subsequently adopted regulations implementing ANCA under Part 161 of the Federal Aviation Regulations ("Part 161"). From 1990 forward, airport proprietors considering the adoption of restrictions or prohibitions on the operation of Stage 2 and Stage 3 aircraft are required to conduct studies which detail the economic costs and benefits of proposed restrictions, as well as publish proposed restrictions and provide notice to potentially affected airlines and conduct any necessary environmental analysis, prior to enacting restrictions on the operations of Stage 2 or Stage 3 aircraft. Proposed restrictions on the operation of Stage 3 aircraft adopted after 1990 also require affirmative approval of the FAA under defined statutory criteria before they may legally be implemented. ANCA and Part 161 make the adoption of many traditional aircraft operating noise regulations by local airport proprietors infeasible without the concurrence of the air carriers or other operators affected by the restrictions. Pursuant to the ANCA, the Department is required to prohibit the operation at LAX of any aircraft not complying with Stage 3 levels. Aircraft noise reduction is a significant federal and local issue which may require substantial capital investments by the airline industry from time to time to meet applicable standards.

Additionally, the Airport System is subject to administrative regulations of Caltrans establishing off-airport noise impact standards. LAX operates under a three-year variance that was granted in May 1998 and was recently reissued in February 2001, as described below. The variance calls upon the Department to take a number of actions to mitigate noise impacts. In *City of El Segundo, Petitioner vs. James Van Loben Sels, et al. Respondents, City of Los Angeles Department of Airports, Real Party in Interest*, Case No. BS 051651, the City of El Segundo challenged the legality of the variance terms in the State Superior Court, which ruled in favor of the City of El Segundo. The Department appealed to the State Court of Appeal and the decision was reversed and remanded to the trial court, which sent the matter back to Caltrans. As a result of Caltrans' review, in February 2001, a new three-year variance was granted. On March 2, 2001, Caltrans submitted its legal opinion regarding the regulations challenged by the City of El Segundo, as mandated by the trial court. On May 3, 2001, the trial court found that Caltrans had satisfactorily complied with its orders. An appeal was filed by Caltrans and LAX for technical reasons having to do with the status of the previous ruling regarding the legality of the regulation. LAX subsequently abandoned its appeal upon determining that the original trial court's ruling had been overturned in its entirety. Unless the variance is set aside by a court of competent jurisdiction, the newly granted variance will remain in effect.

VNY operates under a different variance and restrictions. A three-year variance for VNY was granted in May 2000.

In 1997, the Department implemented a Noise Mitigation program at LAX, which included a Land Acquisition and Soundproofing program. The Department's Land Acquisition program in the City involves the voluntary acquisition of properties and relocation assistance for residential neighbors near LAX in the areas of Manchester Square and Airport/Belford. This Acquisition program is being carried out in lieu of sound insulation. This program's goal is to reduce the number of residences in areas impacted by noise from airport operations. The Department's Soundproofing program involves acoustic treatment to reduce noise to or below the State-specified maximum interior noise level of 45 dB CNEL in all habitable rooms. Typical retrofit methods include replacing

doors and windows with acoustically rated doors and windows, modifying wood frame walls, adding insulation to attics and fitting chimneys and vents with dampers and/or acoustic louvers. The Noise Mitigation program includes payment for residential sound insulation and property acquisition projects in the City, unincorporated portions of Los Angeles County near LAX and the cities of El Segundo and Inglewood. The Noise Mitigation program has an estimated total cost of approximately \$890 million of which approximately \$270 million had been expended as of June 30, 2002. See "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges" above for a description of the funding of the Noise Mitigation program.

Hazardous Substances

Recognizing the need for a comprehensive hazardous materials management plan for LAX, in 1987 the Board adopted Resolution No. 15945, the Hazardous Materials Management policy. Under this policy, the Department established the Underground Tanks and Hazardous Substances ("UTAHS") Program. The first activity conducted under the UTAHS Program was a comprehensive audit of all four airports in the Airport System. The environmental audit was completed in 1988. The environmental audit was designed to collect information related to the handling, storage, use and disposal of hazardous materials/wastes at each airport. During the audit, the Department identified over 500 Underground Storage Tanks ("USTs") on airport property. The majority of the tanks were owned, maintained and operated by tenants on their leaseholds. Where tenant USTs were found to be out of compliance, the tenants were directed to implement programs to bring them into compliance with current environmental regulations. In addition, tenants have been directed to implement remedial programs to determine the existence and extent of any contamination problems related to hazardous material releases on their leaseholds and to mitigate any contamination found. The Department regularly monitors compliance through the City Fire Department. Currently there are approximately 106 USTs on Department property.

Following completion of the audit, the Department initiated a program to bring all Department owned and operated USTs into compliance. The majority of these tanks were operated by previous tenants who had vacated their leaseholds and such USTs were no longer in service. During the early to mid 1990s contracts were awarded to remove a total of 86 USTs. Six USTs and ten above-ground tanks were installed to provide the Department with the necessary storage to meet current operational needs. The new USTs incorporate current regulatory standards for USTs including double wall tank construction and electron monitoring. Four existing USTs were upgraded by the Department to meet the December 1998 UST upgrade deadline.

Currently the Department owns 28 USTs and is completing its assessment of the status of those tanks to meet the June 2005 upgrade requirements of State Senate Bill 989. Only minor soil contamination has been discovered so far. However, at this time, the Department is unable to assess the Department's monetary exposure, if any, from either cleanup costs or fines.

Emission Standards

Under the Clean Air Act of 1970, the U.S. Environmental Protection Agency ("EPA") was given authority to promulgate aircraft emission standards. The emission standards for aircraft engines were adopted by the EPA in May 1997. New standards for carbon monoxide and nitrogen oxide ("NOx") were established. However, most aircraft engines currently being manufactured meet these standards already and therefore little impact should be expected in regard to compliance. There continues to be pressure exerted by public and private entities to reduce emissions from aircraft. In particular, the International Civil Aviation Organization ("ICAO") has proposed further reductions in NOx emissions. Since these types of emission reductions are the most difficult to achieve in aircraft engines, the imposition of such standards could result in economic hardships on engine manufacturers and airlines, particularly if the standards are made retroactive. In fact, a draft Federal Implementation Plan ("FIP") for the Clean Air Act was prepared by the EPA in 1994 in response to a lawsuit by environmental groups. The draft FIP proposed the imposition of an emissions cap on the airlines operating in the South Coast Air Basin ("SCAB"), including those airlines operating out of LAX. The final FIP removed control measures targeted towards aircraft. Instead, it focused on conversion of ground service equipment to electric power and alternative fuels and the reduced use of auxiliary power units on aircraft to achieve emission reductions. The FIP was adopted by the EPA in February 1995. However, subsequent legislation, passed by Congress and signed by the President in April 1995, rescinded this FIP on the basis that it was inappropriately predicated on the 1977 Clean Air Act ("CAA"), which was

superseded by the 1990 CAA amendments. This action has focused greater attention on the Air Quality Management Plan ("AQMP") for the South Coast Basin and the State Implementation Plan ("SIP").

As required by the State and Federal Clean Air Acts, the South Coast Air Quality Management District (the "SCAQMD") adopted its AQMP in September 1994. The AQMP was revised by the California Air Resources Board ("CARB") and incorporated into the SIP, which was adopted by the CARB in November 1994. The SIP is subject to approval by the EPA, which conditionally adopted the SIP in April 1996. The condition to the EPA's adoption of the SIP was that a consultative process be established between the EPA, airport operators, airlines and other interested parties to identify additional air emission reduction measures from federal sources which include airports, harbors, railroads and heavy duty trucks. This consultative process was formally concluded by the EPA in May 1999. However, the parties involved in this process, including the CARB, the ATA and commercial airports in the SCAB, agreed to continue to work on a Memorandum of Understanding (the "Environmental MOU") for reduction of emissions from ground service equipment ("GSE") used to support operations. This work is continuing and the Department has participated extensively in all aspects of the process. The Environmental MOU is tentatively scheduled to be signed by the end of 2002.

The SIP was amended in 1997 and again in 1999. An update to the South Coast AQMP is currently scheduled to be released in February 2003. The Notice of Preparation ("NOP") for the EIR being done for that AQMP listed three airport-related measures that could be pursued by agencies other than the SCAQMD, including the EPA and CARB. These measures pertain to emission reductions from aircraft, GSE and vehicles traveling to and from airports. The AQMP will be the basis for revisions to the SIP when it is approved by the CARB. A significant measure in the SIP (M15), relative to aircraft, recommends to the EPA that national aircraft engine standards for NOx be promulgated to reduce emissions by 30%. This is beyond the authority of local and State jurisdictions and therefore would have to be implemented on a national level within the context of a FIP or other regulatory means. Any such standards would need to be coordinated with international efforts by ICAO and by a national task force that was established to address these issues, which includes the EPA, the FAA, the airlines and airport representatives. National standards may increase required capital expenditures for airlines but it would do so in a manner that equitably distributes the cost by virtue of being applied consistently throughout the country. An alternative is to impose requirements locally, which would put airlines at LAX at an unfair, competitive disadvantage with other airlines not having to comply with such requirements.

The quantified emission savings that were anticipated by the proposed engine standards referenced in the SIP would have been four tons of NOx and three tons of Volatile Organic Compounds ("VOC") per day from all airports in the South Coast Basin. These emission levels subsequently became the targets for emission reductions associated with airports, in the consultative process, regardless of whether they come about from engine standards or some other sources. After exploring numerous measures that were related to various sources of emissions on an airport, the focus of the consultative process evolved toward achieving the maximum amount of emission reductions from conversion of GSE, which service aircraft on the ramp area, to alternative fuels. In conjunction with this effort, the Department will upgrade the electrical infrastructure in the Central Terminal Area at an estimated cost of \$4 million. This upgrade will have sufficient load capacity in the transformers and distribution panels to accommodate the conversion of GSE to battery power and the increased electrical demand from required battery chargers. Customized transformers have been constructed to be installed in existing vaults within the five remaining terminals subject to the upgrade. However, the installation program has been put on hold because of budgetary constraints that resulted from post-September 11 decreases in revenues.

Less emphasis has been placed on other sources, such as operational controls, because of various impracticalities or safety or economic constraints involved in the implementation of related measures. However, it is unlikely that emission reductions from GSE will meet the target levels. Therefore, other measures may be pursued by the EPA, the CARB or the SCAQMD (as suggested in the NOP for the EIR for the proposed update to the AQMP) in future potential efforts to reach the target emission reductions. It is not certain what, if any, measures may be pursued or what the commensurate impacts might be.

The 1994 AQMP also included an airport ground access rule, the primary purpose of which was to reduce the number of vehicles entering the Central Terminal Area. Options that have been considered to implement this rule include imposing fees and restricting the length of time a vehicle could park. The 1997 AQMP deleted the airport ground access rule, as well as other Indirect Source Rules ("ISRs"), as unfeasible. As indicated, an update to

the AQMP is currently under development. It is not certain what efforts will be taken or measures considered in an attempt to compensate for the shortfall expected from the GSE measure. These efforts may include the reevaluation of ISRs, including the airport ground access rule. The ultimate impact of environmental factors on the airline industry in general, and on the Department and LAX in particular, cannot be determined.

REPORT OF THE AIRPORT CONSULTANT

Ricondo & Associates, Inc., the Airport Consultant, prepared the Report of the Airport Consultant dated December 4, 2002 which is included as "APPENDIX A – REPORT OF THE AIRPORT CONSULTANT." The Report of the Airport Consultant presents certain airline traffic and financial forecasts for Fiscal Years 2002 through 2007 which are based on assumptions made by the Airport Consultant. See "INTRODUCTION – Report of the Airport Consultant" and "RISK FACTORS – Assumptions in the Report of the Airport Consultant." The Report of the Airport Consultant has not been revised since December 4, 2002, to reflect the results of the issuance of the Subordinate 2002 Bonds, or any other matter.

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 the Series 2002A Bonds and the Subordinate 2003 Bonds. While 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 "RISK FACTORS – Assumptions in the Report of the Airport Consultant."

Forecast of Debt Service Coverage

The following table sets forth the projected Net Pledged Revenues, debt service requirements for the Senior Lien Revenue Bonds, the additional bonds currently projected to be issued through 2006 (including the Series 2002 A Bonds) and the Subordinate Commercial Paper Notes and the Subordinate 2003 Bonds (collectively, the "Subordinate Obligations") and the coverage of such debt service requirements based upon the Net Pledged Revenues, as forecasted by the Airport Consultant, for Fiscal Years 2002 through 2007.

The forecasted financial information in the following table was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to forecasted financial information, but, in the view of the Department's management, was prepared on a reasonable basis, to reflect the best currently available estimates and judgments and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of LAX. However, this information is not fact and should not be relied upon as necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the forecasted financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the forecasted financial information contained herein, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the forecasted financial information.

The assumptions and estimates underlying the forecasted financial information are inherently uncertain and, though considered reasonable by the management of the Department as of the date hereof, are subject to a wide variety of significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the forecasted financial information, including, among others, the risks and uncertainties described under "RISK FACTORS" above. Accordingly, there can be no assurance that the forecasted results are indicative of the future performance of the Department or that actual results will not be materially higher or lower than those contained in the forecasted financial information. Inclusion of the forecasted financial information in this Official Statement should not be regarded as a representation by any person that the results contained in the forecasted financial information will be achieved.

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PROJECTED DEBT SERVICE COVERAGE
(DOLLARS IN THOUSANDS)

<u>Fiscal Year</u>	<u>Net Pledged Revenues</u>	<u>Senior Debt Service Requirement⁽¹⁾</u>	<u>Senior Debt Service Coverage</u>	<u>Subordinate Debt Service Requirement⁽²⁾</u>	<u>Subordinate Debt Service Coverage⁽³⁾</u>	<u>Total Debt Service Coverage⁽⁴⁾</u>
2003 ⁽⁵⁾	\$103,485	\$35,560	2.91	\$2,114	32.13	2.75
2004 ⁽⁶⁾	129,589	41,519	3.12	5,367	16.41	2.76
2005 ⁽⁶⁾	127,386	40,297	3.16	5,484	15.88	2.78
2006 ⁽⁶⁾	125,959	43,268	2.91	5,488	15.07	2.58
2007 ⁽⁶⁾	124,045	42,044	2.95	4,736	17.31	2.65

⁽¹⁾ Includes Aggregate Annual Debt Service on the Senior Lien Revenue Bonds, the Series 2002A Bonds and the additional Senior Lien Revenue Bonds currently projected to be issued through 2007. For purposes of the table only, the Series 2002A Bonds are assumed to bear interest at a rate of 4.73%, and the additional Senior Lien Revenue Bonds currently projected to be issued in 2004 and 2006 are assumed to bear interest at a rate of 6.0%.

⁽²⁾ Includes aggregate annual debt service on the Parity Subordinate Obligations, the Subordinate 2002 Bonds and the Subordinate 2003 Bonds. For purposes of the table only, assumes \$15.5 million of outstanding Parity Subordinate Obligations at an assumed rate of 3% which will be refunded with Senior Lien Revenue Bonds in 2004 and additional Commercial Paper being issued in 2003 and 2005 which will be refunded with Bonds in 2006. Additionally, for purposes of this table only the Subordinate 2002 Bonds and the Subordinate 2003 Bonds are assumed to bear interest at an average rate of 3.55%.

⁽³⁾ Calculated by dividing the difference between Net Pledged Revenues and Senior Debt Service Requirements by the Subordinate Debt Service Requirement. Does not include any Transfer.

⁽⁴⁾ Calculated by dividing Net Pledged Revenues by the sum of Senior Debt Service Requirement and Subordinate Debt Service Requirement. Does not include any Transfer.

⁽⁵⁾ Budgeted.

⁽⁶⁾ Projected.

Source: Ricondo & Associates, Inc.

LITIGATION

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 Subordinate 2002 Bonds or in any way contests the validity of the Subordinate 2002 Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Subordinate 2002 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Subordinate 2002 Bonds. Further, there is no pending litigation relating to the Airport System or the Department's operations or business pertaining thereto, except as follows:

Over the years, the City has had many lawsuits filed against it by residents (or homeowners' groups on behalf of residents) in areas near LAX, ONT and VNY which allege a taking of property or interest therein, or injuries and/or emotional distress to persons, by reason of noise due to the flight of aircraft. In addition, lawsuits and claims have been filed on behalf of various other institutions and business entities in the vicinity of LAX. However, prior to Fiscal Year 1997, all remaining jet noise litigation at LAX and VNY was dismissed. There is no pending jet noise litigation at LAX. Only six inverse condemnation and nuisance liability cases involving nonresidential properties currently remain. Traditionally claims greatly exceed the actual recovery. This principle has been well established by the results of trials and settlements which have been concluded in the past. The Department has no knowledge of any unasserted claims or assessments with respect to LAX that would, if asserted, have at least a reasonable probability of an unfavorable outcome.

Other claims and suits arising out of the ownership and operation of the Airport System are pending against the Department for alleged personal injuries and property damage, and for alleged liabilities arising out of other matters, all of which are of a nature usually incident to the conduct of such business. Until these claims or lawsuits are disposed of, the Department's liability, if any, cannot be determined. It should be noted that a significant portion of the claims relating to personal injuries and property damage are covered by a comprehensive insurance program

maintained by the Department. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Risk Management and Insurance.”

Some of the more significant lawsuits filed against the Department include the following:

In *Bonnie Austin, et al. v. J.B. Stringfellow, et al., the Deutsch Company and Boeing North America et al.*, Pacific Tube Company (Cross-Complainants) filed cross-complaints against the City, its Departments of Water and Power and the Department (Cross-Defendants) in Riverside Superior Court, Case No. 312339. In these actions the Cross-Complainants, generally, are alleging that Cross-Defendants knowingly generated, transported and disposed of hazardous waste at the Stringfellow superfund site, contributing to damages, costs or other items for which recovery is sought. Specifically, the Cross-Complainants are requesting judicial determination of the respective rights and duties of the City with respect to damages and the City’s responsibility to defend and indemnify the Cross-Complainants in the underlying action. Presently, under Riverside Superior Court Case Management Orders, the City’s response to the Cross-Complaint is stayed until further notice from the Court.

For a discussion of a recent challenge of the legality of the noise variance for LAX in *City of El Segundo, Petitioner vs. James Van Loben Sels, et al., Respondents, City of Los Angeles, Department of Airports, Real Party in Interest*, Case No. BS 051651, see “AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Noise Standards” herein.

Syncro Aircraft Interiors v. City of Los Angeles, Case No. BC215301, involves a landlord-tenant dispute. Syncro became a tenant of the Department in 1992 and has possession of some portions of Hangar 902 and all of Hangar 905 at VNY. Three separate leases document the leaseholds. Each lease contains a bilateral 60-day termination clause. Syncro initially operated an aircraft refurbishment business, but has now expanded its operations to include subletting the leaseholds for movie-making purposes. Since this latter use was not specified as a permitted use under the leases, among other reasons, the Department decided to terminate the leases under the 60-day termination provisions. Thereafter, Syncro obtained an injunction preventing the Department from evicting it and, in the present litigation alleges that the Department seeks to evict Syncro only on discriminatory grounds. Syncro also alleges various tort causes of action (including breach of contract) for which it seeks monetary compensation. The total amount of its claims is in excess of \$19 million. This case is currently scheduled for trial on March 25, 2003.

For a discussion of the resolution of a series of disputes related to landing fee calculations see “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Landing Fee Issues.”

In *Regency Outdoor Advertising v. City of Los Angeles*, the Plaintiff, Regency Outdoor Advertising (“Regency”), sought injunctive relief and \$18 million in monetary damages based on a theory of inverse condemnation. Regency is the owner of several billboards along Century Boulevard near LAX. Regency claimed that the Department’s construction of pylons and planting of trees blocked the view of its billboard and that the obstruction constituted a takings under the State Constitution. The case went to trial on January 7, 2002. Regency was unable to show damages. The Court found in favor of the Department and against Regency. The Court awarded the Department \$105,000 in attorneys’ fees. Regency has filed a Notice of Appeal. The Court records have been disseminated but no briefing schedule has yet been established.

Century Investments, Inc. v. City of Los Angeles. Plaintiff, Century Investments, Inc. (“Century”), owns real property located at 5625 Century Boulevard and leases space on its property to allow for two single-sided billboards to be placed thereon. Century alleged that the Department’s construction of pylons and planting of trees has caused the view of the billboards to be impaired, thereby causing the value of the billboards to decrease. Century claimed that the impairment has resulted in the lessee’s inability to pay rent to Century. Century sought injunctive relief and to be compensated for the taking of its property without compensation. On July 26, 2002 the Court granted the City’s Motion for Summary Judgment and dismissed the case. Century has filed a Notice of Appeal. The Appeal has not proceeded because the Court has not signed the final judgment. However, the Court has entered a Minute Order and will likely soon sign the final judgment.

The Department does not maintain a record of incidents which have arisen out of contract which might impose liability on the Department. All contracts for the Department contain a “hold harmless” clause and

provisions for insurance protecting the Department from liability arising therefrom. In addition, the Department is insured against all claims arising out of incidents on Airport property.

There are no claims or litigation arising out of or challenging any federal grants held by the Department to date.

TAX MATTERS

The following opinions expressed by Co-Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Subordinate 2002 Bonds, and Co-Bond Counsel express no opinion as of any date subsequent thereto or with respect to any pending or future legislation.

In the opinion of Kutak Rock LLP and Quateman & Zidell LLP, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Subordinate 2002 Bonds is excluded from gross income for federal income tax purposes. Interest on the Subordinate 2002 Bonds is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations, however, such interest is included in the alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporations over the alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations. Under existing laws, regulations, rulings and judicial decisions, Co-Bond Counsel is of the opinion that interest on the Subordinate 2002 Bonds is exempt from all present State of California personal income taxes.

The Internal Revenue Code of 1986, as amended (the "Code") imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Subordinate 2002 Bonds. The Department has covenanted in the Subordinate Indenture and the Tax Compliance Certificate to comply with certain restrictions, conditions and requirements designed to assure that interest on the Subordinate 2002 Bonds will not become includible in gross income. Failure to comply with these covenants may result in interest on the Subordinate 2002 Bonds being included in gross income retroactively from the date of issue of the Subordinate 2002 Bonds. The opinion of Co-Bond Counsel assumes compliance with such covenants.

Although Co-Bond Counsel has rendered an opinion that interest on the Subordinate 2002 Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Subordinate 2002 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. Co-Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Subordinate 2002 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 and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or owning the Subordinate 2002 Bonds.

From time to time, there are legislative proposals in the United States Congress that, if enacted, could alter or amend the federal income tax consequences referred to above or could adversely affect the market value of the Subordinate 2002 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to bonds issued prior to enactment. Each purchaser of the Subordinate 2002 Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Co-Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

UNDERWRITING

The Subseries 2002C1 Bonds are being purchased through negotiation by UBS PaineWebber Inc. Pursuant to and subject to the conditions set forth in a Bond Purchase Agreement, UBS PaineWebber Inc., will purchase the Subseries 2002C1 Bonds at an aggregate purchase price of \$37,319,655.81, which is comprised of the par amount of \$37,400,000 (less an underwriter's discount of \$80,344.19).

The Subseries 2002C2 Bonds are being purchased through negotiation by E. J. De La Rosa & Co., Inc. Pursuant to and subject to the conditions set forth in a Bond Purchase Agreement, E. J. De La Rosa & Co., Inc., will purchase the Subseries 2002C2 Bonds at an aggregate purchase price of \$19,936,928.44, which is comprised of the par amount of \$20,000,000 (less an underwriter's discount of \$63,071.56).

RATINGS

S&P, Moody's and Fitch have assigned ratings of "AA-/A-1+," "Aa3/VMIG 1" and "A+/F1" respectively, to the Subordinate 2002 Bonds, which ratings are based upon the Letter of Credit to be provided by the Banks. Such ratings will expire upon the expiration of the Letter of Credit.

Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings 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, 99 Church Street, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Department furnished the rating agencies with certain information and materials concerning the Subordinate 2002 Bonds and the Department. 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 such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the 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 Subordinate 2002 Bonds.

LEGAL MATTERS

The validity of the Subordinate 2002 Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP and Quateman & Zidell LLP, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in APPENDIX E hereto. Certain matters will be passed upon for the Department and the City by Rockard J. Delgadillo, Esq., City Attorney. Certain legal matters in connection with the Official Statement will be passed upon by Kutak Rock LLP and Quateman & Zidell LLP, Co-Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, and for the Banks by their counsel, Chapman & Cutler, Chicago, Illinois. All of the fees of Co-Bond Counsel and Co-Disclosure Counsel with regard to the issuance of the Subordinate 2002 Bonds are contingent upon the issuance and delivery of the Subordinate 2002 Bonds.

FINANCIAL ADVISORS

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California and Frasca & Associates, L.L.C. of New York, New York, as Co-Financial Advisors in connection with the authorization and delivery of the Subordinate 2002 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.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement and in the Appendices hereto, and in any other information provided by the Department or the Board, that are not purely historical, are forward-looking statements, including statements regarding the Department or the Board's expectations, hopes, intentions or strategies regarding the future. 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. It is important to note that the Department's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily 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, 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 would prove to be accurate.

FINANCIAL STATEMENTS

The audited financial statements of the Department for Fiscal Years 2002 and 2001 are included as part of APPENDIX B attached hereto. The financial statements referred to in the preceding sentence have been audited by Macias, Gini & Company LLP, independent auditors, as stated in its Independent Auditor's Report included in APPENDIX B. Macias, Gini & Company LLP has consented to the inclusion of the financial statements and their Independent Auditor's Report in APPENDIX B hereto.

NO CONTINUING DISCLOSURE OBLIGATION

The Subordinate 2002 Bonds are initially exempt from the rules of the Commission relating to continuing disclosure of annual financial information and certain material events. In connection with the issuance of prior issues of bonds, the Department covenanted to provide, or cause to be provided, to each nationally recognized municipal securities information repository (collectively, the "Repositories"), for purposes of Rule 15c2-12, certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain enumerated events. The Department has never failed to comply in all material respects with any continuing disclosure undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. Bondholders may obtain from the Repositories such information provided by the Department.

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 Indenture and agreements with any other parties 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 of Airports 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 and the Owners of any of the Subordinate 2002 Bonds.

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/ Lydia H. Kennard

Lydia H. Kennard
Executive Director

APPENDIX A
REPORT OF THE AIRPORT CONSULTANT

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City of Los Angeles
Department of Airports
Los Angeles International Airport
Revenue Bonds, Series 2002

REPORT OF THE AIRPORT CONSULTANT

Ricondo & Associates, Inc.
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December 4, 2002

Mr. Theodore Stein, Jr., President
Board of Airport Commissioners
Los Angeles World Airports
1 World Way
Los Angeles, CA 90045-2216

**RE: *City of Los Angeles, Department of Airports
Los Angeles International Airport
Revenue Bonds 2002 Series A, 2002 Subseries C1, 2002 Subseries C2, 2003 Series A, and
2003 Series B***

Dear Mr. Stein:

This report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A) in conjunction with the planned issuance by the Department of Airports (Department) of the City of Los Angeles (City) of its Revenue Bonds, 2002 Series A (fixed rate), and its Subordinate Revenue Bonds, 2002 Subseries C1 (variable rate), 2002 Subseries C2 (variable rate) – collectively, the Series 2002 Bonds – for Los Angeles International Airport (Airport). Additionally, the Department plans on issuing its Subordinate Revenue Bonds, 2003 Series A (variable) and 2003 Series B (variable) sometime during the first quarter of calendar year 2003 – collectively the Series 2003 Bonds. The Series 2002 Bonds and Series 2003 Bonds are collectively referred to herein as the Bonds. This report is intended for inclusion in the Official Statements for the Bonds as Appendix A: Report of the Airport Consultant.

Under the terms of the Master Trust Indenture (the Senior Lien Trust Indenture), as amended and supplemented, the Department may issue Senior Bonds secured from a pledge of Pledged Revenues. Further, the Senior Lien Trust Indenture permits the Department to create a charge or lien on Pledged Revenues ranking junior and subordinate to the charge or lien of the obligations issued pursuant to the Senior Lien Trust Indenture. The 2002 Series A Bonds will be issued pursuant to the Senior Lien Trust Indenture and a Seventh Supplemental Trust Indenture and the 2002 Subseries C1 and 2002 Subseries C2 Bonds will be issued pursuant to the terms of the Master Subordinate Trust Indenture (the Subordinate Lien Trust Indenture) and a First Supplemental Subordinate Trust Indenture, secured by a pledge of Pledged Revenues subordinate to obligations issued under the Senior Lien Trust Indenture. The Series 2003 Bonds are anticipated to be issued pursuant to the terms of the Subordinate Lien Trust Indenture, secured by a pledge of Pledged Revenues subordinate to obligations issued under the Senior Lien Trust Indenture.

The City owns the Airport, Ontario International Airport, Van Nuys Airport, and Palmdale Airport. (collectively, the Airport System). Pledged Revenues include certain income and revenue derived from the Airport, but exclude income and revenue received by the Department from the other airports.

The Bonds are being issued to: (1) reimburse the Department for its previous investment in certain capital projects including, but not necessarily limited to the LAX Enhancements program, construction of several airfield improvements, construction of cargo and hangar improvements, and



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construction of terminal improvements; (2) prepay certain rental credits owed to LAX TWO Corp. for interest cost savings; and (3) pay the cost of issuance of the Bonds.

This report includes examinations of the underlying economic base of the Airport's air trade area (Chapter 1); historical and projected air traffic activity at the Airport, including assumptions (Chapter 2); a description of existing facilities, including a summary of the use of the Series 2002 Bonds (Chapter 3); and legal and contractual framework and financial forecasts (Chapter 4) through Fiscal Year (FY) 2007.¹

On the basis of the assumptions and analyses described in this report, we are of the opinion that Pledged Revenues will be adequate to meet the Department's rate covenant requirement, as set forth in Section 5.04 of the Senior Lien Trust Indenture, Section 5.04 of the Subordinate Lien Trust Indenture, and Section 4.04 of the Parity Subordinate Trust Indenture (pursuant to which the Department's Commercial Paper Notes have been issued), during the projection period FY 2003 through FY 2007. Additional findings of these analyses include the following:

- The economic base of the Airport's Air Trade Area, as defined in this report, is strong and diversified and able to continue to support growth in demand for air transportation services at the Airport.
- Activity at the Airport will recover from the events of the terrorist attacks of September 11, 2001 and the economic slowdown. Growth in the short term is expected to result in activity recovering to FY 2001 levels generally within the FY 2005 to FY 2006 period. By comparison, the FAA projects that activity nationwide will recover to previous levels generally within the FY 2003 to FY 2004 period. Following this recovery in activity, long-term activity at the Airport is assumed to increase as a result of expected growth in population and continued strong economic conditions in the Los Angeles Consolidated Metropolitan Statistical Area (CMSA).
- Activity at the Airport will continue to be served over a broad base of airlines, with no one or two airlines dominating in market shares of activity during the projection period. The demand for air service in the Los Angeles CMSA will continue to be predominantly served through the Airport, particularly for international air traffic and nonstop travel to major medium and long-haul markets, as well as the high demand for travel in the West Coast corridor.
- The issuance of the Bonds is feasible in terms of producing interest cost savings and reasonable levels of rates and charges to the users of the Airport

¹ The City's fiscal year is the 12-month period ending June 30.



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facilities financed. Airline cost per enplanement is estimated to range from \$5.87 in FY 2002 to \$5.73 in FY 2007.

- Projected airline rates and charges together with other Department revenues are sufficient to ensure that all expenses of operation, maintenance, debt service, and fund deposit requirements can be generated through reasonable user fees. During the projection period, debt service coverage on the senior lien debt exceeds the 1.25 coverage requirement in each year of the analyses. In addition, the subordinate debt service coverage ratio is projected to also exceed the 1.10 coverage ratio requirement.

Except as defined otherwise, the capitalized terms used in this report are as defined in the Senior Lien Trust Indenture and the Master Subordinate Trust Indenture. The techniques used in this report are consistent with industry practices for similar studies in connection with revenue bond sales. The information and assumptions were provided by or reviewed with and agreed to by the Department. Accordingly, the forecasts reflect the Department's current plans (recognizing that these plans are subject to change during the projection period) and, in the judgment of the Department's management, fairly present the expected level of financial results during the projection period. While we believe the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Achievement of projections described in this report, therefore, is dependent upon the occurrence of future events, and variations may be material. R&A has no responsibility to update this report for events or circumstances occurring after the date of this report.

Sincerely,

RICONDO & ASSOCIATES, INC.

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1. ECONOMIC BASE FOR AIR TRANSPORTATION

This section profiles the Los Angeles regional economy, including current conditions and trends. In particular, the following discussion focuses on economic factors that will affect future demand for air passenger and freight services at Los Angeles International Airport (the Airport).

1.1 REGIONAL PERSPECTIVE

(1) Overview

The Los Angeles region, with an estimated 16.4 million residents, is ranked as the second largest metropolitan area in the United States. The Los Angeles economy is one of the nation's most dynamic and diverse. Basic industries extend far beyond the familiar three-tiers of aerospace, entertainment, and tourism that are typically associated with the regional economy. The 16 major industries, identified by the Los Angeles Economic Development Corporation, that provide the region's economic base range from health services and bio-medicine, to apparel design and toy manufacturing. The Los Angeles area's vibrant economic mix yielded more than \$619 billion in gross regional product in 2001—accounting for more than 45 percent of California's gross state product in that year.

Global companies are an important force in the Los Angeles area's diverse economy. For example, the region is headquarters to 21 public companies on the list of Fortune 500 firms. These companies operate throughout the U.S., the Pacific Rim, and other international locations and their activities extend to a network of more than 330 overseas offices, manufacturing plants, and other facilities. 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 Los Angeles area will continue to be a significant source of demand for both business air travel and air freight shipments over the long term.

In calendar year 2001, total trade activity (both imports and exports) between the Los Angeles Customs District² and the rest of the world was valued at \$212.5 billion. Over \$63.7 billion in goods from the Los Angeles Customs District were conveyed by air (29.9 percent of the total), and the Los Angeles Customs District accounted for more than 48.8 percent of California's total trade by air. While international trade activity has declined during the current recession, the Los Angeles Economic Development Corporation (LAEDC) forecasts a 3.6 percent increase in international trade during 2002. LAEDC estimates that total trade activity for the Los Angeles Customs District will increase to \$220.2 billion in 2002.

The Los Angeles region has a higher median household income than the nation, as a whole, as well as higher retail sales per household, and higher effective buying income⁴ per household than the U.S. overall. The Los Angeles area's population is also diverse: 45 percent of the region's residents are non-white, compared with 25 percent of total U.S.

¹ *The UCLA Anderson Forecast for the Nation and California*, March 2002; unpublished data, Center for the Continuing Study of the California Economy; Bay Area Economics.

² Detailed trade data (commodity, value, air value, vessel value) are tracked by Customs District and are published by the Foreign Trade Division of the U.S. Department of Commerce. These data can be used to make regional comparisons of total imports and exports, or imports and exports of particular commodities. The U.S. is classified into 45 Customs Districts, three of which are in California.

³ *International Trade Trends and Imports 2002*, Los Angeles Economic Development Corporation, 10 June 2002.

⁴ Effective buying income is disposable personal income available after taxes to purchase goods and services.

residents who are non-white. Over 55 percent of the 3.3 million immigrants who moved to California between 1990 and 2000 live in the Los Angeles area. These reinforcing elements (large population, high household incomes, diverse population with cultural and linguistic ties to nations around the world) create an outstanding source of demand for domestic and international air travel. Equally, the Los Angeles area's inviting attractions, mild climate, and proximity to mountains, desert, and ocean make it a top domestic and international air travel destination.

(2) Recent Trends and Forecasts

Although it enjoys many advantages, Los Angeles is nonetheless subject to the same national economic trends that affect the rest of the U.S. The September 11 (hereafter referred to as September 11) terrorist attacks occurred at a time when Los Angeles, as well as the rest of the country, was experiencing economic uncertainty owing to a downturn in the business cycle. Prior to the events of September 11, the impact of the faltering national economy on Los Angeles resulted in an increase in the region's unemployment rate from its low point of 4.2 percent in December 2000, to 5.4 percent in August 2001. Current data indicate that the Los Angeles area's unemployment rate is 6.1 percent (August 2002).⁵

Changes in the Los Angeles real estate market, another key regional economic indicator, also followed national patterns during the past year. In both Los Angeles and the U.S. as a whole, demand for office space is down as economic uncertainty and disappointing earnings have forced companies to scale back. Overall vacancy rates in the Los Angeles commercial real estate market increased from 11.5 percent in the second quarter of 2001 to 13.5 percent in the second quarter of 2002. Nationwide, office vacancy has increased from 10.3 percent in the second quarter of 2001 to 14.6 percent in the second quarter of 2002.⁶ According to market experts, the Los Angeles area's economic diversity has protected its office vacancy levels from the excessive volatility that many other metropolitan regions have experienced.⁷ CB Richard Ellis, a leading commercial real estate broker in the nation, forecasts a moderate recovery in office occupancy in the Los Angeles area in mid-2003. The decline in new construction, resumption in job growth, continued population growth, and endurance of small to mid-size companies in the region are expected to contribute to renewed health in the real estate market.

With the whole U.S. in a recession (i.e., a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income and wholesale-retail trade), a recovery in the Los Angeles region is unlikely to occur until the overall national economy improves. The national recession, which began in March 2001, was centered in manufacturing and high technology, but spread to other sectors after the terrorist attacks of September 11. Business investment stalled, equipment orders were cancelled, and inventories were reduced to minimal levels by manufacturers, distributors, and retailers alike. The already weakened business and consumer travel market fell significantly following the September 11 attacks. In the 12 months since September 11, growing concerns about corporate governance, questionable business accounting practices, another terrorist attack on the United States, and the potential disruption of oil supplies as a result of conflict in the Middle East have created anxiety among U.S. investors, consumers, employers and workers alike.

⁵ State of California Employment Development Department, Labor Market Information.

⁶ *National Office Vacancy Index, 2nd Quarter 2002*, CB Richard Ellis.

⁷ *Southern California Office Market Index, 2nd Quarter 2002*, CB Richard Ellis.

Continued uncertainty regarding the issues listed above has served to postpone a national economic recovery. However, barring a major flare-up in the Middle East, another terrorist incident in the U.S., a severe decline in consumer confidence, or further revelations of corporate corruption, the latest estimate from the UCLA Anderson Forecast indicates that the California economy will grow sluggishly for the remainder of 2002, but will regain normal growth rates in 2003 and 2004. The UCLA Anderson Forecast economists expect an upturn in California's economy to be driven by a recovery in the San Francisco Bay Area and by continued economic expansion in Southern California. They also predict that the recovery in both the U.S. and California will be mild. Because inflationary pressures are not anticipated, firms are not likely to raise prices and will therefore have to cut costs or raise their efficiency in order to maintain profitability. In turn, growth and employment will reach equilibrium at sustainable levels and will not return to the peaks experienced during the previous expansion.

The latest forecast from the LAEDC projects that improvement in Southern California's defense industries and international trade will provide the growth engine required to move the state's economy out of recession.⁹ Southern California's defense contractors and suppliers have benefited from increased military spending. Northrop Grumman, with operations in El Segundo and Palmdale, has been awarded a portion of the F-35 Joint Strike Fighter contract, while TRW, located in Redondo Beach, has been selected by NASA to develop the next generation space telescope. In FY 2003¹⁰, appropriations of \$366 billion are expected in defense spending and \$38 billion are expected in homeland security expenditures.¹¹ An unknown portion of these funds are expected to provide an injection into the Los Angeles area economy.

Given the region's fundamental economic strength, the forecasts from UCLA Anderson Forecast and LAEDC indicate that the Los Angeles area's economy is in a favorable position to weather the current recession. With 16 major industrial sectors and comparative advantages in the aerospace, entertainment, and tourism industries, the Los Angeles region has a strong and diverse economic base that will resume sustainable, long-term growth rates and will support continued growth in demand for air passenger and freight service.

(3) Role of the Airport

As a key gateway for domestic and international tourism and travel, Los Angeles International Airport is one of the world's busiest airports. During calendar year 2001, more than 61.6 million passengers passed through the Airport, as did more than 1.9 million tons of air cargo. One out of every four tons of air cargo shipped between the Pacific Rim and the U.S. passes through the Airport, giving it a crucial role in linking the region, the State of California, and the U.S. as a whole to international trading partners. In fact, the Airport ranks behind only Memphis, Hong Kong, and Anchorage as the fourth-busiest air cargo airport in the world.

⁸ *The UCLA Anderson Forecast for the Nation and California, 2nd Quarter Report*, 19 June 2002.

⁹ *2002-2003 Economic Forecast and Industry Outlook*, Los Angeles County Economic Development Corporation, 16 September 2002.

¹⁰ Federal government fiscal year ending September 30, 2003.

¹¹ "Effects of Sept. 11 on Economy Likely to Prove Long-Lasting," *Los Angeles Times*, 11 September 2002.

The Airport's direct employment is estimated at 59,000 workers, and an additional 349,000 jobs in the Los Angeles region are attributable to it. Approximately \$60 billion in annual economic activity is generated by the Airport.¹² The Airport is a modern aviation facility with an expanding air cargo system, numerous domestic and international air carriers, and direct links to destinations in the U.S. and abroad.

1.2 AIR TRADE AREA

For the purposes of this section, the Los Angeles region refers to the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area (Los Angeles CMSA), except as otherwise noted. As presented in **Exhibit 1.1**, the Los Angeles CMSA comprises a total of five counties in four Primary Metropolitan Statistical Areas (PMSAs). These include: the Los Angeles-Long Beach PMSA (Los Angeles County), the Orange County PMSA (Orange County), the Riverside-San Bernardino PMSA (Riverside and San Bernardino Counties), and the Ventura PMSA (Ventura County).

The Los Angeles region is served by five major passenger service airports: Los Angeles International (LAX); Burbank-Glendale-Pasadena Airport (BUR); Long Beach Airport (LGB); Ontario International Airport (ONT); and John Wayne Airport (SNA). Each of the five airport facilities caters to particular types of passenger demand, due to each facility's geographic proximity to businesses and population concentrations in the region, as well as the availability of specific types of air services. The BUR, LGB, ONT, and SNA airports primarily draw passengers from their surrounding areas for short- and medium-haul domestic service. Owing to its significantly greater capacity, LAX captures demand from the entire Los Angeles region for international service and for most long-haul domestic trips. Exhibit 1.1 graphically illustrates the location of the Los Angeles CMSA within the State of California, as well the location of the five commercial service airports within the Los Angeles CMSA. As shown, these five airports are within 50 miles of each other; however, these facilities collectively provide a regional network of commercial air service due to the densely populated and high-income characteristics of the Los Angeles CMSA, as discussed below.

As measured by population, the Los Angeles CMSA is the second-largest of the 16 consolidated markets in the United States, with approximately 17 million people in 2001. Only the New York-Northern New Jersey-Long Island CMSA represents a larger market for air transportation with approximately 21 million people; and the Los Angeles CMSA has approximately eight million more people than the third-largest consolidated market in the United States (the Chicago-Gary-Kenosha CMSA), as presented in the following table:

<u>Rank</u>	<u>Consolidated Metropolitan Statistical Area</u>	<u>Population</u> ¹
1	New York-Northern New Jersey-Long Island	21,303,000
2	LOS ANGELES-RIVERSIDE-ORANGE COUNTY	16,841,400
3	Chicago-Gary-Kenosha	9,261,100
4	Washington-Baltimore	7,804,600
5	San Francisco-Oakland-San Jose	7,248,900

¹ As of December 31, 2001.

Sources: Sales & Marketing Management, Survey of Buying Power, September 2002
Compiled by Ricondo & Associates, Inc.

¹² *Master Plan Facts: LAX and the Economy* (LAX Master Plan Web site: www.lax2015.org).

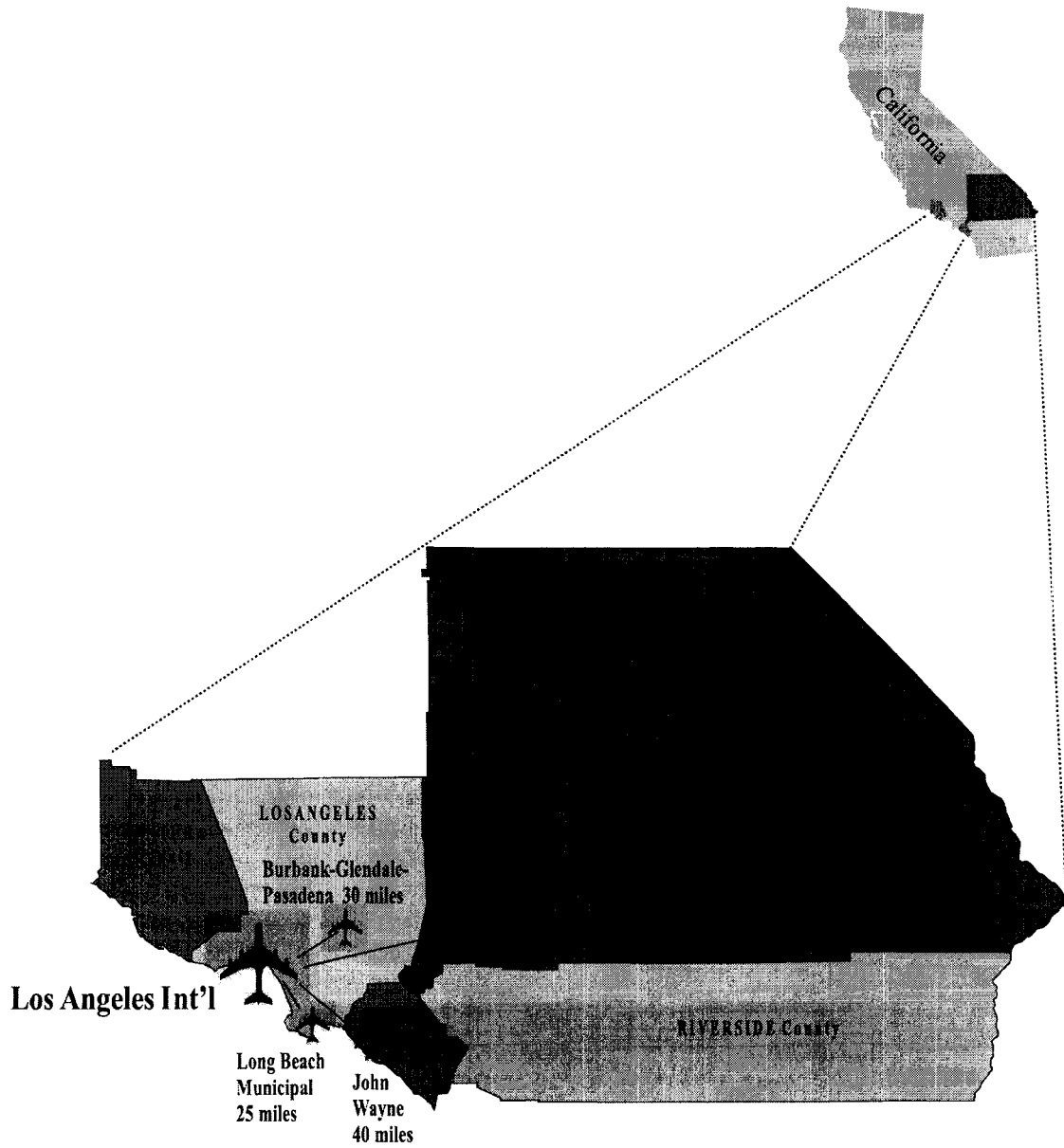


Exhibit 1.1

Not to Scale
north
(P) Los Angeles/airport-location.cdr

Air Trade Area and Alternative Facilities

The Los Angeles CMSA is also one of the more affluent consolidated markets in the United States. As measured by the number of households having Effective Buying Income (EBI) of \$150,000 or more, the Los Angeles CMSA is the third wealthiest consolidated market in the United States.¹³ Only the New York-Northern New Jersey-Long Island CMSA and the Chicago-Gary-Kenosha CMSA represent a more wealthy consolidated market in 2000, as presented in the following table:

<u>Rank</u>	<u>Consolidated Metropolitan Statistical Area</u>	<u>Households with EBI of \$150,000 or More</u> ¹
1	New York-Northern New Jersey-Long Island	359,800
2	Chicago-Gary-Kenosha	151,700
3	LOS ANGELES-RIVERSIDE-ORANGE COUNTY	137,900
4	Washington-Baltimore	128,200
5	San Francisco-Oakland-San Jose	109,200

¹ As of December 31, 2000.

Sources: Sales and Marketing Management, Survey of Buying Power, September 2002
Compiled by Ricondo & Associates, Inc.

1.3 DEMOGRAPHIC PROFILE

Data for population growth, age distribution, race, ethnicity, immigration, and educational attainment are presented below for the Los Angeles CMSA. Parallel data for California and the U.S. are also shown in order to provide a basis of comparison for trends in the Los Angeles region.

(1) Population Growth

Population growth is a key factor creating demand for air travel. According to the 1990 U.S. Census, the Los Angeles CMSA had a population of over 14.5 million; by 2000, the population had increased to nearly 16.4 million (see **Table 1.1**). During the 1990s, population growth in the Los Angeles was essentially equal to that of California and the nation. Nevertheless, by 2000, the population of the Los Angeles CMSA made up 48.3 percent of the entire population of the state of California, and 5.8 percent of the total U.S. population.

¹³ EBI is essentially disposable personal income and includes personal income less personal taxes (federal, state, and local), non-tax payments including fines and penalties, and personal contributions for social insurance. EBI is a composite measurement of market potential and indicates the general ability to purchase an available product or service.

TABLE 1.1

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

POPULATION TRENDS (1990-2020)

	Historical		Projected	
	1990	2000	2010	2020
Los Angeles CMSA	14,531,529	16,373,645	19,140,600	21,752,200
California	29,760,021	33,871,648	40,262,400	45,821,900
United States	248,709,873	281,421,906	299,862,000	324,927,000
<u>Average Annual Compounded Growth</u>		<u>1990-2000</u>	<u>2000-2010</u>	<u>2010-2020</u>
Los Angeles CMSA		1.2%	1.6%	1.3%
California		1.3%	1.7%	1.3%
United States		1.2%	0.6%	0.8%

Sources: U.S. Bureau of the Census Statistical Abstract of the United States 2000; California Department of Finance, Demographic Research Bureau.

The Los Angeles CMSA population forecast for the period 2000 to 2010 reflects growth of 1.6 percent per year, on average, which will nearly equal State growth (1.7 percent annually) and outpace the U.S. as a whole (0.6 percent per year). This forecast translates to 2,766,955 new Los Angeles area residents by 2010, and an additional 2,611,600 residents by 2020. It is expected that these new residents will generate additional demand for air service at the Airport.

(2) Age Distribution

Table 1.2 shows that the population of the Los Angeles area has a lower median age (32.3 years) compared to California (33.3 years) and the U.S. (35.3 years). The Los Angeles area's low median age reflects a higher percentage of residents aged 19 years and below, and a lower percentage of residents aged 55 years and above.

Participation rates for business and leisure air travel vary by age group. According to the Air Transport Association of America's (ATA) 1998 Air Travel Survey (latest data available), respondents who are aged between 35 and 54 account for 53 percent of air trips, compared with persons aged between 18 and 34 who account for 28 percent of total air trips, and persons 55 years and over who account for 19 percent. The 35 to 54 age bracket accounts for an even greater portion of business air travel. According to the ATA survey, 61 percent of business air trips were taken by respondents who are aged between 35 and 54.

TABLE 1.2

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

AGE DISTRIBUTION (2000)

	Los Angeles CMSA	California	United States
Total Population	16,373,645	33,871,648	281,421,906
By Age Group:			
19 and Under	31.5%	30.2%	28.6%
20 – 24	7.1%	7.0%	6.7%
25 – 34	15.9%	15.4%	14.2%
35 – 44	16.1%	16.2%	16.0%
45 – 54	12.2%	12.8%	13.4%
55 – 64	7.4%	7.7%	8.6%
65 and Above	9.9%	10.6%	12.4%
Total	100.0%	100.0%	100.0%
Median Age	32.3	33.3	35.3

Source: U.S. Bureau of the Census.

In 2000, Los Angeles CMSA residents aged 35 to 54 made up 28.3 percent of the population, compared with 29.0 percent of California residents and 29.4 percent of U.S. residents in this age cohort. This suggests that the age group with the greatest demand for air travel, particularly business air travel, is present in Los Angeles on a level commensurate with the general population in California and the U.S.

(3) Race, Ethnicity and Immigration

The Los Angeles CMSA has a diverse population that strengthens it competitively compared with other regions in the United States, and also contributes to demand for air travel. In a global economy, cultural diversity within a region's labor force is a distinct economic advantage since employees with cultural and linguistic ties to international markets give companies an edge in establishing trade and investment opportunities. A culturally diverse population also engenders business, family, and cultural ties that create demand for air travel services to and from homeland countries.

As shown in **Table 1.3**, there are differences between the racial and ethnic composition of the Los Angeles CMSA and that of California and the U.S. overall. According to 2000 U.S. Census data, the percentage of white residents in the Los Angeles area (55.1 percent) is lower than that of California (59.5 percent), and it is significantly lower than that of the U.S. overall (75.1 percent). Asians constituted a much larger share (10.4 percent) of the Los Angeles area population compared with the U.S. (3.6 percent), but constituted a slightly smaller percentage compared with the California (10.9 percent). Black Americans represented 7.6 percent of Los Angeles CMSA residents, compared with 6.7 percent of California's population and 12.3 percent of the U.S. population.

The percentage of Hispanics in the Los Angeles CMSA is dramatically higher than in California or the U.S. overall. Data from the 2000 U.S. Census show that 40.3 percent of Los

Angeles area residents are Hispanic, compared with 32.4 percent statewide and 12.5 percent nationally.

TABLE 1.3

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

POPULATION BY RACE AND ETHNICITY (2000)

	Los Angeles CMSA	California	United States
Total Population	16,373,645	33,871,648	281,421,906
Race			
White	55.1%	59.5%	75.1%
Black or African American	7.6%	6.7%	12.3%
American Indian and Alaska Native	0.9%	1.0%	0.9%
Asian	10.4%	10.9%	3.6%
Native Hawaiian and Other Pacific Islander	0.3%	0.3%	0.6%
Other Race	21.0%	16.8%	5.1%
More than One Race	<u>4.7%</u>	<u>4.7%</u>	<u>2.4%</u>
Total	100.0%	100.0%	100.0%
Persons of Hispanic Origin¹	40.3%	32.4%	12.5%

¹ Population data are broken down into Census defined race groups. Hispanic population is not a race group but rather a description of ethnic origin. Hispanics are included in all of the Census defined race groups.
Source: U.S. Bureau of the Census.

During the 1990s, immigration to the Los Angeles CMSA made up a large portion of all immigration to the state of California and the U.S. Between 1990 and 2000, more than 1.8 million immigrants declared the Los Angeles CMSA as their intended place of residence (see **Table 1.4**). Los Angeles accounted for 55.7 percent of total immigration to California and 17.5 percent of total immigration to the U.S. during that period.

TABLE 1.4

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

**IMMIGRANTS ADMITTED TO THE U.S. BY PLACE OF INTENDED RESIDENCE
(Federal Government Fiscal Years 1990-2000)**

Area	2000	Total 1990-2000
Los Angeles CMSA	108,241	1,859,989
California	217,753	3,341,407
United States	849,807	10,637,926
Los Angeles CMSA		
as % of California	49.7%	55.7%
as % of United States	12.7%	17.5%

Source: U.S. Department of Justice, Immigration and Naturalization Service.

The figures presented in **Table 1.5** provide a view of recent immigration to the Los Angeles CMSA by ranking the top 10 countries where immigrants originated. During the period from 1990 to 2000 (latest data available), 47.6 percent of the immigrants to the Los Angeles CMSA were from Mexico. In descending order, other top 10 countries where immigrants to the Los Angeles CMSA originate include: El Salvador, Philippines, Vietnam, Guatemala, Iran, China, Soviet Union (including Russia and Ukraine after 1996), Korea, and Taiwan. In total, these 10 countries sent more than 1.8 million immigrants to the Los Angeles CMSA between 1990 to 2000, accounting for 81.6 percent of all immigrants to the Los Angeles CMSA during that period.

Historically, Los Angeles has been a destination for newcomers since 1820, when waves of Anglo-Americans began to journey west. As early as 1870, a core community of Chinese immigrants was firmly established, joining Native Americans, Mexicans, Europeans, and American settlers. Today, the Los Angeles area is home to the largest Latino population (comprised mainly of people from Mexico, Guatemala, and El Salvador) of any major American city. It is also home to more Koreans than any city outside of North and South Korea, and more Filipinos than anywhere outside of Manila. Significant communities of Chinese, Taiwanese, Iranian, Vietnamese, and Russians also are located in the Los Angeles region.

This immigrant influx from various parts of the world has been a vital component in anchoring the economy of Southern California. Key sectors in the Los Angeles regional economy—entertainment, manufacturing, biotechnology, and construction—are reliant on the contribution of labor and investment from immigrant communities and entrepreneurs. Moreover, the port, shipping, and airport facilities in the Los Angeles region make it the largest center for international trade in the U.S. The racial, ethnic, cultural, and language diversity of the Los Angeles region is responsible for a flow of financial and social capital between immigrant communities and their home countries that serves to stabilize and strengthen the economy of the region as a whole.

TABLE 1.5

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

**IMMIGRANTS ADMITTED BY COUNTRY OF ORIGIN LOS ANGELES CMSA
(1990-2000)**

Country of Origin	2000	Total 1990-2000	% of Total Immigration 1990-2000
Mexico	44,059	885,109	47.6%
El Salvador	7,873	125,418	6.7%
Philippines	7,194	110,580	5.9%
Vietnam	5,453	99,684	5.4%
Guatemala	3,458	61,893	3.3%
Iran	2,590	53,443	2.9%
China	4,733	51,221	2.8%
Russia ¹	671	50,269	2.7%
Korea	2,965	45,266	2.4%
Taiwan	2,401	35,070	1.9%
All Other	26,844	342,036	18.4%
Total Los Angeles CMSA	108,241	1,859,989	100.0%

¹ 1990-1995 Soviet Union cited as selected country of birth; 1996-1998 Russia or Ukraine cited as selected country of birth.

Source: U.S. Department of Justice, Immigration and Naturalization Service; Bay Area Economics.

(4) Education

a. Educational Attainment

In absolute terms, the Los Angeles CMSA has a large number of educated adults. According to 2000 Census data, over 3.2 million Los Angeles CMSA residents over the age of 25 had a post-secondary degree (associate's, bachelor's, master's, or doctorate). This represents 32.2 percent of the population over the age of 25, and exceeds that for the U.S. overall (31.5 percent). However, compared with California, where 34.9 percent of the population over the age of 25 have post-secondary degrees, the Los Angeles CMSA lags in educational attainment (see **Table 1.6**).

Nevertheless, with its large and well-educated labor force, the Los Angeles region has performed successfully in retaining existing businesses and attracting new ones.

TABLE 1.6

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

EDUCATIONAL ATTAINMENT (2000)

	Los Angeles CMSA	California	United States
Population 25 years and over	10,067,719	21,255,789	181,984,640
No High School Diploma	26.1%	22.0%	18.4%
High School Graduate (incl. equivalency)	20.3%	20.5%	29.5%
Some College, No Degree	21.4%	22.5%	20.5%
Post-Secondary Degree	32.2%	34.9%	31.5%
<i>Associate's Degree</i>	7.1%	7.4%	6.5%
<i>Bachelor's Degree</i>	16.4%	17.7%	16.1%
<i>Master's Degree or Doctorate</i>	8.8%	9.8%	9.0%
Total	100.0%	100.0%	100.0%

Note: Percentages may not sum to totals due to rounding.
Source: U.S. Bureau of the Census.

In the Los Angeles region, 2.5 million residents over the age of 25 hold bachelor's or master's degrees, or a doctorate. According to the Air Transport Association, persons with college degrees are more likely to use air service. For example, the Air Transport Association's *1998 Air Travel Survey* (latest data available) indicates that 58 percent of respondents with college degrees traveled by air on business in the past 12 months, compared with 28 percent for respondents with "some college," and 15 percent for those with "no college" (high school graduate or less). With respect to leisure travel, 45 percent of respondents with college degrees indicated that they have flown by air in the past 12 months, compared with 31 percent for those with "some college," and 24 percent for those with "no college."

b. Major Higher Educational Institutions

The Los Angeles region is home to numerous public and private institutions of higher education, including the University of California at Los Angeles (UCLA), Claremont Colleges (Claremont, Pomona, Harvey Mudd, Scripps, Pitzer), University of Southern California (USC), University of California at Irvine (UCI), University of California at Riverside, Loyola-Marymount University, Occidental College, eight California State Universities, and many public and private two-year colleges. These institutions include world-renowned facilities such as the medical centers and hospitals at UCLA and USC, outstanding engineering research centers such as Caltech and Cal Poly Pomona, film schools at USC and UCLA, and academically rigorous liberal arts programs at the five Claremont Colleges. In total, approximately 633,000 students are enrolled in public and private post-secondary academic institutions in the Los Angeles region. The greater opportunity for higher education afforded by these schools contributes to the region's high levels of educational attainment. In addition, the region's scholastic institutions support demand for air travel through academic meetings and conferences, visiting professorships, study-abroad programs, and individual student and faculty travel (see **Table 1.7**).

TABLE 1.7

*Department of Airports, City of Los Angeles
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LOS ANGELES CMSA COLLEGE AND UNIVERSITY ENROLLMENT (2002)

Institution	Location	Enrollment¹
Mt. San Antonio College	Walnut	38,954
University of California at Los Angeles	Los Angeles	36,890
Santa Monica College	Santa Monica	31,925
Glendale Community College	Glendale	31,407
California State University Long Beach	Long Beach	30,920
Pasadena City College	Pasadena	29,600
California State University Northridge	Northridge	29,066
University of Southern California	Los Angeles	28,739
East Los Angeles College	Monterey Park	28,527
California State University Fullerton	Fullerton	28,381
Cerritos College	Norwalk	24,564
El Camino College	Torrance	23,503
University of California at Irvine	Irvine	21,885
California State University Los Angeles	Los Angeles	19,476
California State University Polytechnic - Pomona	Pomona	19,041
Los Angeles Valley College	Valley Glen	17,606
Los Angeles Pierce College	Woodland Hills	17,100
Los Angeles City College	Los Angeles	16,000
California State University San Bernardino	San Bernardino	14,910
Los Angeles Trade-Technical College	Los Angeles	14,000
De Vry Institute of Technology	Pomona	13,242
California State University Dominguez Hills	Carson	13,049
University of California at Riverside	Riverside	12,424
College of the Canyons	Santa Clarita	10,891
Antelope Valley College	Lancaster	10,728
Citrus College	Glendora	10,699
University of La Verne	La Verne	8,306
Loyola Marymount University	Los Angeles	7,972
Pepperdine University	Malibu	7,948
Los Angeles Mission College	Sylmar	6,950
Azusa Pacific University	Azusa	6,835
Claremont Colleges	Claremont	5,500
Biola University	La Mirada	4,105
California Lutheran University	Thousand Oaks	3,050
University of La Verne	La Verne	1,956
De Vry Institute of Technology	West Hills	1,932
California Institute of Technology	Pasadena	1,858
Occidental College	Los Angeles	1,650
Woodbury University	Burbank	1,342
Total		632,931

¹ Includes both part-time and full-time student enrollment.

Sources: *2002 Book of Lists*, Los Angeles Business Journal; *2002 Book of Lists*, Orange County Business Journal; Bay Area Economics.

1.4 INCOME

(1) *Per Capita Income and Household Income*

Because 31.5 percent of the Los Angeles CMSA's 16.4 million residents are 19 years of age or younger (compared with 30.2 percent in California and 28.6 percent in the U.S.—see age distribution data in Table 1.2), and because the majority of this group are presumably still in school and not full-time workers, the 2002 per capita income figures for the Los Angeles CMSA are skewed with a downward bias and lag those of both California and the U.S. (see **Table 1.8**). While the Los Angeles CMSA lags California in terms of median household income in 2002, it exceeds U.S. median household income by 12.2 percent.

For the purpose of assessing the Los Angeles CMSA as an air travel market, it is more useful to look at the distribution of upper income households rather than per capita income data. **Table 1.9** shows that in 2002, 2.4 million Los Angeles CMSA households have an income of \$60,000 or more. This represents 44.9 percent of all California households with income greater than \$60,000. According to the Air Transport Association's *1998 Air Travel Survey* (latest data available), 68 percent of survey respondents with household income over \$60,000 travel by air at least once per year, compared with 41 percent for respondents with incomes between \$40,000 and \$60,000, and 29 percent for those with incomes between \$20,000 and \$40,000. From 2002 to 2007, it is projected that households with income greater than \$60,000 in the Los Angeles CMSA will increase by 419,152. This will account for 39.4 percent of the increase in households in this income category in the entire state of California (see Table 1.9).

TABLE 1.8

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

INCOME TRENDS (2002-2007)

	Los Angeles CMSA	California	United States
Per Capita Income:			
2002 estimate	\$23,770	\$25,649	\$24,636
2007 forecast	\$26,883	\$30,026	\$29,968
AAG 2002-2007	2.5%	3.2%	4.0%
Median Household Income:			
2002 estimate	\$52,821	\$54,280	\$47,065
2007 forecast	\$58,419	\$62,035	\$54,739
AAG 2002-2007	2.0%	2.7%	3.1%

Source: Claritas, Inc.

Note: AAG = Average annual compounded growth.

Table 1.9

*Department of Airports, City of Los Angeles
Los Angeles International Airport
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HOUSEHOLDS WITH INCOME OF \$60,000 AND ABOVE (2002-2007)

Location	2002 (Estimate)	2007 (Forecast)	2002-2007 Growth
Los Angeles CMSA	2,440,456	2,859,608	419,152
California	5,431,964	6,495,629	1,063,665
United States	42,421,543	52,938,125	10,516,582
Los Angeles CMSA: as % of California	44.9%	44.0%	39.4%

Source: Claritas, Inc.

(2) *Per household effective buying power*

According to *Sales and Marketing Management Survey of Buying Power*, the 2002 effective buying income of \$54,029 per household for the Los Angeles CMSA is 9.8 percent higher than that of the U.S., but lags that of California (see **Table 1.10**). Estimates for 2007 show Los Angeles CMSA per household EBI will exceed that of the U.S. by 3.0 percent, although the region will still lag per household EBI for the state of California overall.

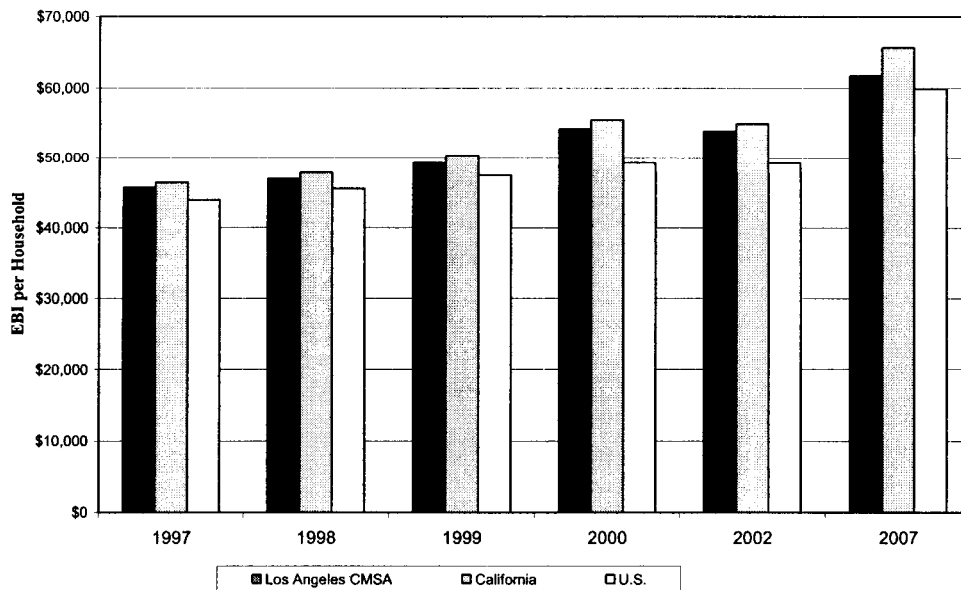
Table 1.10

Department of Airports, City of Los Angeles
 Los Angeles International Airport
 Report of the Airport Consultant

EFFECTIVE BUYING INCOME PER HOUSEHOLD (1997-2007)

Year	EBI Per Household		
	Los Angeles CMSA	California	United States
<u>Historical</u>			
1997	\$45,718	\$46,379	\$43,956
1998	\$46,845	\$47,771	\$45,504
1999	\$49,219	\$50,344	\$47,373
2000	\$54,399	\$55,662	\$49,252
2001 ¹	NA	NA	NA
2002	\$54,029	\$55,113	\$49,218
<u>Projected</u>			
2007	\$61,761	\$65,718	\$59,934
<u>% Average Annual Compounded Growth</u>			
1997-2002	3.4%	3.5%	2.3%
2002-2007	2.7%	3.6%	4.0%

Effective Buying Income



Notes:

1. Source moved EBI estimate forward one year with 2002 publication.
 Effective buying income is disposable personal income available after taxes to purchase goods and services.

Sources: Sales & Marketing Management, Survey of Buying Power, 1997-2002.
 Compiled by Bay Area Economics; Ricondo & Associates.

1.5 EMPLOYMENT

(1) 1991-2001 Labor Force Trends and Unemployment Rates

Table 1.11 shows that between 1991 and 2001, the Los Angeles CMSA labor force grew at an average annual rate of approximately 1.3 percent — slightly lower than the labor force growth rate in California (1.4 percent), but higher than that of the U.S. (1.2 percent). In absolute terms, the labor force in the Los Angeles CMSA increased by 982,209 workers between 1991 and 2001. This accounts for 45.0 percent of the labor force growth in the entire state of California during the same period (see Table 1.11).

Throughout the period 1991 to 2001, the non-seasonally adjusted annual unemployment rate in the Los Angeles CMSA exceeded that of the U.S. overall. Conversely, the Los Angeles CMSA unemployment rate was lower than California's in all but three years from 1991 to 2001.

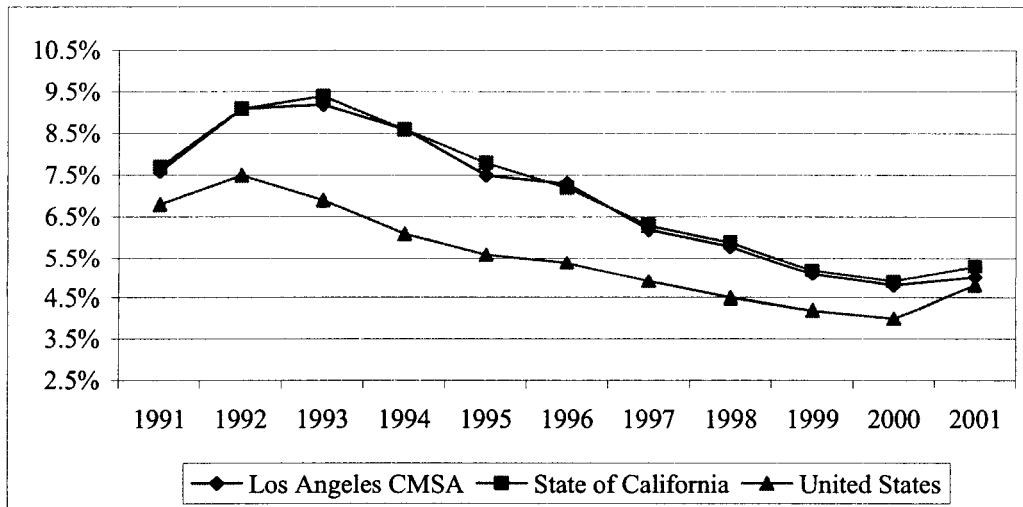
In August 2002 (latest data available), the non-seasonally adjusted unemployment rate for the Los Angeles CMSA was 6.1 percent. This compares favorably to California overall where the non-seasonally adjusted unemployment rate was 6.2 percent. The non-seasonally adjusted unemployment rate for the U.S. was 5.7 percent in August 2002.

TABLE 1.11

Department of Airports, City of Los Angeles
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CIVILIAN LABOR FORCE AND UNEMPLOYMENT RATES (1991-2001)

Year	Civilian Labor Force			Year	Unemployment Rates ¹		
	Los Angeles CMSA	California	United States		Los Angeles CMSA	California	United States
1991	7,414,991	15,178,000	126,346,000	1991	7.6%	7.7%	6.8%
1992	7,454,592	15,335,000	128,105,000	1992	9.1%	9.1%	7.5%
1993	7,356,993	15,340,000	129,200,000	1993	9.2%	9.4%	6.9%
1994	7,402,394	15,450,000	131,056,000	1994	8.6%	8.6%	6.1%
1995	7,357,495	15,412,000	132,304,000	1995	7.5%	7.8%	5.6%
1996	7,399,196	15,512,000	133,943,000	1996	7.3%	7.2%	5.4%
1997	7,612,697	15,947,000	136,297,000	1997	6.2%	6.3%	4.9%
1998	7,861,598	16,337,000	137,673,000	1998	5.8%	5.9%	4.5%
1999	7,983,999	16,597,000	139,368,000	1999	5.1%	5.2%	4.2%
2000	8,210,700	17,091,000	140,863,000	2000	4.8%	4.9%	4.0%
2001	8,397,200	17,362,300	141,815,000	2001	5.0%	5.3%	4.8%
% Average Annual Compounded Growth							
1991 - 2001	1.3%	1.4%	1.2%				



Note (1): Non-seasonally adjusted.

Sources: State of California Employment Development Department, Labor Market Information; U. S. Dept. of Labor, Bureau of Labor Statistics; Bay Area Economics; Ricondo & Associates.

(2) *Employment projections*

Between 2000 and 2010, the Southern California Association of Governments projects that the Los Angeles CMSA will add more than 1.3 million jobs. **Table 1.12** shows that 682,034 new jobs will be added to the Los Angeles CMSA economy between 2000 and 2005, at an average annual compounded growth rate of 1.8 percent. From 2005 to 2010, the Los Angeles CMSA will add 663,549 new jobs, reflecting an average annual compounded growth rate of 1.6 percent.

TABLE 1.12

*Department of Airports, City of Los Angeles
Los Angeles International Airport
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EMPLOYMENT PROJECTIONS (1990-2010)

Location	Historical		Projections	
	1990	2000	2005	2010
Los Angeles CMSA	6,308,300	7,343,539	8,025,573	8,689,122
California	14,319,200	16,245,600	n.a.	n.a.
United States	115,570,000	131,903,000	n.a.	n.a.
<u>Average Annual Compounded Growth</u>		<u>1990-2000</u>	<u>2000-2005</u>	<u>2005-2010</u>
Los Angeles CMSA		1.5%	1.8%	1.6%
California		1.3%	n.a.	n.a.
United States		1.3%	n.a.	n.a.

Sources: Southern California Association of Governments; State of California Employment Development Department; U.S. Dept. of Commerce, Bureau of Labor Statistics.

(3) *Major employers in the Los Angeles CMSA*

The top 25 private sector employers in the Los Angeles CMSA have a total of more than 250,000 workers as shown in **Table 1.13**. These companies range from internationally dominant aerospace companies (Boeing, Lockheed, and Northrop Grumman), to Disney, a world-wide entertainment company, to a regional grocery chain, health care providers, energy companies, and national discount retailers.

In addition to providing a major source of local employment, these top 25 companies depend on air passenger and freight service for the continued health and expansion of their business enterprises. LAX's central location, and its role as an international passenger and air cargo hub, make it an important resource for the Los Angeles area, and especially for the region's large private sector employers (Target, Home Depot).

TABLE 1.13

*Department of Airports, City of Los Angeles
Los Angeles International Airport
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TOP 25 PRIVATE SECTOR EMPLOYERS IN THE LOS ANGELES CMSA (2002)

Rank	Company Name	Industry	Location	Local Employees
1	Boeing North America Inc.	Aerospace	Long Beach	38,534
2	The Walt Disney Co.	Entertainment	Burbank	21,275
3	Ralph's Grocery Co.	Grocery	Los Angeles	16,983
4	SBC Communications Inc.	Telecommunications	Los Angeles	16,853
5	Bank of America	Finance	Los Angeles	16,348
6	Target	Retail	Los Angeles	14,681
7	Kelly Services	Personnel Services	Torrance	12,500
8	Edison International	Energy	Rosemead	10,100
9	Albertson's Inc.	Grocery	Los Angeles	9,500
10	St. Joseph Health System	Healthcare	Orange	9,435
11	ABM Industries Inc.	Building Maintenance	Los Angeles	9,200
12	Northrop Grumman Corp.	Aerospace	Los Angeles	8,700
13	Tenet Healthcare Corp.	Healthcare	Los Angeles	8,389
14	Federated Department Stores Inc.	Retail	Los Angeles	7,400
15	Medical Management Consultants Inc.	Healthcare	Los Angeles	6,521
16	Providence Health System	Healthcare	Burbank	5,324
17	Washington Mutual F. A.	Finance	Chatsworth	5,211
18	Sempra Energy	Energy	Los Angeles	5,099
19	Home Depot Inc.	Retail	Los Angeles	4,485
20	Pacificare Health Systems	Healthcare	Newport Beach	4,386
21	Amgen	Biotechnology	Thousand Oaks	4,220
22	Fluor Corp.	Engineering	Aliso Viejo	4,083
23	Lockheed Martin Corp.	Aerospace	Palmdale	3,827
24	Memorial Health Services	Healthcare	Long Beach	3,718
25	Farmers Insurance Group	Insurance	Los Angeles	3,622
Total				250,394

Sources: 2002 Book of Lists, Los Angeles Business Journal; 2002 Book of Lists, Orange County Business Journal; 2002 Book of Lists, San Fernando Valley Business Journal; Dun & Bradstreet.

The Los Angeles CMSA is also headquarters for 21 companies on the list of Fortune 500 firms (see **Table 1.14**). These major American corporations are estimated to employ approximately 73,000 local workers. In addition, they operate over 330 office, manufacturing plants, and other facilities outside the U.S. The Los Angeles-based Fortune 500 companies are an important source of demand for business air travel as well as air cargo services. The degree to which they, their vendors, customers, and partners rely on face-to-face meetings, conferences, and expedited air shipments will continue to grow as their level of overall business activity increases.

TABLE 1.14

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

FORTUNE 500 HEADQUARTERS LOCATED IN THE LOS ANGELES CMSA (2002)

Area Company	Headquarters	Los Angeles CMSA Employment	Revenue (\$ million)	Fortune 500 Rank
Los Angeles PMSA		52,154	\$122,243	
Walt Disney	Burbank	21,275	\$25,269	73
Occidental Petroleum	Los Angeles	871	\$14,126	146
Northrop Grumman	Los Angeles	8,700	\$13,558	151
Edison International	Rosemead	3,699	\$12,183	165
Computer Sciences	El Segundo	2,360	\$10,524	181
Health Net	Woodland Hills	2,500	\$10,064	192
Unocal	El Segundo	350	\$6,752	278
Countrywide Credit Industries	Calabasas	2,614	\$4,819	345
Mattel	El Segundo	1,738	\$4,804	347
Dole Food	Westlake Village	542	\$4,688	353
KB Home	Los Angeles	2,110	\$4,646	355
Jacobs Engineering Group	Pasadena	506	\$3,957	415
Avery Denison	Pasadena	2,358	\$3,803	430
Hilton Hotels	Beverly Hills	2,531	\$3,050	499
Orange County PMSA		14,579	\$53,489	
Ingram Micro	Santa Ana	3,500	\$25,187	75
Pacificare Health Systems	Santa Ana	4,386	\$11,844	169
Fluor	Aliso Viejo	2,500	\$8,972	214
First American Corp	Santa Ana	1,732	\$3,751	437
Pacific Lifecorp	Newport Beach	2,461	\$3,735	439
Ventura PMSA		7,201	\$16,445	
Wellpoint Health Networks	Thousand Oaks	2,981	\$12,429	162
Amgen	Thousand Oaks	4,220	\$4,016	403
Los Angeles CMSA		73,934	\$192,177	

Sources: *Fortune Magazine*, 15 April 2002; *2002 Book of Lists*, Los Angeles Business Journal; *2002 Book of Lists*, Orange County Business Journal; *2002 Book of Lists*, San Fernando Valley Business Journal; Dun & Bradstreet; Bay Area Economics.

(4) *Employment trends by industry*

The distribution of employment in most industries in the Los Angeles CMSA is similar to that of California and the U.S., although the growth rates within each industry sector between 1991 and 2001 varied for the three geographies (see **Table 1.15**). From 1991 to 2001, 745,800 new jobs were added to the Los Angeles CMSA economy. While the average annual compounded employment growth in the Los Angeles CMSA between 1991 and 2001 was 1.2 percent, the region trailed California, which had 1.7 percent average annual compounded employment growth, and the U.S., which had 2.0 percent average annual compounded employment growth over the 10-year period.

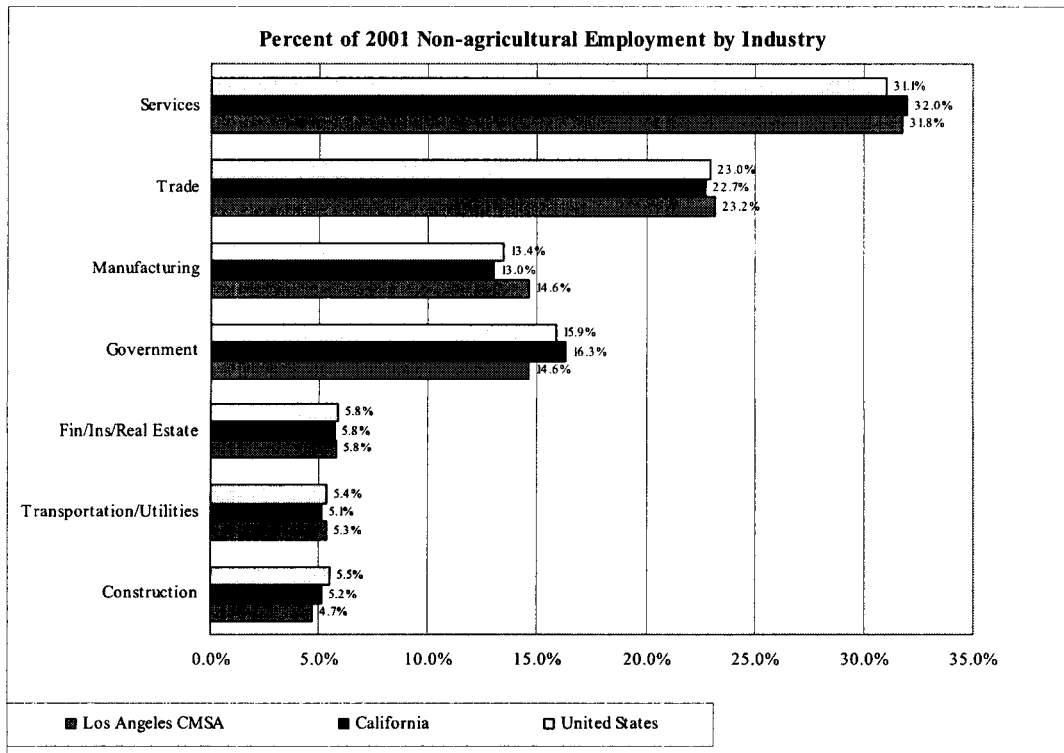
In the Los Angeles CMSA, construction employment had the highest average annual growth rate from 1991 to 2001, while employment in services had the highest average annual growth rate in California and the U.S. over the same period. Employment in services in the Los Angeles CMSA ranks second in average annual growth. Manufacturing employment fell in all three geographies at a rate of 1.1 percent per year in the Los Angeles CMSA, 0.3 percent per year in California, and 0.4 percent per year in the U.S. While employment in finance/insurance/real estate from 1991 to 2001 fell in the Los Angeles CMSA at a rate of 0.1 percent per year, it grew by 0.5 percent per year in California, and by 1.5 percent per year in the U.S. From 1991 to 2001 government employment grew at an average annual rate of 1.4 percent in the Los Angeles CMSA, and 1.3 percent in both California and the U.S. Trade grew at a higher average annual rate in the U.S. (1.8 percent) than in California (1.3 percent) or the Los Angeles CMSA (1.0 percent) from 1991 to 2001 (see Table 1.15).

TABLE 1.15

Department of Airports, City of Los Angeles
 Los Angeles International Airport
 Report of the Airport Consultant

EMPLOYMENT TRENDS BY MAJOR INDUSTRY DIVISION (1991-2001)

Industry ¹	Los Angeles CMSA			California			United States		
	1991	2001	% AAG	1991	2001	% AAG	1991	2001	% AAG
Services	1,730,900	2,167,000	2.3%	3,411,700	4,688,400	3.2%	28,336,000	40,970,000	3.8%
Trade	1,424,500	1,579,400	1.0%	2,922,100	3,335,500	1.3%	25,365,000	30,298,000	1.8%
Manufacturing	1,116,600	996,800	-1.1%	1,970,900	1,904,400	-0.3%	18,406,000	17,695,000	-0.4%
Government	868,600	995,600	1.4%	2,090,600	2,383,000	1.3%	18,402,000	20,933,000	1.3%
Fin/Ins/Real Estate	402,500	396,800	-0.1%	799,400	843,500	0.5%	6,646,000	7,712,000	1.5%
Transportation/Utilities	292,400	363,400	2.2%	613,300	750,400	2.0%	5,755,000	7,065,000	2.1%
Construction ²	240,400	322,700	3.0%	599,500	756,900	2.4%	5,339,000	7,250,000	3.1%
Total	6,075,900	6,821,700	1.2%	12,407,500	14,662,100	1.7%	108,249,000	131,923,000	2.0%



¹ Non-agricultural employment only; average annual employment data presented.

² Includes mining employment.

AAG = Average annual compounded growth.

Sources: State of California Employment Development Dept., Labor Market Information Division; U. S. Dept. of Labor, Bureau of Labor Statistics; Bay Area Economics; Ricondo & Associates.

(a) *Construction*

Approximately 322,700 workers were employed in the construction industry in the Los Angeles CMSA in 2001, accounting for 4.7 percent of total non-agricultural employment. This percentage is lower than in California and the U.S. where construction jobs accounted for 5.2 percent and 5.5 percent of non-agricultural employment in 2001, respectively.

Non-Residential Construction Activity

Non-residential construction activity in the Los Angeles CMSA went through two distinct cycles during the 1990s. From 1990 to 1995, the valuation of non-residential building permits decreased at a rate of 11.8 percent per year from \$6.6 billion in 1990 to \$3.5 billion in 1995. Following this decline, building activity for non-residential projects underwent a resurgence, climbing from \$3.5 billion in 1995 to \$6.9 billion in 2000—an annual growth rate of 14.4 percent over the five-year period (see **Table 1.16**). From 2000 to 2001, building permit valuation for non-residential construction in the Los Angeles CMSA fell from \$6.9 billion to \$6.6 billion, a decline of 4.1 percent.

TABLE 1.16

*Department of Airports, City of Los Angeles
Los Angeles International Airport
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NON-RESIDENTIAL BUILDING PERMIT VALUATION (\$ MILLIONS)

<u>Year</u>	<u>Los Angeles CMSA</u>
1990	\$6,561
1991	\$4,733
1992	\$3,581
1993	\$3,402
1994	\$3,622
1995	\$3,508
1996	\$3,762
1997	\$4,562
1998	\$6,180
1999	\$7,027
2000	\$6,876
2001	\$6,591
<u>Average Annual Compounded Growth</u>	
1990-1995	-11.8%
1995-2000	14.4%
1990-2000	0.5%
1990-2001	0.0%

Source: Construction Industry Research Board.

Building Permit Valuation

The recessionary and post-recessionary period of the early 1990s saw a marked decrease in building permit valuation between 1990 and 1995 in both the Los Angeles CMSA and California. In the Los Angeles CMSA, building permit valuation fell from approximately \$15.7 billion in 1990 to approximately \$9.0 billion in 1995—an average annual compounded decrease of 10.5 percent per year. The situation in California as a whole was not much better as the valuation of building permits fell at an average annual rate of 8.0 percent per year from 1990 to 1995 (see **Table 1.17**).

A significant turnaround occurred from 1995 to 2000 in the Los Angeles CMSA where building permit valuation increased from approximately \$9.0 billion in 1995 to approximately \$17.6 billion in 2000—an average annual growth rate of 14.4 percent. Building permit valuations in California performed still better, growing at an average annual rate of 16.2 percent between 1995 and 2000. Over the entire 10-year period, building permit valuation in the Los Angeles CMSA grew at an average annual rate of 1.2 percent, while in California, building permit valuation grew at an average annual rate of 3.4 percent per year. From 2000 to 2001, building permit valuation in the Los Angeles CMSA grew from approximately \$17.6 billion to approximately \$18.1 billion, an increase of 2.4 percent. This compares favorably with California overall which saw a decrease in building permit valuation of 2.6 percent.

TABLE 1.17

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

BUILDING PERMIT VALUATION (\$ MILLIONS)

Year	Los Angeles CMSA	California
1990	\$15,689	\$33,422
1991	\$11,180	\$24,603
1992	\$9,370	\$22,607
1993	\$8,285	\$20,510
1994	\$9,652	\$22,742
1995	\$9,015	\$22,033
1996	\$9,640	\$24,873
1997	\$11,882	\$31,022
1998	\$14,504	\$36,952
1999	\$17,258	\$42,366
2000	\$17,643	\$46,767
2001	\$18,074	\$45,549
Average Annual Compounded Growth		
1990-1995	-10.5%	-8.0%
1995-2000	14.4%	16.2%
1990-2000	1.2%	3.4%
1990-2001	1.3%	2.9%

Source: Construction Industry Research Board.

(b) *Manufacturing*

Approximately 996,800 workers were employed in the manufacturing sector in the Los Angeles CMSA in 2001. In 2001, manufacturing employment accounted for 14.6 percent of non-agricultural employment in the Los Angeles CMSA. This exceeds the percentage in California where manufacturing jobs made up 13.0 percent, and the U.S. where they made up 13.4 percent of non-agricultural employment in 2001.

(c) *Trade*

Approximately 1.6 million workers were employed in wholesale and retail trade in the Los Angeles CMSA. In 2001, trade employment accounted for approximately 23.2 percent of non-agricultural employment in the Los Angeles CMSA. In California and the U.S., trade jobs accounted for approximately 22.7 percent and approximately 23.0 percent of non-agricultural employment in 2001, respectively.

Import and Export Value

Table 1.18 shows that in 1999 (latest data available) the Los Angeles CMSA exported over \$36 billion in goods to international destinations. In that year, the Los Angeles CMSA was the fourth largest exporting metropolitan area in the United States.

TABLE 1.18

*Department of Airports, City of Los Angeles
Los Angeles International Airport
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TOP 20 EXPORTING METROPOLITAN AREAS IN THE U.S. (\$ BILLIONS, 1999)

Rank	Metropolitan Area	Exports
1	New York-Northern New Jersey-Long Island, NY-NJ-CT-PA CMSA	\$51.3
2	San Francisco-Oakland-San Jose, CA CMSA	\$47.5
3	Seattle-Tacoma-Bremerton, WA CMSA	\$37.8
4	Los Angeles-Riverside-Orange County, CA CMSA	\$36.9
5	Detroit-Ann Arbor-Flint, MI CMSA	\$30.0
6	Chicago-Gary-Kenosha, IL-IN-WI CMSA	\$22.3
7	Houston-Galveston-Brazoria, TX CMSA	\$19.0
8	Boston-Worcester-Lawrence, MA-NH-ME-CT CMSA	\$15.4
9	Miami-Fort Lauderdale, FL CMSA	\$14.3
10	Philadelphia-Wilmington-Atlantic City, PA-NJ-DE-MD CMSA	\$14.2
11	Minneapolis-St. Paul, MN-WI MSA	\$12.4
12	Dallas-Fort Worth, TX CMSA	\$12.2
13	Washington-Baltimore, DC-MD-VA-WV CMSA	\$9.5
14	Portland-Salem, OR-WA CMSA	\$9.5
15	San Diego, CA MSA	\$9.0
16	El Paso, TX MSA	\$7.8
17	Atlanta, GA MSA	\$7.6
18	Phoenix-Mesa, AZ MSA	\$7.5
19	Cincinnati-Hamilton, OH-KY-IN CMSA	\$6.9
20	Cleveland-Lorain-Elyria, OH MSA	\$5.9

Source: U.S. Dept. of Commerce, Bureau of the Census, International Trade Administration, Exporter Location Series; Bay Area Economics.
Compiled by Bay Area Economics.

Table 1.19 shows that from 1994 to 1999 (latest data available), exports from the Los Angeles CMSA to destinations around the world increased from \$31.1 billion to \$36.9 billion, a total increase of 18.6 percent. In contrast, total exports from California increased by a total of 31.6 percent, and U.S. exports increased by 35.2 percent over the same five-year period. The Los Angeles CMSA accounted for 35.9 percent of California's total export activity in 1999. More than 41 percent of the Los Angeles CMSA's exports went to Asia (\$15.4 billion) in 1999, while approximately 27 percent went to NAFTA¹⁴ countries (\$10 billion).

The reduction in exports to Asia from \$15.6 billion in 1994 to \$15.4 billion in 1999 reflects the crisis experienced by the Asian economies after 1997. This decline, however, was more than offset by a gain in export trade with NAFTA countries from \$5.3 billion in 1994 to \$10.0 billion in 1999. Although the value of exports from the Los Angeles CMSA to major Asian trading partners such as Japan and Taiwan declined between 1994 and 1999, those two countries, along with South Korea, Hong Kong, and China, were nevertheless among the top 10 trading countries with the Los Angeles CMSA in 1999. Other top trading countries include Canada, Mexico, United Kingdom, Germany, and Australia (see Table 1.19).

The fastest growth in exports between the Los Angeles CMSA and its top 10 trading partners between 1994 and 1999 occurred with Mexico (113 percent), China (100 percent), Canada (70 percent), Germany (67 percent), United Kingdom (39 percent), and Hong Kong (36 percent) (see Table 1.19).

Table 1.19

*Department of Airports, City of Los Angeles
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Report of the Airport Consultant*

GROWTH IN EXPORTS (\$ BILLIONS)

Trading Areas	1994	1999	Percent Change 94-99
Los Angeles CMSA			
World Total	\$31.1	\$36.9	18.6%
Asia	\$15.6	\$15.4	-1.3%
NAFTA Countries	\$5.3	\$10.0	88.7%
Europe	\$7.4	\$7.6	2.7%
Top 10 Countries (1999)			
Japan	\$7.3	\$6.2	-15.1%
Canada	\$3.0	\$5.1	70.0%
Mexico	\$2.3	\$4.9	113.0%
South Korea	\$1.8	\$2.2	22.2%
Taiwan	\$2.6	\$1.9	-26.9%
United Kingdom	\$1.3	\$1.8	38.5%
Hong Kong	\$1.1	\$1.5	36.4%
Germany	\$0.9	\$1.5	66.7%
China	\$0.6	\$1.2	100.0%
Australia	\$0.8	\$1.0	25.0%
California			
World Total	\$78.2	\$102.9	31.6%
United States			
World Total	\$512.4	\$692.8	35.2%

Source: U.S. Dept. of Commerce, Census Bureau, Exporter Location Series; Bay Area Economics.

¹⁴ North American Free Trade Agreement countries in 1999 included Canada, Mexico, and the United States.

The economic fortunes of the Los Angeles region are increasingly tied to the global economy and rely heavily on air passenger and freight service to move people and goods. In 2001, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$212.5 billion (see **Table 1.20**). Businesses in the Los Angeles region have taken advantage of newly-opened overseas markets, and have expanded their operations internationally. Many of the region's top companies depend on offshore plants and suppliers for manufacturing and assembly as well as raw materials. This expanding international business activity generates demand for both international air travel and air freight services.

In 2001, nearly \$64 billion in trade (including imports and exports) through the Los Angeles Customs District was conveyed by air (see **Table 1.20**). This represents 30 percent of all trade through the Los Angeles Customs District, and more than 48 percent of California's total value of trade by air. The Los Angeles region's high rate of trade by air reflects the prevalence of just-in-time inventory management of high value components (especially in the technology sector), as well as an expanding global network of suppliers and manufacturers. Furthermore, as Los Angeles 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.

Table 1.20

*Department of Airports, City of Los Angeles
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2001 TOTAL TRADE BY CONVEYANCE (\$ BILLIONS)

Customs District	Value of Total Trade ¹	Value of Total Trade by Air
Los Angeles	\$212.5	\$63.7
California	\$341.2	\$130.5
United States	\$1,873.0	\$518.6

Notes:

(1) Total trade = total imports and exports.

Data for California is an aggregation of the Los Angeles, San Diego, and San Francisco Customs Districts.

Source: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division.

Retail Sales Per Household

Data presented in **Table 1.21** show that from 1997 through 1999 retail sales per household for the Los Angeles CMSA lagged that of California. Los Angeles CMSA retail sales per household were also below that of the U.S. from 1997 through 1998. This trend reversed in 2001 when the Los Angeles CMSA exceeded the other geographies in per household retail sales. Estimates from the *Survey of Buying Power* show that in 2007, Los Angeles CMSA retail sales per household are expected to be 19.8 percent higher than that of the U.S. overall, but 1.4 percent lower than that of California.

Between 1997 and 2002, the annual compounded growth rate of retail sales per household for the Los Angeles CMSA (10.3 percent) was significantly higher than that of both California (6.3 percent), and the U.S. (5.8 percent). While California's annual growth rate is projected to exceed that of the Los Angeles CMSA's in the period from 2002 to 2007, the annual growth rate for retail sales per household in the U.S. overall is expected to grow at a slower pace of 4.0 percent annually (see Table 1.21).

TABLE 1.21

*Department of Airports, City of Los Angeles
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RETAIL SALES PER HOUSEHOLD (1997-2002)

Year	Los Angeles CMSA	California	United States
<u>Historical</u>			
1997	\$23,439	\$28,015	\$25,437
1998	\$24,068	\$29,313	\$26,544
1999	\$33,334	\$37,525	\$33,113
2000 ¹	n.a.	n.a.	n.a.
2001	\$37,737	\$37,257	\$34,450
2002	\$38,237	\$38,084	\$33,662
<u>Projected</u>			
2007	\$49,125	\$49,827	\$40,991
<u>Average Annual Compounded Growth</u>			
1997- 2002	10.3%	6.3%	5.8%
2002 - 2007	5.1%	5.5%	4.0%

Note (1): Source moved retail sales estimate forward one year with 2001 publication.

Sources: Sales & Marketing Management, Survey of Buying Power, 1995-2002; Demographics USA, 1995-2001; Bay Area Economics; Ricondo & Associates.

(d) Transportation and Public Utilities

Approximately 363,400 workers were employed in the transportation and public utilities industries in the Los Angeles CMSA in 2001. In 2001, employment in these two industries accounted for 5.3 percent of non-agricultural employment in the Los Angeles CMSA. Transportation and public utilities jobs made up 5.1 percent of non-agricultural employment in California, and 5.4 percent of non-agricultural U.S. employment in 2001.

(e) *Finance, Insurance, and Real Estate*

Approximately 396,800 workers were employed in the finance, insurance, and real estate industries (FIRE) in the Los Angeles CMSA in 2001. In 2001, FIRE employment accounted for approximately 5.8 percent of total non-agricultural employment in the Los Angeles CMSA, California, and the U.S.

Historical Total Bank Deposits

Bank deposits in the Los Angeles CMSA exceeded \$224 billion in 2001 and represented over 45 percent of all bank deposits in the state of California. From 1994 to 2001, the average annual growth of bank deposits in the Los Angeles CMSA increased at an average annual rate of 2.7 percent per year. This significantly lags the average annual bank deposit growth rate in both California, where it was 4.0 percent per year, and the U.S., where it was 4.6 percent over the period (see **Table 1.22**).

There may be several explanations for the lack of growth in bank deposits in the Los Angeles CMSA. It may be caused by a low household savings rate. It may also reflect a lack of access to financial institutions by low income populations which utilize check cashing services and pawn shops rather than the retail banking system. The lack of growth in bank deposits may also result from a substitution away from conventional checking and savings accounts, by both households and firms, into brokerage accounts, money management accounts, and alternative financial services.

TABLE 1.22

*Department of Airports, City of Los Angeles
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TOTAL BANK DEPOSITS (\$ MILLIONS)

Year ¹	Los Angeles CMSA	California	United States
1994	\$186,315	\$373,279	\$3,156,620
1995	\$186,399	\$372,117	\$3,214,960
1996	\$179,667	\$373,413	\$3,328,412
1997	\$187,958	\$394,074	\$3,496,877
1998	\$194,969	\$410,876	\$3,657,962
1999	\$196,244	\$427,882	\$3,783,671
2000	\$204,722	\$453,772	\$4,003,865
2001	\$224,767	\$492,044	\$4,329,006
Average Annual Compounded Growth			
1994-2001	2.7%	4.0%	4.6%

Note (1): Fiscal year ending June 30.

Source: Summary of Deposits, Federal Deposit Insurance Corporation (FDIC) Web site; Bay Area Economics; Ricondo & Associates.

(f) Services

Approximately 2.2 million workers were employed in the service industry in the Los Angeles CMSA in 2001. Service industry employment accounted for 31.8 percent of non-agricultural employment in the region—slightly lower than for the state of California, where services accounted for approximately 32.0 percent of employment, but higher than for the U.S. where service jobs made up 31.1 percent of non-agricultural employment.

(g) Government

Approximately 995,600 workers were employed in government in the Los Angeles CMSA in 2001. In 2001, government employment accounted for 14.6 percent of non-agricultural employment in the Los Angeles CMSA. The region's share of government employment was lower than that of the state of California, where government jobs made up 16.3 percent, and the U.S., where government jobs made up 15.9 percent of non-agricultural employment in 2001.

1.6 OUTLOOK FOR THE TOURISM INDUSTRY

(1) Area attractions

In addition to its mild climate, beaches, and relaxed lifestyle, the Los Angeles region offers visitors innumerable entertainment attractions, cultural institutions, shopping districts, dining selections, recreational options, and scenic parks and vistas. World famous entertainment venues include Disneyland, Universal Studios, Universal City Walk, Knott's Berry Farm, and Six Flags Magic Mountain. Other sightseeing destinations include the

Hollywood Sign, the Hollywood Walk of Fame, the Queen Mary, Forest Lawn Memorial Park, Venice Beach boardwalk, and the Los Angeles Zoo.

Fine arts collections such as the Los Angeles County Museum of Art, Norton Simon Museum, Huntington Library, and Museum of Contemporary Art have recently been joined by the Getty Center to 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, the Los Angeles region offers acclaimed performing arts groups 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 Mark Taper Forum. Multicultural performances also are available at the Bilingual Foundation of the Arts.

The Los Angeles region is also a mecca for shopping and dining. Shopping malls that are best known include Glendale Galleria, South Coast Plaza in Costa Mesa, Century City Shopping Center, and Beverly Center. Browsing through boutiques is a popular activity along Melrose Avenue, as well as Beverly Hills' famous Rodeo Drive, Robertson Boulevard in West Hollywood, and Santa Monica's Third Street Promenade. Restaurant dining presents countless choices. The Los Angeles region is home to one of the highest concentrations of restaurants of any metropolitan area in the U.S. (53.4 restaurants per 10,000 households).¹⁵

Travelers to the Los Angeles area can also enjoy a break when visiting the region's scenic natural environment. With an annual average of 329 days of sunshine, 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.

(2) *Tourism trends*

In spite of the recent economic downturn, tourism in the Los Angeles region remains a major industry. The Los Angeles Convention and Visitors Bureau estimates that 23.8 million people visited the Los Angeles region in 2001, spending a total of \$11.6 billion, which is down from \$13.6 billion in 2000 as a result of a slump in business and leisure travel after last year's September 11 terrorist attacks. The all-time record for tourist visitorship occurred in 1990 when 24.9 million people traveled to the Los Angeles region. Visitor expenditures generate significant fees and taxes, including an estimated \$650 million in state and local sales tax revenue, and \$180 million in federal taxes in 2001. Travel and tourism employed approximately 508,300 workers in the Los Angeles CMSA in 2001.

Data from the Los Angeles Convention and Visitors Bureau indicate the following:

- 40 percent of domestic visitors and 47 percent of international visitors are leisure travelers
- 27 percent of domestic visitors and 25 percent of international visitors are traveling on business

¹⁵ Claritas, Inc.; Bay Area Economics.

- 22 percent of domestic visitors and 16 percent of international visitors are visiting family or friends
- 11 percent of domestic visitors and six percent of international visitors are attending conventions.

The Los Angeles region does not have one particular travel season as 26 percent of travelers visit in the winter, 27 percent visit in the spring, 26 percent visit in the summer, and 21 percent visit in the fall. Historically, this lack of seasonality has resulted in the stable performance of occupancy, revenues, and employment in the region's lodging industry. Strong demand from both leisure and business travelers drove annual hotel occupancy rates in Los Angeles and Orange Counties to a peak of 75 percent in 2000, exceeding the overall U.S. occupancy rate of 68.7 percent in that year.

The impact of the current economic slowdown can be seen in the decline in hotel occupancy rates in Los Angeles and Orange Counties during the first six months of 2002 compared to the same period in 2001 (see **Table 1.23**). Nevertheless, during the first quarter of 2002, hotel occupancy in Los Angeles and Orange Counties was higher than that for the U.S. overall (latest data available). While a return to the performance levels of 2000 is not anticipated in the immediate future, the local hotel market is expected to improve once the national economic recovery begins to gain momentum.

TABLE 1.23

*Department of Airports, City of Los Angeles
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HOTEL OCCUPANCY RATES (2001-2002)

Area	Jan.-Jun. 2001	Jan.-Jun. 2002	% Change
Los Angeles County	73.6%	67.2%	- 6.4%
Orange County	72.3%	66.5%	- 5.8%
Area	First Quarter 2001	First Quarter 2002	% Change
Los Angeles County	72.6%	65.2%	-7.4%
Orange County	68.8%	61.4%	-7.4%
Western United States	69.3%	62.0%	-7.3%
United States	65.2%	59.3%	-5.9%

Source: PKF Consulting.

According to the Los Angeles Convention and Visitors Bureau, more than 22 percent of visitors to the Los Angeles region were travelers from overseas in 2001. A survey from the U.S. Department of Commerce's Office of Tourism Industries shows that 3.5 million travelers from overseas arrived in Los Angeles in 2000 (latest data available). Following New York, Los Angeles was the second most popular destination for overseas travelers in 2000, ranking ahead of other major destinations such as Orlando, Miami, San Francisco, Las Vegas, Honolulu, Washington D.C., Chicago, and Boston (see **Table 1.24**).

TABLE 1.24

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

TOP U.S. DESTINATION CITIES FOR OVERSEAS TRAVELERS (2000)

Rank	City	Number of Arrivals (in millions)
1	New York	5.7
2	Los Angeles	3.5
3	Orlando	3.0
4	Miami	2.9
5	San Francisco	2.8
6	Las Vegas	2.3
7	Honolulu	2.2
8	Washington, D.C.	1.5
9	Chicago	1.4
10	Boston	1.3

Source: U.S. Department of Commerce, International Trade Administration, Office of Tourism Industries.

(3) Air Travel Demand

While the Los Angeles CMSA is a popular destination for domestic and international tourists alike, the region itself also generates significant demand for air passenger service. **Table 1.25** shows that consumer spending for air travel¹⁶ in the entire Los Angeles CMSA exceeded \$4.3 billion in 2001. This represents 43.4 percent of the \$10.1 billion consumer air travel market in California, and 7.4 percent of the overall U.S. market for consumer air travel (see Table 1.25).

On average, each household in the Los Angeles CMSA spends \$795 per year for air travel, six percent less than the per household figure for California (\$847), and more than 43 percent higher than that of the U.S. overall (\$557).

¹⁶ Estimated expenditures made by consumers for their personal use. Purchases for business use are not included.

TABLE 1.25

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

CONSUMER EXPENDITURE FOR AIRLINE FARES (2001)

Location	Annual Consumer Expenditure for Airline Fares¹	Per Household Consumer Expenditure for Airline Fares
Los Angeles CMSA	\$4,395,785,216	\$795
California	\$10,131,815,424	\$847
United States	\$59,637,882,880	\$557

¹ Estimated expenditures made by consumers for their personal use. Purchases for business use are not included.
Source: Claritas, Inc.; Bay Area Economics

1.7 SUMMARY

(I) Impact of Demographic Trends on Air Travel Demand

Between 2000 and 2020, the Los Angeles CMSA is expected to add more than five million people to its current population of over 16 million. The population will grow by approximately 2.6 million between 2000 and 2010, and by an additional 2.6 million from 2010 to 2020. The current large population base coupled with future projections of population growth offer a strong foundation of demand for air passenger service. Further, demand for air cargo service also is supported by these population trends as ever-increasing amounts of goods shipped by air will be required to serve the growing Los Angeles regional market.

Currently, the Los Angeles CMSA has a lower median age than California or the U.S., and a larger portion of its population below the age of 35. However, over the next two decades, as the region's population ages, the number of persons in the 35 to 54 age group (the primary market for air travel) will be significantly augmented year by year. Thus, not only will demand for air travel be sustained by general population growth, it will gain a further boost by the escalating numbers of Los Angeles area residents who fall into the leading age cohort for air travel demand.

The international character of the Los Angeles area, reflected by its immigration trends and its racial and ethnic composition, supports commercial as well as personal linkages with destinations in other countries and continents. This translates directly into demand support for international air service, both originating and terminating at LAX, as well as international connecting traffic.

The linkage between a population's educational attainment and demand for air passenger and freight service is indirect. Education and training, commonly known as human capital investment, greatly influence a region's labor force quality, which in turn drives

economic vitality and growth. A growing economy will generate rising demand for goods and services, including air travel services. Human capital investment in the Los Angeles region appears to be strong. Student enrollment among the largest 39 colleges and universities in the region is equal to nearly eight percent of the region's total labor force. As these students graduate and are employed, their up-to-date knowledge will supplement the quality of the region's labor force, support economic growth, and expand demand for air passenger and freight service.

(2) *Impact of Income Trends on Air Travel Demand*

While data for per capita income, household income and effective buying income are useful to some demand analyses, in some instances it is more instructive to examine data that indicate a population's propensity to spend its income. In the case of the Los Angeles CMSA, current and projected per capita income and median household income are lower than those for California overall. However, the retail sales per household in the Los Angeles CMSA are higher than those for both California and the U.S., and a five-year projection shows that retail spending in the Los Angeles CMSA will remain strong. The per household retail sales data, therefore, illustrate that the Los Angeles CMSA clearly has a population with a high propensity to spend, in spite of the region's lower per capita income and median household income. The spending levels exhibited by Los Angeles CMSA households indicate a tendency to purchase a higher share of all goods and services, including air travel services, compared to California and U.S. households.

This conclusion is borne out by examining the region's per household expenditure for airline fares. Compared with U.S. households overall which each spend an estimated \$557 per year on airline fares, Los Angeles CMSA households spend significantly more (\$795 per year). While California households have an even higher rate of expenditure on airline fares (\$847 per year), the Los Angeles region can be viewed as a very strong market for air travel demand, especially when compared with the U.S. as a whole.

Survey data from the Air Transport Association indicate that 68 percent of respondents with household income over \$60,000 travel by air at least once per year. Currently, the Los Angeles CMSA has 2.4 million households in this income category. Between 2002 and 2007, the region is expected to add more than 419,000 households earning more than \$60,000 per year—representing more than 39 percent of the increase in households in this income category in the entire state of California. This level of growth in the number of households with annual income of \$60,000 and above indicates that the Los Angeles CMSA population offers a resilient source of demand for air travel service.

(3) *Tourism and Air Travel Demand*

As stated above, an estimated 23.8 million tourists visited the Los Angeles region in 2001 and spent a total of \$11.8 billion. In 2000 (latest data available), 3.5 million international air passengers selected Los Angeles as their destination, placing it behind New York as the number two destination in the U.S. for overseas travelers.

Despite the impact of the current recession and the September 11 terrorist attacks on the Los Angeles tourism industry, the region has many inherent strengths that will help it withstand the current cyclical downturn and leave it poised for recovery in 2003. Historically, tourism in the Los Angeles area is spread relatively evenly throughout the year. This prevents lodging, restaurant, and other hospitality-related businesses from being subject

to seasonal cycles, and makes revenues and employment in these sectors more stable than they are in other tourist-dependent regions.

While hotel occupancy in Los Angeles and Orange Counties in the first six months of 2002 has fallen compared with the prior year, local agencies are taking pro-active measures to offset the drop in demand and increase travel to Los Angeles and California through state and regional promotion. The November 1, 2001 Economic Action Summit (EAS) brought together more than 400 government, labor, and business leaders from Los Angeles County's 88 cities in order to coordinate economic recovery efforts. To date, actions to implement the EAS recommendations for reviving the region's tourism industry include:

- A statewide "We're Californians" tourism campaign has been launched with a budget of \$7.5 million. Television and radio commercials featuring entertainers and athletes (Jack Nicholson, Clint Eastwood, champion skier Glen Plake, et al.) are promoting the state's tourist destinations.
- \$5.0 million for a "Stay and Play" California tourism promotion campaign, overseen by the State of California Technology, Trade and Commerce Agency. These funds supplement the Agency's existing \$13 million annual budget for travel and tourism promotion.
- \$2 million from the Los Angeles Economic Development Corporation (LAEDC) to advertise a new "L.A. Card Package" program that is sponsored by the Los Angeles Convention and Visitors Bureau (LACVB). Visitors receive a free night's stay or discount when they reserve lodging at participating hotels, as well as a discount card for participating restaurants, cultural attractions, and shopping outlets. The target of the campaign is the market within a 500-mile or six-hour radius, including San Francisco, the Central Valley, Sacramento, and Phoenix.
- The City of Los Angeles has developed several programs to stimulate tourism. Over 150 restaurants have joined the "Dine L.A." program, which offers a 20 percent discount on guest checks. This concept has been extended to a "Shop L.A." program that includes local retailers and 19 shopping malls.

Intra-regional cooperative efforts, and the involvement of both government and private sector businesses and organizations such as the LAEDC and LACVB has allowed a plan of action to be adopted and implemented on a fast-track basis. Los Angeles area public officials and business leaders are not satisfied to wait for an upswing in the national economy. Instead, they are focused on developing and funding effective programs to mitigate the impact of the recession and the terrorist attacks of September 11 on local tourism.

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2. AIR TRAFFIC

This section describes historical and projected air traffic activity at the Airport and the key factors affecting these activity levels. In particular, this section discusses the regional perspective of the Southern California airport system, the role of the Airport in this airport system, the airlines serving the Airport, historical Airport activity, and projected Airport activity.

2.1 REGIONAL PERSPECTIVE

The demographic and economic characteristics of the Los Angeles CMSA create a strong local demand for air transportation. This demand is 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 (California, Oregon, and Washington). Of the five commercial service airports within the Los Angeles CMSA, the Airport accounted for 70.6 percent of domestic enplaned passengers, 99.8 percent of international enplaned passengers, and 77.0 percent of total cargo (freight and mail) in CY 2001.¹ The other four commercial service airports in the Los Angeles CMSA serve primarily origin and destination (O&D) travel to short and medium-haul markets, including the West Coast corridor.²

Table 2.1 presents the historical shares of domestic enplaned passengers for the five airports serving the Los Angeles CMSA between CY 1991 and CY 2001. As shown, the Airport's share has been relatively stable during these years, ranging from a high of 71.6 percent in CY 2000 to a low of 67.7 percent in CY 1993. As also shown, the Airport experienced the second-highest growth in domestic enplanements between CY 1991 and CY 2000, with a compounded annual growth rate of 4.0 percent during this period. This strong growth is reflected in the Airport's share of domestic enplanements steadily increasing each year since CY 1993.

The effects of the terrorist attacks of September 11, 2001 (hereafter referred to as September 11) and an economic slowdown nationwide contributed to a decrease in activity for all five airports in CY 2001 from CY 2000 levels; however, the Airport's share remained near its average of 70.8 percent over the five previous calendar years. Domestic enplanements at the Airport for the first eight months of CY 2002 were 16.9 percent below activity for the first eight months of CY 2001. In addition, its share of domestic enplanements among the five airports decreased from 71.6 percent to 67.7 percent during these periods, matching its share reached in CY 1993. Specific points concerning the effects of the terrorist attacks of September 11 and the economic slowdown on air travel are discussed below:

- The terrorist attacks of September 11 significantly affected air travel demand in the United States and the commercial service airports in the Los Angeles CMSA. Nationwide, major airline hubs and large hub airports experienced steep declines in aviation activity levels. The Airport's dominant domestic carrier, United, was one of several major airlines to experience significant losses following September 11 and consequently reduced service levels considerably at the Airport. International markets

¹ Airports Council International.

² In late August 2001, JetBlue initiated two daily nonstop flights between John F. Kennedy International Airport and Long Beach Municipal Airport, its second-designated hub airport, resulting in significant increases in passenger activity at this facility during the last 12 months.

TABLE 2.1

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

REGIONAL SHARES OF DOMESTIC ENPLANEMENTS

Calendar Year	Airport	Ontario International	John Wayne	Burbank-Glendale-Pasadena	Long Beach Municipal ¹	Total	Airport Share of Total
1991	17,642,200	3,060,314	2,672,642	1,855,988	676,544	25,907,688	68.1%
1992	17,890,199	3,067,671	2,833,477	1,916,281	421,587	26,129,215	68.5%
1993	18,080,299	3,086,577	3,058,919	2,176,548	307,601	26,709,944	67.7%
1994	19,335,701	3,173,282	3,368,423	2,411,568	246,289	28,535,263	67.8%
1995	20,388,024	3,210,577	3,559,751	2,477,719	214,396	29,850,467	68.3%
1996	22,065,985	3,132,803	3,642,117	2,407,516	217,619	31,466,040	70.1%
1997	22,822,343	3,153,825	3,841,848	2,350,362	307,946	32,476,324	70.3%
1998	23,232,729	3,212,487	3,715,780	2,362,692	323,357	32,847,045	70.7%
1999	24,311,339	3,268,661	3,738,519	2,358,724	434,601	34,111,844	71.3%
2000	25,055,894	3,354,155	3,894,993	2,367,835	312,713	34,985,590	71.6%
2001	22,939,872	3,341,610	3,672,827	2,248,654	287,245	32,490,208	70.6%
2001 (Jan-Aug)	17,079,069	2,401,406	2,621,915	1,601,208	166,385	23,869,983	71.6%
2002 (Jan-Aug)	14,191,784	2,191,041	2,670,570	1,538,967	356,521	20,948,883	67.7%
Percentage Change	-16.9%	-8.8%	1.9%	-3.9%	114.3%	-12.2%	
Compounded Annual Growth Rate							
1991 - 2001	2.7%	0.9%	3.2%	1.9%	-8.2%	2.3%	
1991 - 2000	4.0%	1.0%	4.3%	2.7%	-8.2%	3.4%	
2000 - 2001	-8.4%	-0.4%	-5.7%	-5.0%	-8.1%	-7.1%	

¹ In late August 2001, JetBlue initiated two daily nonstop flights between John F. Kennedy International Airport and Long Beach Municipal Airport, its second-designated hub airport, resulting in significant increases in passenger activity at this facility during the last 12 months

Sources: Airports Council International
Compiled by Ricondo & Associates, Inc.

experienced significant declines following September 11, as more travelers chose not to travel to international destinations and others shifted to domestic travel. As a result, the Airport experienced pronounced declines in the number of domestic and international air travelers, with an 8.4 percent and an 8.1 percent decrease in enplanements, respectively, in CY 2001 from CY 2000 levels.

- Reductions in operating levels at the Airport from those that existed prior to September 11 may continue for a period of time and to a degree that is uncertain. A number of airlines, including United, were experiencing financial difficulties prior to September 11, with their situation worsened by the events of September 11. Vanguard filed for reorganization under Chapter 11 of the Bankruptcy Code on July 31, 2002 and ceased operations nationwide. Similarly, US Airways filed for reorganization under Chapter 11 on August 11, 2002; and has targeted emergence from Chapter 11 in the first quarter of CY 2003. In its Form 10-Q for the third quarter ended September 30, 2002, as filed with the Securities and Exchange Commission on October 25, 2002, UAL Corporation, the parent company of United, stated that in the absence of federal loan guarantees, and the cost reductions necessary to achieve them, it does not expect to be able to raise sufficient liquidity to support its obligations through the end of CY 2002; and that accordingly, it is preparing for the potential of a filing under Chapter 11 of the U.S. Bankruptcy Code.
- Additionally, economic indicators in the nation and in the Los Angeles CMSA prior to September 11 were beginning to show signs of a recession. Historically, there has been a strong correlation between air travel demand and the economy; people tend to spend more on air travel when they have more disposable income.

2.2 ROLE OF THE AIRPORT

Table 2.2 presents the Airport's worldwide ranking of activity in CY 2001. As shown, the Airport ranked third worldwide in total passengers during this period with approximately 61.6 million enplaned and deplaned passengers; fourth worldwide in total operations with approximately 738,100 takeoffs and landings; and fourth worldwide in total cargo with approximately 1.8 million enplaned and deplaned tons. These worldwide rankings are similar to those achieved by the Airport in CY 1991 (third, third, and fourth worldwide, respectively).

Due to geographical considerations, as well as the Los Angeles CMSA's ties with Mexico and Central America, South America, and the Far East, the Airport serves primarily domestic and international O&D traffic. **Table 2.3** presents domestic O&D passengers for the Airport and the nation between CY 1991 and CY 2001. As shown, domestic O&D activity at the Airport increased from approximately 25.4 million passengers in CY 1991 to approximately 30.6 million in CY 2001. This increase represents a compounded annual growth rate of 1.9 percent during this period, compared to 3.0 percent nationwide. As also shown, the Airport's share of U.S. domestic O&D passengers has decreased in recent years, from approximately 4.0 percent to 4.3 percent between CY 1991 and CY 1999 to 3.8 percent in CY 2001. During the three months following September 11, the Airport's share of U.S. domestic O&D passengers decreased further to 3.5 percent, as this traffic at the Airport decreased 25.7 percent from a similar period in CY 2000, compared to a 17.2 percent decrease nationwide.

Table 2.3 also presents the Airport's percentage of O&D passengers to total passengers. As shown, this percentage ranged between 71 percent and 73 percent between CY 1991 and CY 1996. Since 1996, this percentage has steadily decreased to 67 percent in CY 2001. The relatively high connecting percentage at the Airport is primarily due to 1) the Airport being a major gateway to

TABLE 2.2

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

TOP 10 WORLDWIDE RANKING OF ACTIVITY - CY 2001

Rank	Airport	Total Passengers	Airport	Total Operations	Airport	Total Cargo (metric tons)
1	Atlanta (ATL)	75,858,500	Chicago (ORD)	911,917	Memphis (MEM)	2,631,631
2	Chicago (ORD)	67,448,064	Atlanta (ATL)	890,494	Hong Kong (HKG)	2,100,276
3	Los Angeles (LAX)	61,606,204	Dallas/Fort Worth (DFW)	783,546	Anchorage (ANC)	1,873,750
4	London (LHR)	60,743,084	Los Angeles (LAX)	738,114	Los Angeles (LAX)	1,774,402
5	Tokyo (HND)	58,692,688	Phoenix (PHX)	553,310	Tokyo (NRT)	1,680,937
6	Dallas/Fort Worth (DFW)	55,150,693	Paris (CDG)	523,400	Miami (MIA)	1,639,760
7	Frankfurt (FRA)	48,559,980	Detroit (DTW)	522,132	Frankfurt (FRA)	1,613,179
8	Paris (CDG)	47,996,529	Minneapolis (MSP)	501,465	Paris (CDG)	1,591,310
9	Amsterdam (AMS)	39,531,123	Las Vegas (LAS)	493,722	Singapore (SIN)	1,529,930
10	Denver (DIA)	36,092,806	Denver (DIA)	486,030	Louisville (SDF)	1,468,837

Sources: Airports Council International
 Compiled by Ricondo & Associates, Inc.

TABLE 2.3

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL DOMESTIC O&D PASSENGERS

Calendar Year	LAX Domestic O&D Passengers	LAX Annual Growth	U.S. Domestic O&D Passengers	U.S. Annual Growth	LAX Share of U.S. O&D Passengers	LAX Domestic Enplaned and Deplaned Passengers	LAX O&D Percentage
1991	25,407,610	-	597,364,310	-	4.3%	35,284,399	72.0%
1992	25,185,970	-0.9%	618,027,190	3.5%	4.1%	35,508,568	70.9%
1993	25,639,280	1.8%	642,770,900	4.0%	4.0%	35,899,762	71.4%
1994	27,418,350	6.9%	690,214,830	7.4%	4.0%	38,371,410	71.5%
1995	29,686,890	8.3%	723,178,310	4.8%	4.1%	40,503,621	73.3%
1996	31,823,130	7.2%	765,862,040	5.9%	4.2%	43,942,028	72.4%
1997	31,660,260	-0.5%	789,081,200	3.0%	4.0%	45,395,749	69.7%
1998	31,871,480	0.7%	798,797,500	1.2%	4.0%	46,127,876	69.1%
1999	33,273,400	4.4%	831,774,400	4.1%	4.0%	48,464,655	68.7%
2000	33,451,650	0.5%	864,668,800	4.0%	3.9%	49,887,433	67.1%
2001	30,601,960	-8.5%	806,362,990	-6.7%	3.8%	45,656,025	67.0%
2000 (Oct-Dec)	8,336,990	-	215,354,620	-	3.9%	12,128,625	68.7%
2001 (Oct-Dec)	6,198,540	-25.7%	176,996,830	-17.8%	3.5%	9,254,786	67.0%
Compounded Annual Growth Rate 1991 - 2001		1.9%		3.0%			

Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic
Compiled by Ricondo & Associates, Inc.

numerous international markets, 2) the geographical location of the Airport in relation to numerous markets along the California Corridor, 3) the significant number of nonstop flights to and from domestic markets, and 4) the diversity of airlines serving the Airport.

Table 2.4 presents a comparison of international and total enplanements at top U.S. gateway airports for selected calendar years. As shown, the Airport ranked third behind John F. Kennedy International Airport (JFK) and Miami International Airport (MIA) in international enplanements in CY 1990 and CY 1995; and ranked second in CY 2000 and CY 2001 by surpassing MIA during these years. As also shown, the Airport ranked third in the proportion of international passengers to total enplaned passengers in CY 2001 (26.0 percent at the Airport, compared to 56.7 percent at JFK and 48.4 percent at MIA).

A summary of Airport activities, which are discussed in detail in later sections of this chapter, is presented below:

- As of July 1, 2002, the Airport was served by 85 passenger airlines and 30 all-cargo carriers.
- Domestic enplanements at the Airport increased from approximately 17.9 million in FY 1991 to approximately 20.8 million in FY 2001 (2.5 months prior to September 11), a compounded annual growth rate of 3.4 percent, which was comparable to the nationwide growth rate of 3.5 percent.³ The effects of September 11 and the economic slowdown resulted in a 16.7 percent decrease in domestic enplanements at the Airport in FY 2002 from FY 2001 levels, compared to a 12.3 percent decrease nationwide. These factors had a more pronounced negative effect on domestic passenger traffic at the Airport than on domestic traffic nationwide, primarily due to the influence of United's and American's restructuring of its activity at the Airport, as described later in this section.
- International enplanements at the Airport increased from approximately 5.0 million in FY 1991 to approximately 8.9 million in FY 2001, a compounded annual growth rate of 5.9 percent, compared to 3.3 percent nationwide. The effects of September 11 and the economic slowdown resulted in a 17.2 percent decrease in international enplanements at the Airport in FY 2002 from FY 2001 levels, compared to a 9.1 percent decrease nationwide. Similar to domestic activity, these factors also had a more pronounced negative effect on international passenger traffic at the Airport than on international traffic nationwide, especially between the Airport and its major Asian markets.
- The Airport serves a large geographical area that is densely populated and relatively wealthy. As a result, many U.S. and foreign flag airlines serve the Airport such that shares of passenger traffic are widely distributed over a broad base of air carriers. Four airlines (United, American, Southwest, and Delta) accounted for 67.0 percent of domestic enplanements at the Airport in FY 2002, with the highest-ranked airline (United) accounting for 22.8 percent of domestic enplanements during this period. United also accounted for the highest share of international enplanements at the Airport during FY 2002 with a 7.5 percent share.

³ The fiscal year for the Airport ends June 30th, whereas the federal fiscal year ends September 30th. As a result, growth rate comparisons between Airport and U.S. activity are not strictly compatible. However, U.S. data ending June 30th, especially activity projections, are not readily available.

TABLE 2.4

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

COMPARISON OF TOP U.S. GATEWAY AIRPORTS

Airport	International Enplanements				Total Enplanements				International Share of Total			
	CY 1990	CY 1995	CY 2000	CY 2001	CY 1990	CY 1995	CY 2000	CY 2001	CY 1990	CY 1995	CY 2000	CY 2001
New York - Kennedy	8,992,999	8,381,084	9,194,966	8,319,000	14,714,206	14,985,951	16,274,588	14,674,500	61.1%	55.9%	56.5%	56.7%
Los Angeles	4,989,775	6,846,329	8,780,183	8,068,058	23,001,205	27,234,353	33,836,077	31,007,930	21.7%	25.1%	25.9%	26.0%
Miami	5,046,612	7,179,328	8,096,068	7,678,316	12,928,208	16,594,647	16,756,422	15,876,629	39.0%	43.3%	48.3%	48.4%
Chicago - O'Hare	2,317,673	3,298,380	5,049,197	4,616,337	29,419,002	32,855,460	37,574,808	35,100,833	7.9%	10.0%	13.4%	13.2%
New York - Newark	1,499,527	1,926,350	4,199,963	3,589,000	11,103,603	13,320,486	16,948,663	15,278,000	13.5%	14.5%	24.8%	23.5%
San Francisco	2,155,061	2,981,341	4,023,555	3,787,381	15,513,618	18,162,551	20,196,217	17,047,645	13.9%	16.4%	19.9%	22.2%
Atlanta	962,366	1,436,609	2,916,309	2,815,899	23,814,719	28,857,835	40,154,824	38,095,214	4.0%	5.0%	7.3%	7.4%
Houston - George Bush	1,019,956	1,445,941	2,830,768	2,829,418	8,802,065	11,994,451	17,520,633	17,365,796	11.6%	12.1%	16.2%	16.3%
Honolulu	2,528,582	3,069,528	2,567,293	2,147,395	11,282,886	11,542,683	11,264,853	9,919,848	22.4%	26.6%	22.8%	21.6%
Boston	1,662,914	1,644,116	2,150,876	2,025,545	11,398,288	12,043,969	13,888,052	12,086,186	14.6%	13.7%	15.5%	16.8%
Washington - Dulles	643,981	1,316,295	2,083,201	1,961,394	5,105,137	6,147,787	9,971,630	8,920,092	12.6%	21.4%	20.9%	22.0%
Orlando	863,893	1,156,689	1,181,168	998,980	9,101,342	11,137,301	15,318,137	14,055,294	9.5%	10.4%	7.7%	7.1%

Sources: Airports Council International
Compiled by Ricondo & Associates, Inc.

- The airlines serving the Airport provide nonstop service to approximately 70 domestic markets with a total of 708 daily flights; and nonstop service to approximately 45 international markets with a total of 114 daily flights.
- Total enplaned and deplaned cargo at the Airport increased from approximately 1.3 million tons handled in FY 1991 to approximately 2.2 million tons in FY 2001, a compounded annual growth rate of 5.4 percent. The effects of September 11 and the economic slowdown resulted in a 12.7 percent decrease in total cargo handled at the Airport in FY 2002 from FY 2001 levels.

2.3 AIRLINES SERVING THE AIRPORT

As of July 1, 2002, the Airport had scheduled passenger service provided by 20 U.S. flag air carriers, scheduled and nonscheduled service by 43 foreign flag carriers, and nonscheduled service by 22 charter airlines. In addition, as of July 1, 2002, 30 all-cargo carriers provided scheduled cargo service at the Airport. Scheduled passenger service was provided at the Airport by all eight of the nation's major airlines, which represent the largest group of U.S. airlines in terms of their total revenues. These airlines include America West, American, Continental, Delta, Northwest, Southwest, United, and US Airways. **Table 2.5** lists the airlines serving the Airport as of July 1, 2002.

Table 2.6 presents the scheduled U.S. flag air carrier base at the Airport since FY 1992. 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 the Airport's major domestic markets. As also shown, fifteen of the 20 U.S. flag airlines serving the Airport during FY 2002 operated there for each of the years shown, including all eight of the major U.S. airlines. Activity by these carriers providing significant activity at the Airport are discussed below:

- **United**, with a 22.8 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to 22 domestic markets with a total of 108 daily flights; as well as a total of eight daily flights to the international markets of Auckland, Guatemala, London, Mexico City, San Salvador, Sydney, Tokyo, and Vancouver (see **Table 2.7**). **Skywest**, with a 4.5 percent share of domestic Airport enplanements in FY 2002 and operating as United Express, provides nonstop service to 22 domestic markets with a total of 150 daily flights.
- **American**, with an 18.0 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to 22 domestic markets with a total of 95 daily flights; as well as a total of four daily flights to the international markets of Guadalajara, London, and Toronto. **American Eagle**, with a 2.4 percent share of domestic Airport enplanements in FY 2002, serving as a code-sharing partner with American, provides nonstop service to 10 domestic markets with a total of 71 daily flights.
- **Southwest**, with a 15.9 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to 19 domestic markets with a total of 118 daily flights.
- **Delta**, with a 10.3 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to 11 domestic markets with a total of 37 daily flights; as well as a total of two daily flights to the international markets of Guadalajara and Mexico City.

TABLE 2.5

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

AIRLINES SERVING THE AIRPORT ¹

Scheduled U.S. Carriers (20)	Foreign Flag Carriers (43)	Nonscheduled Carriers (22)	All-Cargo Carriers (30)
Air Wisconsin	Aer Lingus	Access Air	Aeromexpress
Alaska	Aero California	Air Atlanta Icelandic	Air Transport International
America West	Aeroflot	Air Group	ABX Air
American	AeroMexico	Air Mobility Command	Ameriflight
American Eagle	Air Canada	Air 2000	Ameristar
American Trans Air	Air China	Allgiant Air	Atlas Air
Continental	Air France	Champion Air	Capital Cargo
Delta	Air Jamaica	Classic Limited	Cargolux
Frontier	Air New Zealand	Clay Lacy Aviation	Contract Air Cargo
Hawaiian	Air Pacific	Florida West	Custom Air Transport
Horizon	Air Tahiti Nui	Legend	DHL Airways
Mesa	Allegro	Miami Air	Empire
Midwest Express	All Nippon	North American	Evergreen International
National ²	Asiana	Omni Air International	Express.Net
Northwest	Avianca	Peterson Aviation	Fast Air
SkyWest	British Airways	Premier Aircraft	FedEx
Southwest	Cathay Pacific	Sky Service	Gemini
Spirit	China	Sports Jet	Kalitta Air
United	China Eastern	Sun Country	Kitty Hawk
US Airways ³	China Southern	Trans Meridian	MAS Air Cargo
	CMA Mexicana	West Air	McNecly Charter
	Copa	World Airways	Nippon Cargo Airlines
	Corsair		Polar
	El Al Israel		Ryan International
	Eva Airways		Singapore Airlines Cargo
	Japan		Southern Air
	KLM Royal Dutch		Union Flights
	Korean		United Parcel Service
	LACSA		USA Jet
	Lan Chile		Zantop
	Lot Polish		
	LTU International		
	Lufthansa		
	Malaysian		
	Martinair Holland		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	Taca		
	Thai Airways International		
	Varig Brazilian		
	Virgin Atlantic		

¹ As of July 1, 2002.² National filed for bankruptcy protection in December 2000 and subsequently ceased operations in November 2002.³ US Airways filed for reorganization under Chapter 11 of the Bankruptcy Code on August 11, 2002. This airline has targeted emergence from Chapter 11 in the first quarter of CY 2003.

Sources: City of Los Angeles, Department of Airports
Compiled by Ricoondo & Associates, Inc.

TABLE 2.6

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

SCHEDULED U.S. FLAG AIR CARRIER BASE

Air Carrier	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 ¹
Alaska	•	•	•	•	•	•	•	•	•	•	•	•
America West	•	•	•	•	•	•	•	•	•	•	•	•
American	•	•	•	•	•	•	•	•	•	•	•	•
American Eagle	•	•	•	•	•	•	•	•	•	•	•	•
American Trans Air	•	•	•	•	•	•	•	•	•	•	•	•
Continental	•	•	•	•	•	•	•	•	•	•	•	•
Delta	•	•	•	•	•	•	•	•	•	•	•	•
Hawaiian	•	•	•	•	•	•	•	•	•	•	•	•
Mesa	•	•	•	•	•	•	•	•	•	•	•	•
Midwest Express	•	•	•	•	•	•	•	•	•	•	•	•
Northwest	•	•	•	•	•	•	•	•	•	•	•	•
Skywest	•	•	•	•	•	•	•	•	•	•	•	•
Southwest	•	•	•	•	•	•	•	•	•	•	•	•
United	•	•	•	•	•	•	•	•	•	•	•	•
US Airways ²	•	•	•	•	•	•	•	•	•	•	•	•
Air Wisconsin	•	•	•			•	•	•	•	•	•	•
Frontier					•	•	•	•	•	•	•	•
Horizon Air								•	•	•	•	•
National ³								•	•	•	•	•
Spirit								•	•	•	•	•
Air Carriers No Longer Serving the Airport												
Midway						•				•	•	
Vanguard ⁴					•	•	•			•	•	
US Airways Express	•	•	•	•	•	•	•	•	•			
Westair	•	•	•	•	•	•	•					
Trans States				•	•	•						

¹ As of July 1, 2002.

² US Airways filed for reorganization under Chapter 11 of the Bankruptcy Code on August 11, 2002. This airline has targeted emergence from Chapter 11 in the first quarter of CY 2003.

³ National filed for bankruptcy protection in December 2000 and subsequently ceased operations in November 2002.

⁴ Vanguard filed for reorganization under Chapter 11 of the Bankruptcy Court on July 30, 2002 and ceased operations nationwide.

Sources: Official Airline Guide
 Compiled by Ricondo & Associates, Inc.

TABLE 2.7

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

SCHEDULED NONSTOP ACTIVITY FOR U.S. FLAG & FOREIGN FLAG CARRIERS¹

U.S. Flag Air Carrier	Domestic Markets		International Markets				
	Number of Markets	Daily Flights	Markets Served	Daily Flights	Foreign Flag Air Carrier	Markets Served	Daily Flights
United	22	108	Auckland, Guatemala City, London, Mexico City, Tokyo, San Salvador, Sydney, Vancouver	8	CMA Mexicana	Cancun, Guadalajara, Mexico City, Los Cabos, Zacatecas	13
Skywest	22	150			Air Canada	Edmonton, Montreal, Vancouver, Calgary, Toronto	12
Southwest	19	118			AeroMexico	Leon, Guadalajara, Mexico City, Puerto Vallarta	6
American	22	95	Guadalajara, London, Toronto	4	Air New Zealand	Auckland, London, Papeete, Sydney	5
American Eagle	10	71			Qantas	Auckland, Melbourne, Sidney	4
Delta	11	37	Guadalajara, Mexico City	2	Japan	Osaka, Tokyo	3
Alaska	3	19	Cancun, Mazatlan, Puerto Vallarta, Los Cabos, Vancouver, Calgary	13	Korean	Seoul, Tokyo	3
Continental	4	19			Lufthansa	Frankfurt	2
Northwest	4	18	Tokyo	1	Aero California	Culiacan, Hermosillo, Torreon, Manzanillo	2
America West	3	17			Air France	Paris	2
US Airways ²	3	14			LACSA	Guadalajara; San Jose, Costa Rica	2
Air Wisconsin	3	7			Virgin Atlantic	London	2
American Trans Air	2	6			Air Tahiti Nui	Paris, Papeete	2
Mesa	1	6			Asiana	Seoul	2
National ³	1	6			British Airways	London	2
Horizon Air	3	5			Cathay Pacific	Hong Kong	2
Frontier	1	4			China	Taipei	2
Hawaiian	2	3			Singapore	Tokyo, Taipei	2
Spirit	2	3			Varig Brazilian	Sao Paulo, Nagoya	2
Midwest Express	1	2			Aer Lingus	Dublin	1
					Aeroflot	Moscow	1
					Aeroflotral	Hermosillo	1
					Air China	Beijing	1
					Air Jamaica	Montego Bay	1
					All Nippon	Tokyo	1
					Avianca	Monterrey	1
					China Eastern	Shanghai	1
					China Southern	Guangzhou	1
					Eva Airways	Taipei	1
					KLM Royal Dutch	Amsterdam	1
					Lan Chile	Lima	1
					Malaysian	Taipei	1
					Swissair	Zurich	1
					Taca	San Salvador	1
					Thai Airways	Tokyo	1
Total		708		28			86

¹ September 18, 2002.

² US Airways filed for reorganization under Chapter 11 of the Bankruptcy Code on August 11, 2002. This airline has targeted emergence from Chapter 11 in the first quarter of CY 2003.

³ National filed for bankruptcy protection in December 2000 and subsequently ceased operations in November 2002.

Sources: Official Airline Guide
Compiled by Ricondo & Associates, Inc.

- **Northwest**, with a 4.5 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to four domestic markets with a total of 18 daily flights; as well as one daily flight to Tokyo.
- **Continental**, with a 4.3 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to four domestic markets with a total of 19 daily flights.
- **America West**, with a 3.3 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to three domestic markets with a total of 17 daily flights.
- **Alaska**, with a 3.2 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to three domestic markets with a total of 19 daily flights; as well as a total of 13 daily flights to the international markets of Cancun, Mazatlan, Puerto Vallarta, Los Cabos, Vancouver, and Calgary.
- **US Airways**, with a 3.1 percent share of domestic Airport enplanements in FY 2002, provides nonstop service to three domestic markets with a total of 14 daily flights.

Table 2.8 presents the foreign flag air carrier base at the Airport since FY 1992. As shown, the Airport has had a large and growing foreign flag air carrier base during the years shown in response to the Los Angeles CMSA's ties with Mexico and Central America, South America, and the Far East. As also shown, 25 of the 43 foreign flag carriers serving the Airport operated there for each of the years shown. Activity by these carriers providing significant activity at the Airport are discussed below:

- **CMA Mexicana**, with a 7.0 percent share of international Airport enplanements in FY 2002, provides nonstop service to Cancun, Guadalajara, Los Cabos, Mexico City, and Zacateca with a total of 13 daily flights.
- **Air Canada**, with a 6.3 percent share of international Airport enplanements in FY 2002, provides nonstop service to Calgary, Edmonton, Montreal, Toronto, and Vancouver with a total of 12 daily flights.
- **Air New Zealand**, with a 5.8 percent share of international Airport enplanements in FY 2002, provides nonstop service to Auckland, London, Papeete, and Sydney with a total of five daily flights.
- **Qantas**, with a 5.7 percent share of international Airport enplanements in FY 2002, provides nonstop service to Auckland, Melbourne, and Sydney with a total of four daily flights.
- **Korean**, with a 4.4 percent share of international Airport enplanements in FY 2002, provides nonstop service to Seoul and Tokyo with a total of three daily flights.
- **AeroMexico**, with a 3.6 percent share of international Airport enplanements in FY 2002, provides nonstop service to Guadalajara, Leon, Mexico City, and Puerto Vallarta with a total of six daily flights.
- **Japan**, with a 3.6 percent share of international Airport enplanements in FY 2002, provides nonstop service to Osaka and Tokyo with a total of three daily flights.

TABLE 2.8

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

SCHEDULED FOREIGN FLAG AIR CARRIER BASE

Air Carrier	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003 ¹
Aero California	•	•	•	•	•	•	•	•	•	•	•	•
AeroMexico	•	•	•	•	•	•	•	•	•	•	•	•
Air Canada	•	•	•	•	•	•	•	•	•	•	•	•
Air France	•	•	•	•	•	•	•	•	•	•	•	•
Air New Zealand	•	•	•	•	•	•	•	•	•	•	•	•
All Nippon	•	•	•	•	•	•	•	•	•	•	•	•
Asiana	•	•	•	•	•	•	•	•	•	•	•	•
British Airways	•	•	•	•	•	•	•	•	•	•	•	•
Cathay Pacific	•	•	•	•	•	•	•	•	•	•	•	•
CMA Mexicana	•	•	•	•	•	•	•	•	•	•	•	•
El Al Israeli	•	•	•	•	•	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•	•	•	•	•	•
KLM Royal Dutch	•	•	•	•	•	•	•	•	•	•	•	•
Korean	•	•	•	•	•	•	•	•	•	•	•	•
LACSA	•	•	•	•	•	•	•	•	•	•	•	•
LTU International	•	•	•	•	•	•	•	•	•	•	•	•
Lufthansa	•	•	•	•	•	•	•	•	•	•	•	•
Malaysian	•	•	•	•	•	•	•	•	•	•	•	•
Qantas	•	•	•	•	•	•	•	•	•	•	•	•
Singapore	•	•	•	•	•	•	•	•	•	•	•	•
Swissair	•	•	•	•	•	•	•	•	•	•	•	•
Taca	•	•	•	•	•	•	•	•	•	•	•	•
Thai Airways	•	•	•	•	•	•	•	•	•	•	•	•
Varig Brazilian	•	•	•	•	•	•	•	•	•	•	•	•
Virgin Atlantic	•	•	•	•	•	•	•	•	•	•	•	•
China		•	•	•	•	•	•	•	•	•	•	•
China Eastern		•	•	•	•	•	•	•	•	•	•	•
Eva Airways		•	•	•	•	•	•	•	•	•	•	•
Philippine		•	•	•	•	•	•	•	•	•	•	•
Martinair Holland		•	•	•	•	•	•	•	•	•	•	•
Air Pacific			•	•	•	•	•	•	•	•	•	•
Lan Chile				•	•	•	•	•	•	•	•	•
Aeroflot					•	•	•	•	•	•	•	•
Air China					•	•	•	•	•	•	•	•
Air Jamaica					•	•	•	•	•	•	•	•
Avianca							•	•	•	•	•	•
China Southern							•	•	•	•	•	•
Aer Lingus								•	•	•	•	•
Air Tahiti Nui								•	•	•	•	•
Copa									•	•	•	•
Lot Polish												•
Scheduled Foreign Flag Carriers No longer Serving the Airport												
Canada 3000								•	•	•	•	
Aeroflotal	•	•	•	•	•	•	•	•	•	•	•	
Alitalia	•	•	•	•	•	•	•	•	•	•	•	

¹ As of July 1, 2002.

Sources: Official Airline Guide
 Compiled by Ricondo & Associates, Inc.

2.4 HISTORICAL AIRPORT ACTIVITY

The following sections review the Airport's historical activity in terms of passenger activity, air service, aircraft operations, aircraft landed weight, and cargo activity.

(1) Passenger Activity

Table 2.9 presents historical data on total enplaned passengers (domestic and international activity combined) at the Airport and the nation between FY 1991 and FY 2002. As shown, total passenger activity at the Airport increased from approximately 23.0 million enplanements in FY 1991 to approximately 33.8 million in FY 2001. This increase represents a compounded annual growth rate of 4.0 percent during this period, compared to 3.5 percent for the nation. As also shown, the Airport's share of total U.S. enplaned passengers increased from 4.7 percent in FY 1991 to 5.0 percent in FY 2001, reflective of the higher annual compounded growth rate experienced at the Airport than that for the nation during this period.

Due to the events of September 11, airports nationwide were ordered closed by the FAA until September 13, 2001. According to the FAA, aviation activity nationwide was already in a weakened state even before the events of September 11 and headed toward one of its worst years in over a decade. Also according to the FAA, passenger demand began to decline in February 2001 and air carrier finances turned negative in the first quarter of 2001, primarily due to the declining high-yield business traffic and rapidly escalating labor costs. As a result, the FAA estimated in March 2002 that total passenger traffic nationwide would decrease 1.8 percent in federal FY 2001 from federal FY 2000 levels; and projected an additional 12.0 percent decrease in federal FY 2002.⁴ Based on Air Transport Association (ATA) activity data, passenger enplanements for ATA members actually decreased 11.0 percent in federal FY 2002.

United was one of several major airlines to experience significant losses following September 11, and consequently reduced service levels considerably at the Airport from approximately 193 daily departures in August 2001 to approximately 100 daily departures in January 2002, and increasing to approximately 116 daily departures in September 2002. American reduced its service levels at the Airport from approximately 122 daily departures in August 2001 to approximately 92 daily departures in January 2002, and increasing to 99 daily departures in September 2002. International markets also experienced significant declines following September 11, with a decrease in activity from approximately 140 daily departures in August 2001 to approximately 110 daily departures in January 2002, and slightly increasing to approximately 115 daily departures in September 2002. As a result, the Airport experienced pronounced declines in the number of domestic and international air travelers. Total enplanements at the Airport decreased from approximately 33.8 million passengers in FY 2001 to approximately 28.1 million in FY 2002, an annual decrease of 16.9 percent during this period compared to 12.0 percent projected nationwide by the FAA.

Table 2.10 presents total enplanements by airline at the Airport between FY 1998 and FY 2002. As shown, four airlines (United, American, Southwest, and Delta) accounted for 51.1 percent to 55.2 percent of total enplanements at the Airport during this period. As also shown, Southwest's share of enplanements at the Airport increased from 11.1 percent in FY

⁴ *FAA Aerospace Forecasts, Fiscal Years 2002 – 2013*, FAA, March 2002. The federal fiscal year is the 12 months ended September 30.

TABLE 2.9

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL ENPLANEMENTS

Fiscal Year	DOMESTIC ACTIVITY					INTERNATIONAL ACTIVITY					TOTAL ACTIVITY				
	Airport Enplanements ¹	Annual Growth	U.S. Enplanements ²	Annual Growth	Airport Share of U.S. Enplanements	Airport Enplanements ¹	Annual Growth	U.S. Enplanements ²	Annual Growth	Airport Share of U.S. Enplanements	Airport Enplanements ¹	Annual Growth	U.S. Enplanements ²	Annual Growth	Airport Share of U.S. Enplanements
1991	17,942,110	-	445,900,000	-	4.0%	5,018,557	-	39,700,000	-	12.6%	22,960,667	-	485,600,000	-	4.7%
1992	17,672,433	-1.5%	464,700,000	4.2%	3.8%	5,634,150	12.3%	42,600,000	7.3%	13.2%	23,306,583	1.5%	507,300,000	4.5%	4.6%
1993	17,985,330	1.8%	470,400,000	1.2%	3.8%	5,968,169	5.9%	45,200,000	6.1%	13.2%	23,953,499	2.8%	515,600,000	1.6%	4.6%
1994	18,527,597	3.0%	511,300,000	8.7%	3.6%	6,211,436	4.1%	46,300,000	2.4%	13.4%	24,739,033	3.3%	557,600,000	8.1%	4.4%
1995	19,861,863	7.2%	531,100,000	3.9%	3.7%	6,661,358	7.2%	48,600,000	5.0%	13.7%	26,523,220	7.2%	579,700,000	4.0%	4.6%
1996	21,227,005	6.9%	558,100,000	5.1%	3.8%	6,971,643	4.7%	50,000,000	2.9%	13.9%	28,198,648	6.3%	608,100,000	4.9%	4.6%
1997	22,391,773	5.5%	579,100,000	3.8%	3.9%	7,152,494	2.6%	52,300,000	4.6%	13.7%	29,544,267	4.8%	631,400,000	3.8%	4.7%
1998	23,054,854	3.0%	592,100,000	2.2%	3.9%	7,683,028	7.4%	53,100,000	1.5%	14.5%	30,737,882	4.0%	645,200,000	2.2%	4.8%
1999	23,736,102	3.0%	613,300,000	3.6%	3.9%	7,749,359	0.9%	53,300,000	0.4%	14.5%	31,485,461	2.4%	666,600,000	3.3%	4.7%
2000	24,880,727	4.8%	640,500,000	4.4%	3.9%	8,350,995	7.8%	54,800,000	2.8%	15.2%	33,231,722	5.5%	695,300,000	4.3%	4.8%
2001	24,960,755	0.3%	627,500,000 ³	-2.0%	4.0%	8,879,214	6.3%	55,000,000 ³	0.4%	16.1%	33,839,969	1.8%	682,500,000 ³	-1.8%	5.0%
2002	20,783,817	-16.7%	550,300,000 ⁴	-12.3%	3.8%	7,347,844	-17.2%	50,000,000 ⁴	-9.1%	14.7%	28,131,661	-16.9%	600,300,000 ⁴	-12.0%	4.7%
Compounded Annual Growth Rate															
1992 - 2002		1.6%		1.7%			2.7%		1.6%			1.9%		1.7%	
1991 - 2001		3.4%		3.5%			5.9%		3.3%			4.0%		3.5%	
2001 - 2002		-16.7%		-12.3%			-17.2%		-9.1%			-16.9%		-12.0%	

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)
FAA (U.S. activity)
Compiled by Ricondo & Associates, Inc.

TABLE 2.10

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE ¹

Airline	FY 1998		FY 1999		FY 2000		FY 2001		FY 2002	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 United	6,947,061	22.6%	7,192,369	22.8%	7,711,998	23.2%	7,194,065	21.3%	5,290,373	18.8%
2 American	3,316,921	10.8%	3,350,656	10.6%	4,105,585	12.4%	4,774,104	14.1%	3,829,598	13.6%
3 Southwest	3,396,545	11.1%	3,591,679	11.4%	3,865,114	11.6%	3,860,380	11.4%	3,311,548	11.8%
4 Delta	2,834,495	9.2%	2,705,019	8.6%	2,651,724	8.0%	2,585,904	7.6%	2,260,347	8.0%
5 Alaska	986,124	3.2%	1,160,832	3.7%	1,147,236	3.5%	1,142,074	3.4%	1,108,714	3.9%
6 Northwest	1,314,112	4.3%	1,180,675	3.7%	1,374,630	4.1%	1,356,444	4.0%	1,061,976	3.8%
7 SkyWest	857,196	2.8%	1,096,978	3.5%	959,111	2.9%	987,910	2.9%	925,688	3.3%
8 Continental	1,054,866	3.4%	1,116,767	3.5%	997,489	3.0%	985,257	2.9%	890,826	3.2%
9 America West	723,044	2.4%	715,822	2.3%	738,146	2.2%	790,128	2.3%	681,813	2.4%
10 US Airways ²	827,310	2.7%	749,656	2.4%	680,705	2.0%	771,107	2.3%	638,973	2.3%
11 CMA Mexicana	505,850	1.6%	508,131	1.6%	640,948	1.9%	677,830	2.0%	517,625	1.8%
12 American Eagle	404,898	1.3%	456,042	1.4%	495,927	1.5%	551,485	1.6%	495,554	1.8%
13 Air Canada	314,843	1.0%	278,191	0.9%	305,903	0.9%	487,765	1.4%	460,618	1.6%
14 Qantas	312,417	1.0%	320,825	1.0%	411,692	1.2%	491,456	1.5%	440,369	1.6%
15 Air New Zealand	386,604	1.3%	468,974	1.5%	488,349	1.5%	498,083	1.5%	423,787	1.5%
16 American Trans Air	328,149	1.1%	379,105	1.2%	422,593	1.3%	441,376	1.3%	400,667	1.4%
17 Hawaiian	339,116	1.1%	371,134	1.2%	481,881	1.5%	466,834	1.4%	380,035	1.4%
18 Korean	391,023	1.3%	399,776	1.3%	416,008	1.3%	398,120	1.2%	325,007	1.2%
19 AeroMexico	190,720	0.6%	235,620	0.7%	322,851	1.0%	322,851	1.0%	267,579	1.0%
20 Japan	331,661	1.1%	374,132	1.2%	331,562	1.0%	383,746	1.1%	267,239	0.9%
Other ³	4,974,927	16.2%	4,833,078	15.4%	4,682,270	14.1%	4,673,050	13.8%	4,153,325	14.8%
Airport Total ⁴	30,737,882	100.0%	31,485,461	100.0%	33,231,722	100.0%	33,839,969	100.0%	28,131,661	100.0%

¹ For those airlines that were party to a merger or acquisition, 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 US Airways filed for reorganization under Chapter 11 of the Bankruptcy Code on August 11, 2002. This airline has targeted emergence from Chapter 11 in the first quarter of CY 2003.

³ Consists of airlines no longer serving the Airport and/or charter airlines.

⁴ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports
Compiled by Ricondo & Associates, Inc.

1998 to 11.8 percent in FY 2002. Due to a restructuring of United's activity at the Airport following September 11, United's share of enplanements at the Airport decreased from an average of 22.5 percent between FY 1998 and FY 2001 to 18.8 percent in FY 2002.

Table 2.9 also presents historical data on domestic enplaned passengers at the Airport and the nation between FY 1991 and FY 2002. As shown, domestic passenger activity at the Airport increased from approximately 17.9 million enplanements in FY 1991 to approximately 25.0 million in FY 2001. This increase represents a compounded annual growth rate of 3.4 percent during this period, comparable to the 3.5 percent growth rate for the nation. As also shown, the Airport's share of domestic U.S. enplaned passengers was relatively stable, averaging approximately 3.8 percent during this period. Due to the effects of September 11 and the nationwide recession, domestic enplanements at the Airport decreased from approximately 25.0 million in FY 2001 to approximately 20.8 million in FY 2002 (an annual decrease of 16.7 percent compared to 12.3 percent projected nationwide by the FAA).

The presence of Southwest at the Airport was a contributing factor in the strong growth in domestic enplanements at the Airport between FY 1991 and FY 2001, with its low-fare service at the Airport providing the "Southwest Effect" at the Airport. It is generally recognized that Southwest stimulates traffic at an airport it serves due to its low fares and high frequency of service. Passenger increases at an airport Southwest services are typically due to the stimulation of previously untapped passenger markets and the diversion of passengers from nearby facilities it does not serve, rather than the diversion of passengers from existing airlines serving the same facility.

As shown in **Table 2.11**, Southwest nearly tripled its daily nonstop flights at the Airport by Fiscal-Year-End (FYE) 2001 from FYE 1991 levels, increasing its activity at the Airport from 41 daily flights to 115 daily flights during this period. Southwest's passenger activity at the Airport increased accordingly, from approximately 1.0 million enplanements in FY 1991 to approximately 3.9 million in FY 2001, a compounded annual growth rate of 15.0 percent during this period. As a result, its share of domestic enplanements at the Airport increased from 4.1 percent in FY 1991 to 15.5 percent in FY 2001.

Other airlines began matching fares with Southwest in certain markets at the Airport during the mid-1990s. In particular, United began its low-cost unit Shuttle by United at the Airport in October 1994, serving markets located primarily within the West Coast corridor. As a result, United's activity at the Airport increased from approximately 100 daily departures in FY 1994 to approximately 130 daily departures in FY 1995, and reached a high of 350 daily departures in FY 2001. Similar to Southwest, United's passenger activity at the Airport increased accordingly, from approximately 3.9 million domestic enplanements in FY 1994 to approximately 6.4 million in FY 2001, a compounded annual growth rate of 7.3 percent during this period.

As discussed above, the effects of September 11 and the nationwide recession contributed to domestic activity at the Airport to decrease from approximately 25.0 million enplanements in FY 2001 to approximately 20.8 million in FY 2002. Although Southwest added nonstop service from the Airport to Chicago (Midway) and Houston (Hobby) in FY 2002, it reduced service to El Paso, Las Vegas, Oakland, and Phoenix (a net reduction of four daily flights). United decreased its service significantly at the Airport following September 11, with its Shuttle by United operation discontinued nationwide in October 2001.

TABLE 2.11

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

NONSTOP SERVICE BY SOUTHWEST

	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
Albuquerque	5	6	6	6	6	6	6	6	6	6	6	6
El Paso	7	7	7	7	7	6	6	6	6	6	6	5
Phoenix	20	24	26	25	22	22	23	21	21	21	19	16
Oakland	9	10	16	18	24	24	24	24	23	24	23	20
Las Vegas		8	13	13	19	19	19	18	17	17	16	14
San Jose				12	12	13	14	13	13	14	13	13
Reno					3	3	3	3	3	3	3	3
Sacramento					6	6	6	7	7	8	8	8
Salt Lake City					4	4	4	4	4	4	4	4
Tucson					4	4	4	4	5	5	5	5
San Antonio						1	1	1	1	1	1	1
Kansas City							2	3	4	5	5	5
Nashville							2	2	3	3	3	3
Austin									1	1	1	1
New Orleans										1	1	1
Indianapolis											1	1
Chicago Midway												3
Houston Hobby												1
Total	41	55	68	81	107	108	114	112	114	119	115	110

Sources: Official Airline Guide
 Compiled by Ricondo & Associates, Inc.

Table 2.12 presents domestic enplanements by airline at the Airport between FY 1998 and FY 2002. As shown, four airlines (United, American, Southwest, and Delta) accounted for 66.6 percent to 69.6 percent of domestic enplanements at the Airport during this period. Six other airlines accounted for an additional 21.2 to 23.0 percent of domestic enplanements between FY 1998 and FY 2002. As also shown, Southwest's share of domestic enplanements at the Airport increased from 14.7 percent in FY 1998 to 15.9 percent in FY 2002. United's share of domestic enplanements at the Airport decreased from 26.6 percent in FY 1998 to 22.8 percent in FY 2002.

Table 2.9 also presents historical data on international enplaned passengers at the Airport and the nation between FY 1991 and FY 2002. As shown, international passenger activity at the Airport increased from approximately 5.0 million enplanements in FY 1991 to approximately 8.9 million in FY 2001. This increase represents a compounded annual growth rate of 5.9 percent during this period, compared to the 3.3 percent growth rate for the nation. As also shown, the Airport's share of international U.S. enplaned passengers increased from 12.6 percent in FY 1991 to 16.1 percent during this period. Due to the effects of September 11 and the international economy, particularly in Asia, international enplanements at the Airport decreased from approximately 8.9 million in FY 2001 to approximately 7.3 million in FY 2002 (an annual decrease of 17.2 percent compared to 9.1 percent projected nationwide by the FAA).

In the late 1990s, American and United airlines formed separate alliances with certain foreign flag carriers serving the Airport to maintain a competitive edge in international activity. In May 1997, United formed a global partnership with Air Canada, Lufthansa, SAS, and Thai Airways International to create Star Alliance. Varig Brazilian and CMA Mexicana subsequently joined Star Alliance in late 1997 and 2000, respectively. In February 1999, American formed a global partnership with British Airways, Cathay Pacific, Canadian, and Qantas to create "oneworld." Canadian subsequently withdrew from the alliance in June 1999 following its purchase by Air Canada; however, Aer Lingus and Lan Chile entered into the oneworld alliance in June 2000.

Table 2.13 presents international enplanements by airline at the Airport between FY 1998 and FY 2002. As shown, international enplanements at the Airport are spread over a number of airlines, with no airline dominating. Although United experienced the highest share of international activity at the Airport during each of the years depicted, its highest share of international enplanements at the Airport was 10.7 percent in FY 1998. As also shown, the top 20 airlines in terms of market share of international enplanements accounted for 76 percent of international activity at the Airport in FY 2002.

(2) Air Service

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 services primarily O&D passengers. **Table 2.14** presents historical data on the Airport's top 50 domestic O&D markets for CY 1996 and CY 2001. As shown, numerous markets within the West Coast corridor are highly ranked during both years depicted. As also shown, a slight shifting occurred toward more demand to medium- and long-haul markets between CY 1996 and CY 2001 such as Chicago (from a ranking of 7th in CY 1996 to 3rd in CY 2001), Dallas (22nd to 16th), Baltimore (27th to 19th), and Detroit (26th to 20th). Despite the strong local demand for markets within the West Coast corridor, the Airport's markets in CY 1996 and CY 2001 had an average stage length (i.e., passenger trip

TABLE 2.12

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL DOMESTIC ENPLANEMENTS BY AIRLINE ¹

Airline	FY 1998		FY 1999		FY 2000		FY 2001		FY 2002	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 United	6,124,264	26.6%	6,443,867	27.1%	6,983,726	28.1%	6,417,032	25.7%	4,742,938	22.8%
2 American	3,234,223	14.0%	3,254,200	13.7%	3,962,778	15.9%	4,630,823	18.6%	3,741,341	18.0%
3 Southwest	3,396,545	14.7%	3,591,679	15.1%	3,865,114	15.5%	3,860,380	15.5%	3,311,548	15.9%
4 Delta	2,613,724	11.3%	2,550,658	10.7%	2,508,457	10.1%	2,418,834	9.7%	2,134,122	10.3%
5 Northwest	1,081,716	4.7%	970,196	4.1%	1,147,461	4.6%	1,158,492	4.6%	942,218	4.5%
6 SkyWest	857,196	3.7%	1,096,978	4.6%	959,111	3.9%	987,910	4.0%	925,688	4.5%
7 Continental	1,054,866	4.6%	1,112,524	4.7%	997,489	4.0%	985,257	3.9%	890,826	4.3%
8 America West	722,598	3.1%	715,822	3.0%	738,146	3.0%	790,128	3.2%	681,813	3.3%
9 Alaska	695,375	3.0%	796,619	3.4%	755,040	3.0%	720,174	2.9%	667,645	3.2%
10 US Airways ²	827,310	3.6%	749,656	3.2%	680,705	2.7%	771,107	3.1%	638,973	3.1%
11 American Eagle	404,898	1.8%	456,042	1.9%	495,927	2.0%	551,485	2.2%	495,554	2.4%
12 American Trans Air	325,670	1.4%	376,615	1.6%	420,953	1.7%	430,045	1.7%	390,367	1.9%
13 Hawaiian	339,116	1.5%	371,134	1.6%	448,191	1.8%	420,824	1.7%	369,449	1.8%
14 National ³	-	-	-	-	154,948	0.6%	224,712	0.9%	218,737	1.1%
15 Frontier	85,163	0.4%	121,871	0.5%	131,150	0.5%	130,389	0.5%	114,975	0.6%
16 Spirit	-	-	-	-	-	-	70,053	0.3%	99,029	0.5%
17 Air Wisconsin	-	-	-	-	9,396	0.0%	10,935	0.0%	88,653	0.4%
18 Vanguard	5,854	0.0%	-	-	-	-	47,280	0.2%	71,598	0.3%
19 Horizon	-	-	2,297	0.0%	42,661	0.2%	72,389	0.3%	71,591	0.3%
20 Midwest Express	90,313	0.4%	88,245	0.4%	85,943	0.3%	80,870	0.3%	62,430	0.3%
Other ⁴	1,196,023	5.2%	1,037,699	4.4%	493,531	2.0%	181,636	0.7%	124,322	0.6%
Airport Total ⁵	23,054,854	100.0%	23,736,102	100.0%	24,880,727	100.0%	24,960,755	100.0%	20,783,817	100.0%

¹ For those airlines that were party to a merger or acquisition, 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 US Airways filed for reorganization under Chapter 11 of the Bankruptcy Code on August 11, 2002. This airline has targeted emergence from Chapter 11 in the first quarter of CY 2003.

³ National filed for bankruptcy protection in December 2000 and subsequently ceased operations in November 2002.

⁴ Consists of airlines no longer serving the Airport and/or charter airlines.

⁵ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports
Compiled by Ricondo & Associates, Inc.

TABLE 2.13

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL INTERNATIONAL ENPLANEMENTS BY AIRLINE ¹

Airline	FY 1998		FY 1999		FY 2000		FY 2001		FY 2002	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 United	822,797	10.7%	748,502	9.7%	728,272	8.7%	777,033	8.8%	547,435	7.5%
2 CMA Mexicana	505,850	6.6%	508,131	6.6%	640,948	7.7%	677,830	7.6%	517,625	7.0%
3 Air Canada	314,843	4.1%	278,191	3.6%	305,843	3.7%	487,765	5.5%	460,618	6.3%
4 Alaska	290,749	3.8%	364,213	4.7%	392,196	4.7%	421,900	4.8%	441,069	6.0%
5 Air New Zealand	386,604	5.0%	468,974	6.1%	487,919	5.8%	498,083	5.6%	423,787	5.8%
6 Qantas	312,417	4.1%	320,825	4.1%	411,692	4.9%	458,247	5.2%	417,780	5.7%
7 Korean	372,046	4.8%	381,150	4.9%	405,011	4.8%	398,120	4.5%	325,007	4.4%
8 AeroMexico	190,720	2.5%	235,620	3.0%	322,851	3.9%	357,955	4.0%	267,579	3.6%
9 Japan	331,661	4.3%	360,873	4.7%	304,887	3.7%	375,674	4.2%	267,239	3.6%
10 Air France	152,693	2.0%	161,778	2.1%	171,344	2.1%	171,858	1.9%	216,460	2.9%
11 British Airways	283,760	3.7%	292,486	3.8%	296,995	3.6%	260,362	2.9%	207,504	2.8%
12 China	188,816	2.5%	196,198	2.5%	190,312	2.3%	215,730	2.4%	205,772	2.8%
13 Lufthansa	164,293	2.1%	173,095	2.2%	206,609	2.5%	224,407	2.5%	183,874	2.5%
14 Virgin Atlantic	184,454	2.4%	195,106	2.5%	198,680	2.4%	201,659	2.3%	176,923	2.4%
15 Eva Airways	179,580	2.3%	203,503	2.6%	194,316	2.3%	208,328	2.3%	176,908	2.4%
16 Singapore	221,165	2.9%	193,332	2.5%	203,148	2.4%	192,312	2.2%	171,918	2.3%
17 Varig Brazilian	150,095	2.0%	150,025	1.9%	159,146	1.9%	200,215	2.3%	165,978	2.3%
18 Cathay Pacific	124,982	1.6%	164,468	2.1%	147,148	1.8%	177,824	2.0%	140,620	1.9%
19 Phillipine	119,704	1.6%	80,775	1.0%	132,707	1.6%	142,332	1.6%	138,935	1.9%
20 Asiana	116,419	1.5%	118,585	1.5%	163,483	2.0%	165,861	1.9%	129,979	1.8%
Other ²	2,269,380	29.5%	2,153,529	27.8%	2,287,488	27.4%	2,265,719	25.5%	1,764,834	24.0%
Airport Total ³	7,683,028	100.0%	7,749,359	100.0%	8,350,995	100.0%	8,879,214	100.0%	7,347,844	100.0%

¹ For those airlines that were party to a merger or acquisition, 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 Consists of airlines no longer serving the Airport and/or charter airlines.

³ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports
Compiled by Ricondo & Associates, Inc.

TABLE 2.14

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

PRIMARY DOMESTIC O&D PASSENGER MARKETS

CY 1996					CY 2001				
Rank	Market	Nonstop Service ¹	Trip Length ²	Total O&D Passengers	Rank	Market	Nonstop Service ¹	Trip Length ²	Total O&D Passengers
1	New York/Newark	•	LH	2,739,240	1	New York/Newark	•	LH	2,651,480
2	Las Vegas	•	SH	2,004,410	2	Las Vegas	•	SH	1,631,670
3	Oakland	•	SH	1,661,460	3	Chicago	•	MH	1,460,710
4	San Francisco	•	SH	1,627,290	4	Oakland	•	SH	1,435,730
5	Phoenix	•	SH	1,399,760	5	Honolulu	•	LH	1,082,230
6	Honolulu	•	LH	1,357,090	6	Seattle/Tacoma	•	MH	1,034,480
7	Chicago	•	MH	1,224,600	7	Phoenix	•	SH	1,026,070
8	Seattle/Tacoma	•	MH	1,206,750	8	San Jose	•	SH	998,180
9	San Jose	•	SH	1,090,460	9	San Francisco	•	SH	928,540
10	Denver	•	MH	851,390	10	Sacramento	•	SH	752,160
11	Salt Lake City	•	SH	745,800	11	Washington, DC	•	LH	735,450
12	Washington, DC	•	LH	739,290	12	Denver	•	MH	717,780
13	Sacramento	•	SH	727,350	13	Salt Lake City	•	SH	696,830
14	Portland, OR	•	MH	691,140	14	Boston	•	LH	627,380
15	Boston	•	LH	652,120	15	Atlanta	•	LH	601,600
16	Atlanta	•	LH	551,370	16	Dallas/Fort Worth	•	MH	586,950
17	Tucson	•	SH	490,410	17	Portland	•	MH	553,110
18	Miami	•	LH	489,140	18	Houston	•	MH	550,630
19	Houston	•	MH	482,490	19	Baltimore	•	LH	541,980
20	Reno	•	SH	474,370	20	Detroit	•	LH	517,820
21	Albuquerque	•	MH	452,060	21	Philadelphia	•	LH	485,160
22	Dallas/Fort Worth	•	MH	438,270	22	Minneapolis	•	MH	483,450
23	Philadelphia	•	LH	374,090	23	Orlando	•	LH	455,240
24	Orlando	•	LH	368,520	24	Kahului, Maui	•	LH	429,380
25	Minneapolis/St. Paul	•	MH	354,210	25	Tucson	•	SH	382,610
26	Detroit	•	LH	317,920	26	Reno	•	SH	343,280
27	Baltimore	•	LH	311,450	27	Miami	•	LH	333,520
28	Kahului, Maui	•	LH	298,570	28	Kansas City	•	MH	330,740
29	Kansas City	•	MH	294,850	29	New Orleans	•	MH	291,760
30	New Orleans	•	MH	262,950	30	Fort Lauderdale	•	LH	285,680
31	St. Louis	•	MH	260,790	31	Albuquerque	•	MH	281,740
32	San Diego	•	SH	237,730	32	St. Louis	•	MH	277,920
33	Colorado Springs	•	MH	233,670	33	Tampa	•	LH	257,860
34	San Antonio	•	MH	230,300	34	Cleveland	•	LH	236,620
35	Indianapolis	•	LH	215,140	35	Indianapolis	•	LH	221,360
36	Fort Lauderdale	•	LH	211,290	36	Austin	•	MH	197,400
37	El Paso	•	MH	204,440	37	Columbus	•	LH	197,280
38	Tampa	•	LH	189,050	38	Providence	•	LH	194,950
39	Cleveland	•	LH	186,830	39	Raleigh/Durham	•	LH	192,150
40	Nashville	•	MH	181,020	40	Nashville	•	MH	190,050
41	Columbus	•	LH	171,390	41	Milwaukee	•	MH	175,420
42	Milwaukee	•	MH	156,260	42	Hartford	•	LH	174,660
43	Austin	•	MH	137,510	43	San Antonio	•	MH	165,210
44	Pittsburgh	•	LH	134,260	44	Pittsburgh	•	LH	157,940
45	Fresno	•	SH	130,800	45	Kona, Hawaii	•	LH	157,130
46	Cincinnati	•	LH	118,890	46	El Paso	•	MH	142,790
47	Hartford	•	LH	114,220	47	Charlotte	•	LH	135,930
48	Omaha	•	MH	106,180	48	Cincinnati	•	LH	124,870
49	Salinas	•	SH	102,100	49	Omaha	•	MH	122,440
50	Spokane	•	MH	98,860	50	Lihue, Kauai	•	LH	117,650
	Others			3,723,580		Others			3,928,990
	Total			31,823,130		Total			30,601,960
<u>Average</u>					<u>Average</u>				
Airport ³			1,319 miles		Airport ³			1,456 miles	
United States			799 miles		United States			839 miles	

¹ As of September 18, 2002.

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.

Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic
Compiled by Ricondo & Associates, Inc.

distance) of 1,319 and 1,456 miles during these calendar years, respectively, compared to 799 and 839 miles nationwide. The average stage length for the Airport has historically been higher than that for the nation, reflecting the strong local demand for service to long-haul markets such as New York, Honolulu, Washington, D.C., Boston, and Atlanta.

Nonstop scheduled domestic air service available from the Airport is presented in **Table 2.15**. As shown, 67 domestic cities are served with a total of 708 daily nonstop flights. Each of the Airport's top 28 O&D markets in CY 2001 are served with daily nonstop service, as well as 44 of the Airport's top 50 O&D markets. New York, the largest domestic O&D market for the Airport, is provided 33 daily nonstop flights. Other domestic markets with significant daily nonstop service from the Airport include Chicago (39 daily nonstop flights), San Francisco (28), San Diego (56), Las Vegas (42), and Phoenix (42). **Exhibit 2.1** graphically illustrates the Airport's nonstop domestic and Canadian markets, as of September 2002.

Table 2.16 presents historical data on the Airport's top 50 international O&D markets for CY 1995 and CY 2000, the latest calendar year for which such data are currently available. As shown, numerous international markets are represented including Mexico, Central and Southern America, the Caribbean, Europe, and the Pacific. Nonstop scheduled international air service available from the Airport is presented in **Table 2.17**. As shown, 42 international cities are served with a total of 114 daily nonstop flights. Each of the Airport's top six O&D markets in CY 2000 are served with daily nonstop service, as well as 30 of the Airport's top 50 O&D markets. Tokyo, the largest international O&D market for the Airport, is provided eight daily nonstop flights. Other international markets with significant daily nonstop service from the Airport include Mexico City (10 daily nonstop flights), Vancouver (10), Guadalajara (eight), and London (seven). **Exhibit 2.2**, **Exhibit 2.3**, and **Exhibit 2.4** graphically illustrate the Airport's nonstop international markets, as of September 2002 (Canadian markets are shown in Exhibit 2.2).

(3) Aircraft Operations

Table 2.18 presents historical operations (take-offs and landings) at the Airport by major user group between FY 1997 and FY 2002. As shown, aircraft activity at the Airport increased from approximately 762,200 operations in FY 1997 to approximately 796,100 in FY 2001, a compounded annual growth rate of 1.1 percent during this period, compared to a decrease of 1.3 percent nationwide. As also shown, the effects of September 11, the economic slowdown, and the subsequent reduction of activity by passenger and all-cargo carriers at the Airport resulted in a 17.4 percent decrease in operations in FY 2002 from FY 2001 levels, compared to a 4.5 percent decrease projected nationwide by the FAA.

Passenger airline activity at the Airport was relatively stable between FY 1997 and FY 2001, averaging approximately 636,700 operations during this period. The effects of September 11, the economic slowdown, and the elimination of Shuttle by United nationwide resulted in an 18.4 percent decrease in passenger airline activity at the Airport in FY 2002 from FY 2001 levels.

General aviation activity at the Airport steadily decreased each year between FY 1999 and FY 2002 from the previous year's level, from approximately 30,600 operations in FY 1998 to approximately 15,200 in FY 2002. According to the Department of Airports, this decrease was primarily due to lower costs and less delays at outlying airports within the Los Angeles CMSA. The effects of September 11 also affected general aviation activity at the

TABLE 2.15

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

NONSTOP DOMESTIC MARKETS
 (page 1 of 2)

Market	Daily Nonstop Flights	Number of Airlines	Airline
Albuquerque	7	2	Southwest (6), American Eagle (1)
Atlanta	9	1	Delta
Austin	3	2	American (2), Southwest (1)
Bakersfield	6	1	United Express-SkyWest
Baltimore	4	2	United (2), Southwest (2)
Boise	2	1	Horizon
Boston	9	3	American (4), Delta (2), United (3)
Carlsbad	6	1	United Express-SkyWest
Charlotte	5	1	US Airways
Chicago	39	5	American (13-ORD), American Trans Air (5-MDW), United (17-ORD), Southwest (3-MDW), Spirit (1-ORD)
Cincinnati	4	1	Delta
Cleveland	3	1	Continental
Colorado Springs	5	2	American (2), United Express-Skywest (3)
Columbus	1	1	America West
Dallas-Fort Worth	18	3	American (13), Delta (3), United (2)
Denver	18	3	American (3), Frontier (4), United (11)
Detroit	7	2	Northwest (5), Spirit (2)
El Centro/Imperial, CA	3	1	United Express-SkyWest
El Paso	5	1	Southwest
Eugene	2	1	Horizon
Fort Lauderdale	2	1	American
Fresno	17	2	American Eagle (7), United Express-SkyWest (10)
Honolulu	14	6	American (3), Continental (1), Delta (3), Hawaiian (2), Northwest (1), United (4)
Houston	10	2	Continental (9-IAH), Southwest (1-HOU)
Indianapolis	2	2	American Trans Air (1), Southwest (1)
Inyokern, CA	3	1	United Express-SkyWest
Kahului, HI	5	3	American (2), Delta (1), United (2)
Kansas City	5	1	Southwest
Kona, HI	3	2	American (1), United (2)
Las Vegas	42	7	American (3), America West (8), Delta (2), Hawaiian (1), National (6), Southwest (15), United (7)
Lihue, HI	2	2	United (1), American (1)
Medford, OR	1	1	Horizon
Memphis	3	1	Northwest
Miami	5	2	American (4), United (1)
Milwaukee	2	1	Midwest Express
Minneapolis	9	1	Northwest
Monterey	12	2	American Eagle (4), United Express-SkyWest (8)
Nashville	4	2	American (1), Southwest (3)
New Orleans	3	2	Southwest (1), United (2)

TABLE 2.15

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

NONSTOP DOMESTIC MARKETS
(page 2 of 2)

Market	Daily Nonstop Flights	Number of Airlines	Airline
New York City ¹	33	4	American (13), Continental (6), Delta (4), United (10)
Oakland	32	4	Southwest (22), United (1), United Express(4), American Eagle (5)
Ontario, CA	10	1	United Express-SkyWest
Orlando	5	3	American (1), Delta (1), United (3)
Oxnard, CA	5	1	United Express-SkyWest
Palm Springs	16	2	American Eagle (6), United Express-SkyWest (10)
Philadelphia	8	2	United (3), US Airways (5)
Phoenix	42	5	America West (8), Southwest (17), United Express-SkyWest (6), American Eagle (5), Mesa (6)
Pittsburgh	4	1	US Airways
Portland, OR	9	2	Alaska (5), United (4)
Reno	6	2	American (3), Southwest (3)
Sacramento	15	3	Southwest (9), United (1), United Express-SkyWest (5)
Salt Lake City	15	3	Delta (7), Southwest (4), United Express - AWAC (4)
San Antonio	1	1	Southwest
San Diego	56	2	American Eagle (26), United Express-SkyWest (30)
San Francisco	28	3	Alaska (1), American (8), United (19)
San Jose	28	4	American (7), Southwest (14), United Express/AWAC (1), United Express-SkyWest (6)
San Luis Obispo, CA	14	2	American Eagle (7), United Express-SkyWest (7)
Santa Ana, CA	7	2	American Eagle (1), United Express (6)
Santa Barbara, CA	17	3	American Eagle (9), United Express/AWAC (2), United Express-SkyWest (6)
Santa Maria	6	1	United Express-SkyWest
Seattle/Tacoma	18	2	Alaska (13), United (5)
St. George, UT	2	1	United Express-SkyWest
St. Louis, MO	6	1	American
Tampa	1	1	Delta
Tucson	9	2	Southwest (5), United Express-SkyWest (4)
Washington, DC	11	2	American (3-IAD), United (8-IAD)
Yuma, AZ	4	1	United Express-SkyWest
Total Daily Departures	708		

¹ Includes flights to Kennedy, LaGuardia, and Newark.

Sources: Official Airline Guide (September 18, 2002).
Compiled by Ricondo & Associates, Inc.

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Exhibit 2.1

Source: Mountain High Maps
 Prepared by: Ricondo & Associates, Inc.

Nonstop Flights from LAX to U.S. and Canadian Markets

TABLE 2.16

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

PRIMARY INTERNATIONAL O&D PASSENGER MARKETS

CY 1995					CY 2000				
Rank	City	Country	Nonstop Service ¹	Total O&D Passengers	Rank	City	Country	Nonstop Service ¹	Total O&D Passengers
1	Tokyo	Japan	•	513,805	1	Tokyo	Japan	•	511,837
2	London	U.K.	•	377,649	2	London	U.K.	•	482,132
3	Mexico City	Mexico	•	289,609	3	Guadalajara	Mexico	•	428,497
4	Taipei	Taiwan	•	278,387	4	Mexico City	Mexico	•	335,325
5	Seoul	S. Korea	•	275,058	5	Paris	France	•	317,861
6	Guadalajara	Mexico	•	232,338	6	Taipei	Taiwan	•	301,514
7	Paris	France	•	221,593	7	Singapore	Singapore	•	228,192
8	Osaka	Japan	•	150,908	8	Seoul	S. Korea	•	227,442
9	San Salvador	El Salvador	•	150,057	9	Sydney	Australia	•	160,427
10	Singapore	Singapore	•	137,325	10	San Salvador	El Salvador	•	156,398
11	Manila	Philippines	•	124,317	11	Cancun	Mexico	•	154,130
12	Hong Kong	Hong Kong	•	107,773	12	San Jose Del Cabo	Mexico	•	147,106
13	Guatemala City	Guatemala	•	100,751	13	Osaka	Japan	•	140,384
14	Cancun	Mexico	•	91,095	14	Manila	Philippines	•	115,275
15	Puerto Vallarta	Mexico	•	86,773	15	Puerto Vallarta	Mexico	•	111,563
16	Frankfurt	Germany	•	85,986	16	Buenos Aires	Argentina	•	105,490
17	Sydney	Australia	•	82,012	17	Amsterdam	Netherlands	•	105,227
18	San Jose	Costa Rica	•	79,029	18	Papeete	French Polynesia	•	98,768
19	Buenos Aires	Argentina	•	78,213	19	Frankfurt	Germany	•	96,028
20	San Jose Del Cabo	Mexico	•	73,736	20	Bangkok	Thailand	•	90,729
21	Bangkok	Thailand	•	72,718	21	Nagoya	Japan	•	83,642
22	Amsterdam	Netherlands	•	71,880	22	Rome	Italy	•	83,426
23	Munich	Germany	•	67,173	23	San Jose	Costa Rica	•	82,922
24	Rome	Italy	•	62,912	24	Sao Paulo	Brazil	•	74,696
25	Kuala Lumpur	Malaysia	•	62,347	25	Mazatlan	Mexico	•	72,758
26	Tel Aviv	Israel	•	61,632	26	Lima	Peru	•	69,990
27	Jakarta	Indonesia	•	49,319	27	Munich	Germany	•	69,647
28	Melbourne	Australia	•	49,103	28	Guatemala City	Guatemala	•	69,349
29	Zurich	Switzerland	•	47,713	29	Dublin	Ireland	•	68,909
30	Santiago	Chile	•	47,604	30	Tel Aviv	Israel	•	67,695
31	Sao Paulo	Brazil	•	46,627	31	Beijing	China	•	67,503
32	Berlin	Germany	•	46,336	32	Melbourne	Australia	•	63,408
33	Nagoya	Japan	•	44,959	33	Santiago	Chile	•	62,276
34	Mazatlan	Mexico	•	44,070	34	Kuala Lumpur	Malaysia	•	61,889
35	Auckland	New Zealand	•	43,028	35	Auckland	New Zealand	•	61,002
36	Acapulco	Mexico	•	42,499	36	Hong Kong	Hong Kong	•	55,824
37	Hamburg	Germany	•	42,214	37	Berlin	Germany	•	50,052
38	Rio de Janeiro	Brazil	•	41,330	38	Milan	Italy	•	49,900
39	Dusseldorf	Germany	•	39,356	39	Rio de Janeiro	Brazil	•	48,901
40	Beijing	China	•	37,052	40	Zurich	Switzerland	•	47,823
41	Milan	Italy	•	36,562	41	Acapulco	Mexico	•	46,041
42	Stuttgart	Germany	•	36,168	42	Shanghai	China	•	43,997
43	Athens	Greece	•	35,918	43	Stockholm	Sweden	•	43,429
44	Madrid	Spain	•	32,951	44	Leon-Guanajuato	Mexico	•	42,065
45	Bogota	Colombia	•	30,479	45	Ixtapa	Mexico	•	37,721
46	Vienna	Austria	•	30,392	46	Vienna	Austria	•	37,103
47	Geneva	Switzerland	•	29,525	47	Madrid	Spain	•	34,731
48	Lima	Peru	•	29,480	48	Santo Domingo	Dominican Republic	•	32,894
49	Montego Bay	Jamaica	•	28,599	49	Bombay	India	•	32,412
50	Papeete	French Polynesia	•	28,082	50	Monterrey	Mexico	•	32,261
	Others			1,776,288		Others			2,331,707
	Total			6,650,730		Total			8,340,298

¹ As of September 18, 2002.

² Average calculated for all of the Airport's international O&D markets.

Source: BACK Aviation Solutions; Immigration and Naturalization Service
Compiled by Ricondo & Associates, Inc.

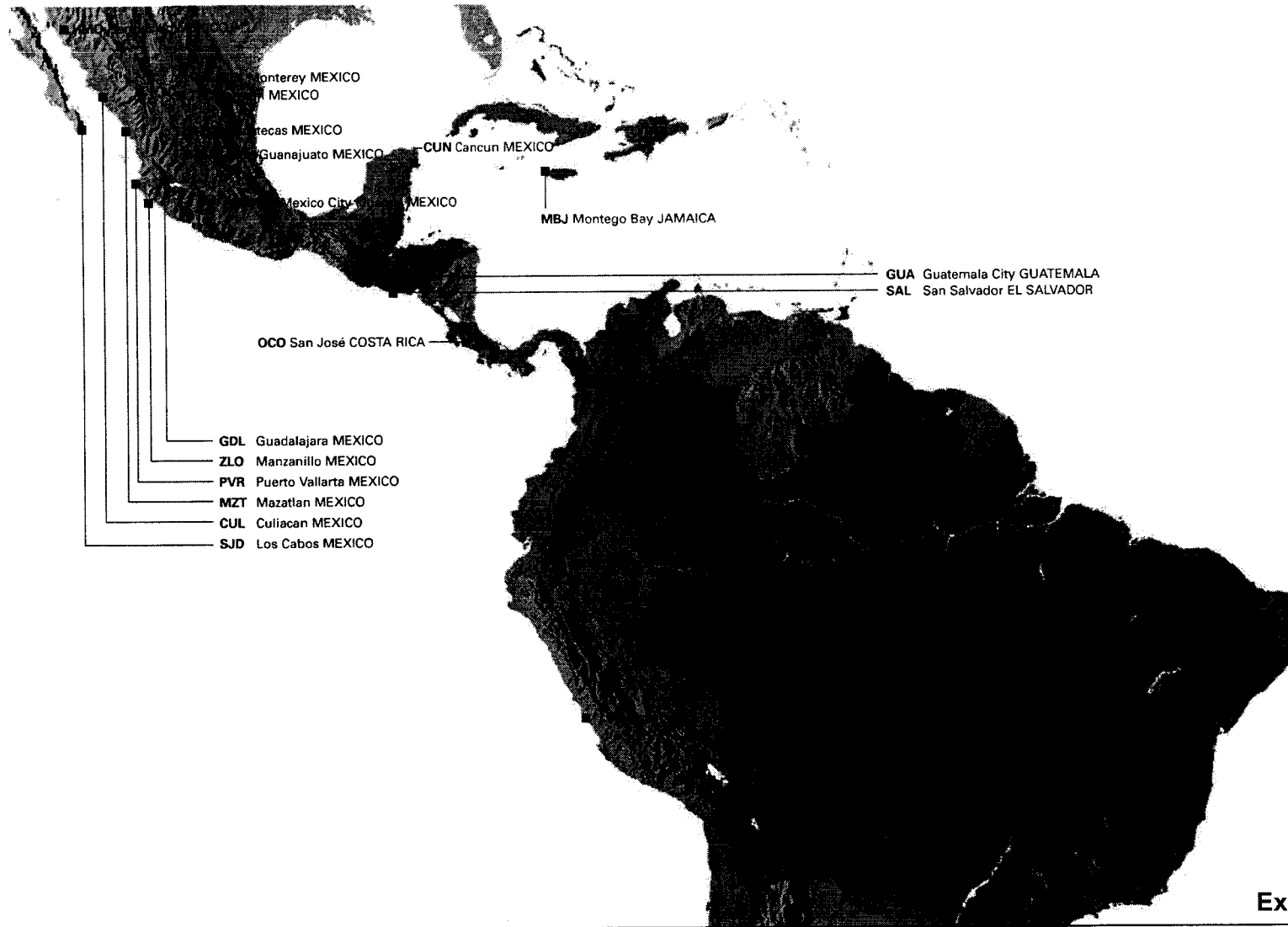
TABLE 2.17

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

NONSTOP INTERNATIONAL MARKETS

Market	Daily Nonstop Flights	Number of Airlines	Airline
Amsterdam, Netherlands	1	1	KLM-Royal Dutch Airlines
Auckland, New Zealand	4	3	Air New Zealand (2), Qantas Airways (1), United Airlines (1)
Beijing, China	1	1	Air China
Calgary, Alberta	3	2	Air Canada (2), Alaska Airlines (1)
Cancun, Mexico	2	2	Alask Airlines (1), Mexicana De Aviacion (1)
Dublin, Republic of Ireland	1	1	Aer Lingus
Edmonton, Alberta	1	1	Air Canada
Frankfurt, Germany	2	1	Lufthansa German Airlines
Guadalajara, Mexico	8	4	AeroMexico (2), Delta Airlines (1), Mexicana De Aviacion (4), American Airlines (1)
Guangzhou, China	1	1	China Southern Airlines
Guatemala City, Guatemala	2	2	Lacsa (1), United Airlines (1)
Hermosillo, Mexico	2	2	Aerolital (1), Aero California (1)
Hong Kong, China	2	1	Cathay Pacific Airways
Loen/Guanajuato, Mexico	1	1	Aeromexico
Lima, Peru	1	1	Lan Chile S.A.
London, England	7	5	American Airlines (1), British Airways (2), Air New Zealand (1), United Airlines (1), Virgin Atlantic Airways (2)
Los Cabos, Mexico	4	2	Alaska Airlines (3), Mexicana De Aviacion (1)
Manzanillo, Mexico	1	1	Aero California
Mazatlan, Mexico	1	1	Alaska Airlines
Melbourne, Australia	1	1	Qantas Airways
Mexico City, Mexico	10	4	Aeromexico (2), Delta Airlines (1), Mexicana De Aviacion (6), United Airlines (1)
Montego Bay, Jamaica	1	1	Air Jamaica
Monterrey, Mexico	1	1	Aviacsa
Montreal, Quebec	1	1	Air Canada
Moscow, Russian Federation	1	1	Aeroflot Russian Airlines
Nagoya, Japan	1	1	Varig S.A.
Osaka, Japan	1	1	Japan Airlines
Papeete, French Polynesia	2	2	Air New Zealand (1), Air Tahiti Nui (1)
Paris, France	3	2	Air France (2), Air Tahiti Nui (1)
Puerto Vallarta, Mexico	3	2	Alaska Airlines (2), Aeromexico (1)
San Jose, Costa Rica	1	1	Lacsa
San Salvador, El Salvador	2	2	Taca Intl Airlines (1), United Airlines (1)
Sao Paulo, Brazil	1	1	Varig S.A.
Seoul, Korea	4	2	Korean Air (2), Asiana Airlines (2)
Shanghai, China	1	1	China Eastern
Sydney, Australia	4	3	Air New Zealand (1), Qantas Airways (2), United Airlines (1)
Taipei, Taiwan	5	4	Eva Airways (1), China Airlines (2), Malaysia Airlines (1), Singapore Airlines (1)
Tokyo, Japan	8	7	Japan Airlines (2), All Nippon Airways (1), Northwest Airlines (1), Singapore Airlines (1), United Airlines (1), Thai Airways (1), Korean Air (1)
Toronto, Ontario	6	2	American Airlines (2), Air Canada (4)
Vancouver, British Columbia	10	3	Air Canada (4), Alaska Airlines (5), United Airlines (1)
Zacatecas, Mexico	1	1	Mexicana De Aviacion
Zurich, Switzerland	1	1	Swissair
Total Daily Flights	114		

Sources: Official Airline Guide (September 18, 2002).
Compiled by Ricondo & Associates, Inc.



A - 77

Exhibit 2.2

Source: Mountain High Maps
Prepared by: Ricoondo & Associates, Inc.

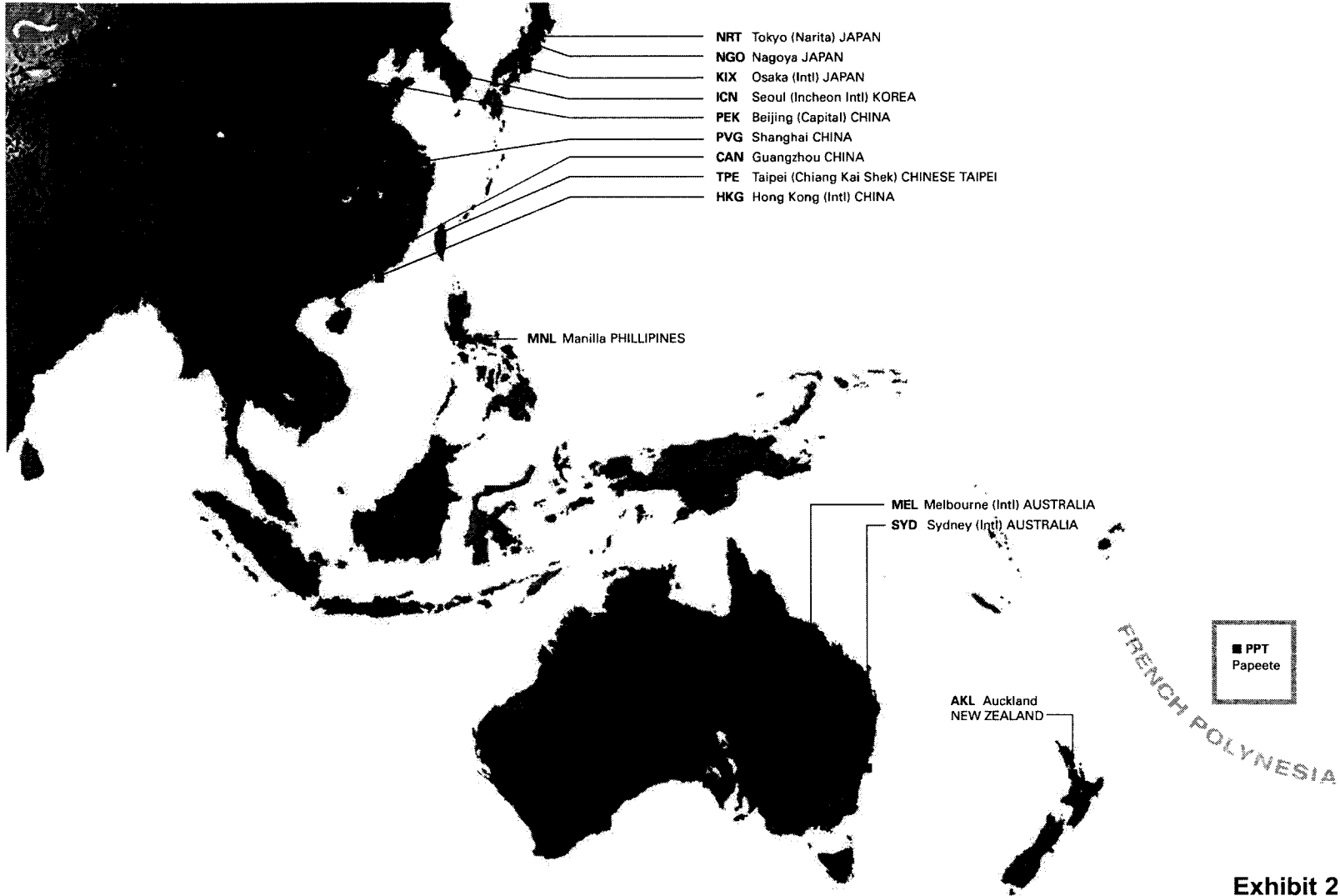
Nonstop Markets in Mexico, Central and South America and the Carribean Served From LAX



A - 78

Source: Mountain High Maps
Prepared by: Ricondo & Associates, Inc.

Nonstop European Markets Served From LAX



A-79

Exhibit 2.4

Source: Mountain High Maps
Prepared by: Ricondo & Associates, Inc.

Nonstop Pacific Markets Served From LAX

TABLE 2.18

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

HISTORICAL AIRCRAFT OPERATIONS

Fiscal Year	U.S. Carriers	Foreign Flag Carriers	Airline Total	General Aviation	All Cargo	Other Air Taxi	Military	Total
1997	639,960	61,964	701,924	24,520	29,828	2,714	3,208	762,194
1998	638,476	68,728	707,204	30,556	31,712	22,035	3,821	795,328
1999	624,110	70,376	694,486	18,430	33,918	13,330	2,664	762,828
2000	633,404	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	647,792	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	528,750	66,650	595,400	15,188	31,694	12,818	2,315	657,415
Compounded Annual Growth Rate								
1997 - 2002	-3.7%	1.5%	-3.2%	-9.1%	1.2%	36.4%	-6.3%	-2.9%
1997 - 2001	0.3%	6.2%	0.9%	-7.7%	4.9%	50.0%	-11.5%	1.1%
2001 - 2002	-18.4%	-15.4%	-18.0%	-14.6%	-12.2%	-6.6%	17.6%	-17.4%

Sources: City of Los Angeles, Department of Airports
 Compiled by Ricondo & Associates, Inc.

Airport, with operations decreasing 14.6 percent in FY 2002 from FY 2001 levels, compared to a 3.2 percent decrease projected nationwide by the FAA.

Activity by all-cargo carriers at the Airport increased from approximately 29,800 operations in FY 1997 to approximately 36,800 in FY 2000, a compounded annual growth rate of 7.2 percent during this period. All-cargo activity remained relatively stable in FY 2001 compared to FY 2000 levels; however, the effects of September 11 and the nationwide recession resulted in a 12.2 percent decrease in activity in FY 2002 from FY 2001 levels.

Between FY 1997 and FY 2002, activity by other air taxi operators (i.e., for-hire charters, fixed base operators, etc.) peaked in FY 1998 with approximately 22,000 operations. Activity by this user group was more in line with long-term historical trends between FY 1999 and FY 2002, averaging approximately 14,100 operations during this period.

Military activity at the Airport was relatively stable between FY 1997 and FY 2002, averaging approximately 2,800 operations during this period.

(4) Landed Weight

Table 2.19 presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 1998 and FY 2002. As shown, four airlines (United, American, Southwest, and Delta) accounted for 45.7 percent to 48.1 percent of total landed weight at the Airport during this period. Five other airlines accounted for an additional 14.1 to 15.3 percent of landed weight between FY 1998 and FY 2002. As also shown, Southwest's share of landed weight at the Airport increased from 8.0 percent in FY 1998 to 8.6 percent in FY 2002. United's share of landed weight at the Airport decreased from 19.6 percent in FY 1998 to 17.3 percent in FY 2002. FedEx accounted for the highest share of landed weight among all-cargo carriers at the Airport during each of the years shown. This carrier averaged approximately 1,688,400 thousand pound units of landed weight between FY 1998 and FY 2002. Due to a 4.7 percent increase in operations and more utilization of the DC-10 and MD-11 aircraft, FedEx's landed weight increased 12.3 percent in FY 2002 from FY 2001 levels, resulting in approximately 1,817,300 thousand pound units of landed weight and a 3.4 percent share of total landed weight at the Airport in FY 2002.

(5) Cargo

As discussed earlier, the Airport ranked fourth worldwide in CY 2001 in total cargo handled with approximately 1.8 million enplaned and deplaned tons. **Table 2.20** presents historical enplaned and deplaned cargo handled at the Airport between FY 1991 and FY 2002. As shown, total cargo increased from approximately 1.3 million tons in FY 1991 to approximately 2.2 million tons in FY 2001, a compounded annual growth rate of 5.4 percent during this period. The effects of September 11 and the economic slowdown resulted in total cargo handled at the Airport to decrease 12.7 percent in FY 2002 from FY 2001 levels, from approximately 2.2 million tons in FY 2001 to approximately 1.9 million tons in FY 2002.

Table 2.21 presents the share of cargo handled by passenger airlines and all-cargo carriers at the Airport between FY 1998 and FY 2002. As shown, FedEx accounted for the highest share of cargo handled at the Airport during each of the years shown. Between FY 1998 and FY 2002, its share of total cargo handled at the Airport averaged approximately 16.8 percent. Total cargo handled by FedEx increased 10.5 percent in FY 2002 from FY 2001 levels, resulting in its share increasing to 20.3 percent in FY 2002. This increase was

TABLE 2.19

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL LANDED WEIGHT BY AIRLINE (000 pounds) ¹

Airline	FY 1998		FY 1999		FY 2000		FY 2001		FY 2002	
	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share
1 United	11,200,038	19.6%	11,617,488	20.1%	12,857,574	21.0%	12,066,767	19.2%	9,252,061	17.3%
2 American	5,812,158	10.2%	5,623,490	9.7%	7,075,293	11.5%	8,674,001	13.8%	7,028,589	13.1%
3 Southwest	4,549,720	8.0%	4,646,434	8.0%	4,834,389	7.9%	4,871,684	7.8%	4,579,383	8.6%
4 Delta	5,087,080	8.9%	4,559,264	7.9%	4,438,783	7.2%	4,570,301	7.3%	4,002,913	7.5%
5 Northwest	2,206,389	3.9%	2,076,873	3.6%	2,457,207	4.0%	2,404,460	3.8%	1,836,994	3.4%
6 FedEx	1,673,493	2.9%	1,671,238	2.9%	1,661,449	2.7%	1,618,382	2.6%	1,817,327	3.4%
7 Alaska	1,480,396	2.6%	1,711,118	3.0%	1,663,496	2.7%	1,705,023	2.7%	1,570,644	2.9%
8 Skywest	1,464,242	2.6%	1,764,123	3.0%	1,607,824	2.6%	1,640,848	2.6%	1,412,865	2.6%
9 Continental	1,534,944	2.7%	1,647,362	2.8%	1,460,642	2.4%	1,503,618	2.4%	1,276,978	2.4%
10 Korean	1,448,558	2.5%	1,423,076	2.5%	1,254,737	2.0%	1,113,212	1.8%	1,061,072	2.0%
11 Qantas	706,094	1.2%	792,832	1.4%	978,000	1.6%	1,303,882	2.1%	1,047,020	2.0%
12 America West	998,602	1.7%	1,072,025	1.9%	1,186,311	1.9%	1,135,245	1.8%	965,928	1.8%
13 US Airways ²	1,254,085	2.2%	1,168,334	2.0%	904,809	1.5%	1,130,818	1.8%	920,940	1.7%
14 Air New Zealand	912,519	1.6%	989,798	1.7%	1,006,221	1.6%	1,010,197	1.6%	861,181	1.6%
15 Japan	974,746	1.7%	1,042,344	1.8%	972,190	1.6%	902,600	1.4%	750,676	1.4%
16 American Eagle	633,186	1.1%	679,847	1.2%	740,312	1.2%	830,154	1.3%	743,398	1.4%
17 CMA Mexicana	699,424	1.2%	705,620	1.2%	881,974	1.4%	919,890	1.5%	727,772	1.4%
18 Air Canada	550,582	1.0%	454,821	0.8%	500,580	0.8%	745,203	1.2%	707,154	1.3%
19 Singapore Airlines	459,900	0.8%	459,900	0.8%	460,530	0.8%	459,270	0.7%	667,530	1.2%
20 China Airlines	372,330	0.7%	448,530	0.8%	405,720	0.7%	412,740	0.7%	632,430	1.2%
Other ³	13,132,929	23.0%	13,303,899	23.0%	13,925,843	22.7%	13,832,368	22.0%	11,616,370	21.7%
Airport Total ⁴	57,151,415	100.0%	57,858,416	100.0%	61,273,884	100.0%	62,850,663	100.0%	53,479,225	100.0%

¹ For those airlines that were party to a merger or acquisition, 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 US Airways filed for reorganization under Chapter 11 of the Bankruptcy Code on August 11, 2002. This airline has targeted emergence from Chapter 11 in the first quarter of CY 2003.

³ Consists of airlines no longer serving the Airport and/or charter airlines

⁴ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports;
Compiled by Ricondo & Associates, Inc

TABLE 2.20

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

HISTORICAL ENPLANED AND DEPLANED CARGO (tons)

Fiscal Year	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
1991	820,001	-	454,976	-	1,274,977	-
1992	794,368	-3.1%	506,090	11.2%	1,300,458	2.0%
1993	835,435	5.2%	569,820	12.6%	1,405,256	8.1%
1994	951,180	13.9%	619,237	8.7%	1,570,417	11.8%
1995	1,015,105	6.7%	715,085	15.5%	1,730,189	10.2%
1996	1,068,833	5.3%	767,132	7.3%	1,835,964	6.1%
1997	1,157,227	8.3%	818,503	6.7%	1,975,729	7.6%
1998	1,187,727	2.6%	870,297	6.3%	2,058,024	4.2%
1999	1,197,765	0.8%	888,012	2.0%	2,085,776	1.3%
2000	1,263,279	5.5%	965,904	8.8%	2,229,183	6.9%
2001	1,140,253	-9.7%	1,011,066	4.7%	2,151,319	-3.5%
2002	952,929	-16.4%	925,085	-8.5%	1,878,015	-12.7%
Compounded Annual Growth Rate						
1992 - 2002		1.8%		6.2%		3.7%
1991 - 2001		3.4%		8.3%		5.4%
2001 - 2002		-16.4%		-8.5%		-12.7%

Sources: City of Los Angeles, Department of Airports
 Compiled by Ricondo & Associates, Inc

TABLE 2.21

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

HISTORICAL ENPLANED AND DEPLANED CARGO BY AIRLINE (tons) ¹

Airline	FY 1998		FY 1999		FY 2000		FY 2001		FY 2002	
	Cargo Volume	Share	Cargo Volume	Share	Cargo Volume	Share	Cargo Volume	Share	Cargo Volume	Share
1 FedEx	319,936	15.5%	340,788	16.3%	359,159	16.1%	344,701	16.0%	380,879	20.3%
2 United	198,988	9.7%	206,214	9.9%	221,405	9.9%	199,579	9.3%	134,616	7.2%
3 Korean	104,939	5.1%	105,716	5.1%	130,756	5.9%	114,807	5.3%	101,826	5.4%
4 American	129,213	6.3%	111,995	5.4%	123,121	5.5%	124,619	5.8%	92,600	4.9%
5 Delta	101,229	4.9%	96,497	4.6%	97,162	4.4%	100,393	4.7%	87,781	4.7%
6 Northwest	82,392	4.0%	67,362	3.2%	89,583	4.0%	90,540	4.2%	71,311	3.8%
7 Singapore	40,582	2.0%	46,965	2.3%	48,868	2.2%	54,256	2.5%	60,191	3.2%
8 Eva Airways	48,976	2.4%	48,519	2.3%	46,170	2.1%	44,010	2.0%	51,367	2.7%
9 China	37,534	1.8%	38,148	1.8%	47,544	2.1%	49,174	2.3%	50,194	2.7%
10 Atlas Air	3,300	0.2%	2,737	0.1%	25,000	1.1%	57,813	2.7%	48,020	2.6%
11 Japan	45,362	2.2%	50,844	2.4%	51,262	2.3%	43,845	2.0%	40,466	2.2%
12 Cathay Pacific	28,058	1.4%	30,717	1.5%	35,124	1.6%	35,148	1.6%	40,093	2.1%
13 Gemini Air Cargo	9,509	0.5%	5,589	0.3%	11,252	0.5%	49,205	2.3%	37,738	2.0%
14 Lufthansa	12,125	0.6%	19,544	0.9%	24,819	1.1%	34,683	1.6%	34,549	1.8%
15 Nippon Cargo Airlines	21,409	1.0%	22,069	1.1%	28,197	1.3%	27,227	1.3%	31,512	1.7%
16 DHL Airways	21,179	1.0%	22,528	1.1%	33,866	1.5%	38,924	1.8%	30,890	1.6%
17 Qantas	28,567	1.4%	27,870	1.3%	31,516	1.4%	36,014	1.7%	30,450	1.6%
18 Airborne Express	28,434	1.4%	31,166	1.5%	34,724	1.6%	33,772	1.6%	29,371	1.6%
19 Emery Worldwide	63,968	3.1%	69,709	3.3%	71,017	3.2%	54,246	2.5%	25,603	1.4%
20 MAS All Cargo	4,849	0.2%	13,134	0.6%	13,638	0.6%	10,356	0.5%	25,011	1.3%
Other ²	727,476	35.3%	727,664	34.9%	705,000	31.6%	608,008	28.3%	473,546	25.2%
Airport Total ³	2,058,024	100.0%	2,085,776	100.0%	2,229,183	100.0%	2,151,319	100.0%	1,878,015	100.0%

¹ For those airlines that were party to a merger or acquisition, 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 Consists of airlines no longer serving the Airport and/or charter airlines

³ Totals may not add due to individual rounding

Sources: City of Los Angeles, Department of Airports
Compiled by Ricondo & Associates, Inc.

primarily due to FedEx's overall strategy to add capacity and improve service to Europe and Asia based on the growth prospects that these regions represent. United accounted for the highest share of total cargo handled among passenger airlines at the Airport during each of the years shown. This carrier averaged approximately 206,500 tons of cargo handled between FY 1998 and FY 2001. Due to its cutback of service following September 11, total cargo handled by United decreased 32.6 percent in FY 2002 from FY 2001 levels; and its share of total cargo handled decreased from an average of approximately 9.7 percent between FY 1998 and FY 2001 to 7.2 percent in FY 2002. Other airlines handling significant amounts of cargo at the Airport include Korean, American, and Delta.

2.5 PROJECTED AIRPORT ACTIVITY

Projections of aviation demand were prepared on the basis of local socioeconomic and demographic factors, the Airport's historical shares of U.S. enplanements, and anticipated trends in air carrier usage of the Airport:

- **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. 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 United, American, and Southwest (airlines with the highest share of domestic enplanements at the Airport in FY 2002), as well as collectively for the remaining domestic airlines.
- **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. Of interest in the analyses, among other factors, was how well each socioeconomic variable explained the annual variations in enplaned passengers at the Airport (i.e., the model's correlation coefficient). Relevant growth rates produced from this methodology were assumed following recovery from the effects of September 11 to coincide with long-term historical trends.

These projections are based on a number of underlying assumptions, including:

- Activity at the Airport will recover from the events of September 11 and the economic slowdown, with strong growth in the short term resulting in activity reaching FY 2001 levels generally within the FY 2005 to FY 2006 period for domestic passengers, and within the FY 2006 to FY 2007 period for international passengers. By comparison, the FAA projects that activity nationwide will recover to federal FY 2000 levels generally within the FY 2003 to FY 2004 period.
- Following this recovery in activity, long-term activity at the Airport is assumed to increase as a result of expected growth in population and continued strong economic conditions in the Los Angeles CMSA.
- No major national security events is assumed 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.

- The Airport provides airlines access to a populous and relatively wealthy market requiring diverse airline service. 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.
- Low-fare service will continue to be a viable component of air service at the Airport, providing a niche of air travel demand that will continue during the projection period.
- The demand for air service in the Los Angeles CMSA 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.
- Airline consolidation/mergers 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.
- The price of aviation fuel has steadily increased in recent years, requiring some passenger airlines to implement a surcharge to their pricing structure. However, fuel prices are not anticipated to negatively impact air travel demand in the long term due to competitive market pressures.
- Economic disturbances will occur in the projection period causing year-to-year traffic variations; however, a long-term increase in nationwide traffic is expected to occur.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified. As a result, the projection process should not be viewed as precise. Actual future traffic levels at the Airport may differ from projections presented herein because of unforeseen events.

(1) Enplanement Projections

Table 2.22 presents historical and projected enplanements at the Airport. As shown, domestic passenger activity is expected to recover from approximately 20.8 million enplanements in FY 2002 to approximately 23.1 million enplanements in FY 2003, an 11.3 percent annual increase compared to 14.4 percent projected nationwide by the FAA. Following this initial year of recovery from the effects of September 11, it is expected that full recovery to FY 2001 levels will occur within the FY 2005 to FY 2006 period. As a result, it is expected that domestic enplanements will increase from approximately 23.1 million in FY 2003 to approximately 25.7 million in FY 2007. This increase represents a compounded annual growth rate of 2.6 percent during this period, compared to 3.8 percent projected nationwide by the FAA.

As also shown, total international passenger activity is expected to recover from approximately 7.3 million enplanements in FY 2002 to approximately 7.7 million enplanements in FY 2003, a 4.9 percent annual increase; with full recovery to FY 2001 levels by the FY 2006 to

TABLE 2.22

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

ENPLANEMENT PROJECTIONS

Year	Domestic Majors/Nationals	Regionals/ Commuters	Total Domestic	International U.S. Flag Carriers	International Foreign Flag Carriers	Total International	Airport Total
<u>Historical</u>							
1997	21,172,231	1,219,542	22,391,773	1,899,711	5,252,783	7,152,494	29,544,267
1998	21,569,675	1,485,179	23,054,854	1,758,207	5,924,821	7,683,028	30,737,882
1999	22,162,103	1,573,999	23,736,102	1,634,775	6,114,584	7,749,359	31,485,461
2000	23,370,480	1,510,247	24,880,727	1,705,862	6,645,133	8,350,995	33,231,722
2001	23,421,360	1,539,395	24,960,755	1,801,060	7,078,154	8,879,214	33,839,969
2002	19,202,331	1,581,486	20,783,817	1,369,295	5,978,549	7,347,844	28,131,661
<u>Projected</u>							
2003	21,453,300	1,686,300	23,139,600	1,494,700	6,215,600	7,710,300	30,849,900
2004	22,012,000	1,767,400	23,779,400	1,580,000	6,462,000	8,042,000	31,821,400
2005	22,580,100	1,842,100	24,422,200	1,647,300	6,718,200	8,365,500	32,787,700
2006	23,152,500	1,908,800	25,061,300	1,723,500	6,984,600	8,708,100	33,769,400
2007	23,694,900	1,966,000	25,660,900	1,800,600	7,261,500	9,062,100	34,723,000
<u>Compounded Annual Growth Rate</u>							
1997 - 2001	2.6%	6.0%	2.8%	-1.3%	7.7%	5.6%	3.5%
2001 - 2002	-18.0%	2.7%	-16.7%	-24.0%	-15.5%	-17.2%	-16.9%
2002 - 2003	11.7%	6.6%	11.3%	9.2%	4.0%	4.9%	9.7%
2003 - 2007	2.5%	3.9%	2.6%	4.8%	4.0%	4.1%	3.0%

Sources: City of Los Angeles, Department of Airports (historical)
 Ricondo & Associates, Inc. (projected)

FY 2007 period, reaching approximately 9.1 million in FY 2007. This increase represents a compounded annual growth rate of 4.1 percent between FY 2003 and FY 2007, compared to 5.8 percent projected by the FAA for U.S. flag international activity. Total enplanements at the Airport are projected to increase from approximately 28.1 million in FY 2002 to approximately 34.7 million in FY 2007.

(2) Operations Projections

Table 2.23 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, other air taxi operators, and military. As shown, total aircraft activity at the Airport is projected to increase from approximately 657,400 operations in FY 2002 to approximately 706,200 in FY 2003, and then reaching approximately 754,000 operations in 2007. Similar to enplanements, the FAA projects operations nationwide will recover from the impacts of September 11 by the FY 2003 to FY 2004 period. As also shown in Table 2.23, operations at the Airport are expected to increase at a compounded annual growth rate of 1.7 percent between FY 2003 and FY 2007, slightly less than the 1.9 percent growth projected nationwide by the FAA.

Passenger airline activity at the Airport is projected to increase from approximately 595,400 operations in FY 2002 to approximately 682,900 in FY 2007. A strong recovery is expected in the short term, with operations increasing 7.6 percent in FY 2003 from FY 2002 levels. However, it is not expected that domestic major/national activity will recover to the FY 2001 levels by FY 2006 due to the elimination of Shuttle by United and other reductions in service by United at the Airport following September 11. Another factor contributing to this slower recovery is American's announced plans to reduce its daily activity from approximately 95 daily flights to approximately 88 daily flights in FY 2003. Between FY 2003 and FY 2007, it is anticipated that passenger aircraft activity will increase at a compounded annual growth rate of 1.6 percent, well below the 2.6 percent growth rate projected for combined air carriers and air taxis nationwide by the FAA. 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.

General aviation activity at the Airport is expected to grow moderately during the projection period, reflecting the assumption that growth in this activity will occur primarily at outlying airports within the Los Angeles CMSA due to cost and delay considerations. For these analyses, it was assumed that growth in general aviation activity at the Airport would follow nationwide projections, including a modest recovery in FY 2003 from FY 2002 levels (a 3.4 percent annual growth), followed by a compounded annual growth rate of 1.3 percent between FY 2003 and FY 2007. As a result, general aviation activity at the Airport is expected to increase from approximately 15,200 operations in FY 2002 to approximately 16,500 operations in FY 2007.

All-cargo activity at the Airport is expected to recover to FY 2001 levels during the FY 2005 to FY 2006 period. Strong recovery is expected in the short term with an annual growth rate of 7.6 percent in FY 2003 from FY 2002 levels; with growth in line with air carriers nationwide for the remainder of the projection period. As a result, all-cargo activity at the Airport is expected to increase from approximately 31,700 operations in FY 2002 to approximately 37,500 operations in 2007.

Activity by other air taxi operators is projected to increase from approximately 12,800 operations in FY 2002 to approximately 13,200 in FY 2003 (a 3.0 percent annual growth), and then to approximately 14,700 in 2007. The increase between FY 2003 and FY 2007 represents a

TABLE 2.23

City of Los Angeles, Department of Airports
Los Angeles International Airport
Report of the Airport Consultant

OPERATIONS PROJECTIONS

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
Historical										
1997	422,404	190,822	26,734	61,964	701,924	24,520	29,828	2,714	3,208	762,194
1998	411,860	196,638	29,978	68,728	707,204	30,556	31,712	22,035	3,821	795,328
1999	407,454	182,632	34,024	70,376	694,486	18,430	33,918	13,330	2,664	762,828
2000	409,720	186,710	36,974	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	423,184	183,842	40,766	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	331,630	158,412	38,708	66,650	595,400	15,188	31,694	12,818	2,315	657,415
Projected										
2003	367,400	165,000	40,600	67,800	640,800	15,700	34,100	13,200	2,400	706,200
2004	373,600	169,200	41,180	69,000	652,980	15,900	35,100	13,500	2,400	719,880
2005	380,200	172,400	41,300	70,220	664,120	16,100	35,800	13,900	2,400	732,320
2006	386,600	174,600	41,600	71,480	674,280	16,300	36,800	14,300	2,400	744,080
2007	392,200	176,000	41,900	72,800	682,900	16,500	37,500	14,700	2,400	754,000
Compounded Annual Growth Rate										
1997 - 2001	0.0%	-0.9%	11.1%	6.2%	0.9%	-7.7%	4.9%	50.0%	-11.5%	1.1%
2001 - 2002	-21.6%	-13.8%	-5.0%	-15.4%	-18.0%	-14.6%	-12.2%	-6.6%	17.6%	-17.4%
2002 - 2003	10.8%	4.2%	4.9%	1.7%	7.6%	3.4%	7.6%	3.0%	3.7%	7.4%
2003 - 2007	1.6%	1.6%	0.8%	1.8%	1.6%	1.3%	2.4%	2.7%	0.0%	1.7%

Sources: City of Los Angeles, Department of Airports (historical)
Ricondo & Associates, Inc. (projected)

compounded annual growth rate of 2.7 percent during this period, comparable to the growth projected for air taxi activity nationwide by the FAA. 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 2,400 operations each year during the projection period, comparable to its average activity level between FY 1999 and FY 2002.

(3) Passenger Airline and All-Cargo Landed Weight Projections

Table 2.24 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 47,638,201 thousand pounds in FY 2002 to 57,221,817 thousand pounds in FY 2007. Following recovery from the effects of September 11 and the economic slowdown, the increase between FY 2003 and FY 2007 represents a compounded annual growth rate of 2.6 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 5,841,024 thousand pounds in FY 2002, recover to 6,344,865 thousand pounds in FY 2003, and then increase to 7,243,309 thousand pounds in FY 2007. The increase between FY 2003 and FY 2007 represents a compounded annual growth rate of 3.4 percent during this period.

Total landed weight at the Airport is projected to increase from approximately 53,479,225 thousand pounds in FY 2002 to approximately 64,465,126 thousand pounds in FY 2007.

TABLE 2.24

City of Los Angeles, Department of Airports
 Los Angeles International Airport
 Report of the Airport Consultant

LANDED WEIGHT PROJECTIONS
 (thousand pounds)

Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	All Cargo	Airport Total
<u>Historical</u>							
1997	34,911,620	2,087,980	2,557,107	11,376,829	50,933,536	5,135,084	56,068,620
1998	33,726,528	2,483,068	2,898,873	12,523,065	51,631,534	5,519,881	57,151,415
1999	33,529,789	2,443,970	3,305,432	12,834,346	52,113,537	5,744,879	57,858,416
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225
<u>Projected</u>							
2003	32,991,680	2,549,912	3,853,165	12,297,078	51,691,835	6,344,865	58,036,701
2004	33,803,764	2,662,891	3,939,324	12,680,888	53,086,868	6,593,133	59,680,001
2005	34,663,339	2,762,235	3,982,008	13,074,202	54,481,784	6,788,062	61,269,846
2006	35,511,460	2,847,091	4,042,363	13,480,935	55,881,849	7,042,887	62,924,736
2007	36,293,523	2,919,924	4,103,173	13,905,197	57,221,817	7,243,309	64,465,126
<u>Compounded Annual Growth Rate</u>							
1997 - 2001	1.1%	4.3%	10.7%	5.2%	2.7%	4.7%	2.9%
2001 - 2002	-18.6%	-2.7%	-5.0%	-14.3%	-15.9%	-5.5%	-14.9%
2002 - 2003	11.2%	6.1%	5.7%	3.1%	8.5%	8.6%	8.5%
2003 - 2007	2.4%	3.4%	1.6%	3.1%	2.6%	3.4%	2.7%

Sources: City of Los Angeles, Department of Airports (historical)
 Ricondo & Associates, Inc. (projected)

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3. CAPITAL IMPROVEMENT PROGRAM

The Capital Improvement Program (CIP) includes capital projects that the City may undertake using funds other than the Series 2002 and Series 2003 Bonds (the Bonds). All funding sources for the CIP are discussed in the next chapter of this report.

Some future capital projects will not be undertaken until activity demands dictate while implementation of other projects will be dependent upon future conditions of the asset and the availability of federal and/or PFC funding. This chapter presents a review of existing Airport facilities and discusses other potential capital improvements planned at the Airport.

3.1 EXISTING AIRPORT FACILITIES

The Airport site, originally known as Miles 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, using intermediate passenger facilities, and the majority of the present terminal complex was constructed in 1961. In the early 1980s, the Airport added domestic and international terminals, parking structures and a second level roadway.

The Airport occupies approximately 3,586 acres of land approximately 15 miles southwest of the Los Angeles central business district. The Airport is generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the South by Imperial Highway, and on the west by the Pacific Ocean. Existing facilities at the Airport are described in the following paragraphs, and are shown on **Exhibit 3.1**.

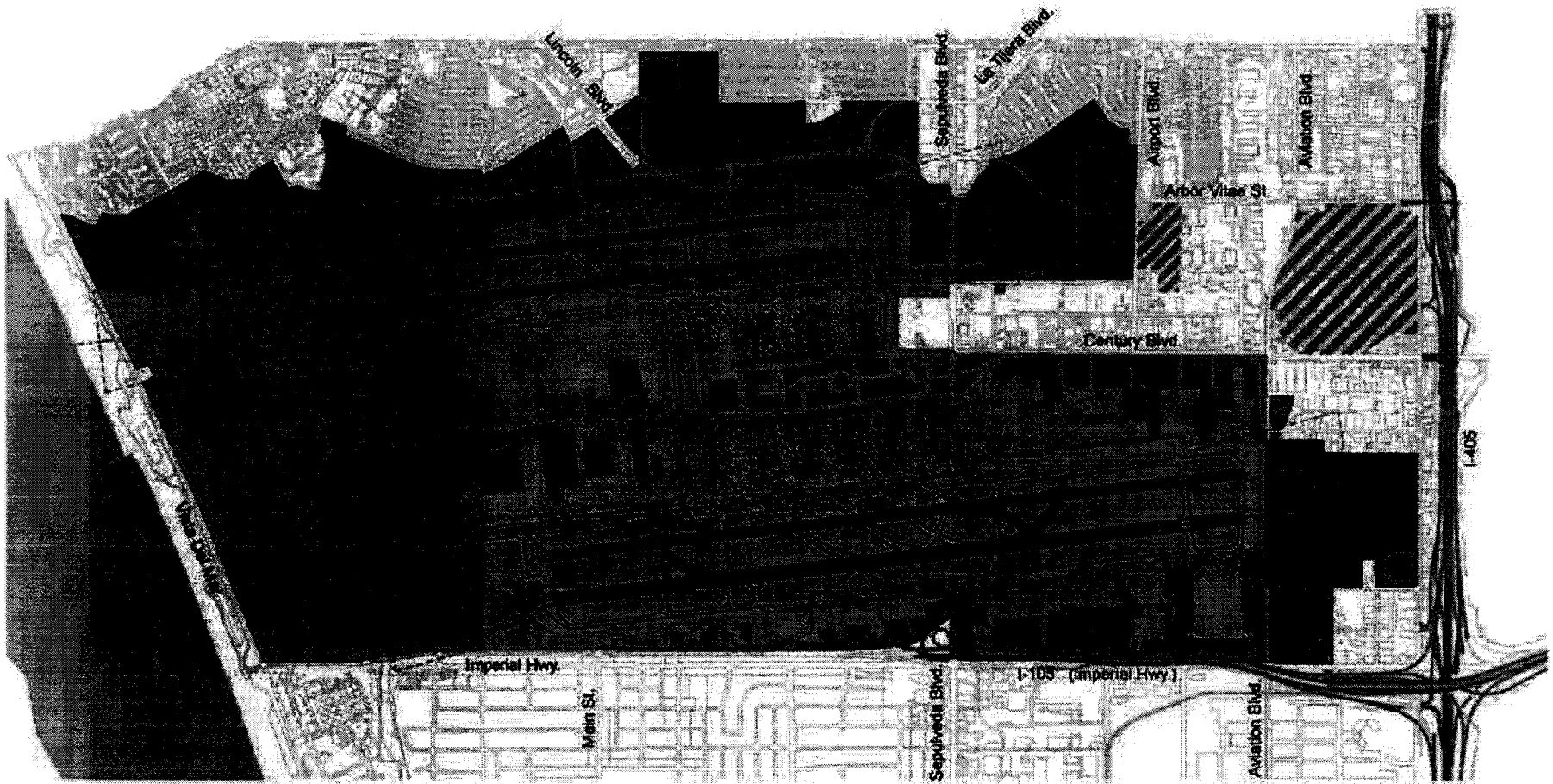
(1) Airside Facilities

There are two pairs of parallel east-west runways at the Airport; all capable of handling fully loaded wide body aircraft. These consist of Runways 25L/7R (11,095 ft.) and 25R/7L (12,090 ft.) on the south side of the Airport and Runways 24L/6R (10,285 ft.) and 24R/6L (8,925 ft.) on the north side of the Airport. For approaches during IFR (Instrument Flight Rules) conditions, instrument landing systems are installed on all four runways.

A network of interconnecting taxiways provides access to terminal area aprons, hardstand parking aprons, cargo facilities, maintenance hangars, and general aviation facilities.

(2) Terminal Facilities

There are nine passenger terminals at the Airport that accommodate the domestic and international passenger activity. Although many of the terminals are physically connected and share a common enplaning/deplaning roadway system, they function as independent terminals with separate ticketing, baggage, security checkpoints, and passenger processing systems. They also 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.



Source: LAX Master Plan
Prepared by: Ricondo & Associates, Inc.

Exhibit 3.1



North

Not To Scale

EXISTING AIRPORT FACILITIES

The combined area of all terminals totals approximately four million square feet as described below for each of the nine terminals:

- **Terminal 1** is used for domestic operations, is generally used by three airlines, and comprises approximately 367,184 square feet, on three levels. America West, US Airways, and Southwest Airlines are the major tenants of this facility.
- **Terminal 2** is leased by LAX TWO Corp. and is used by 14 airlines, including Air Canada, Hawaiian Airlines, and Northwest Airlines for domestic and international use. The building is comprised of approximately 497,129 square feet on three levels. In addition, there is a mezzanine level with airline clubs and offices.
- **Terminal 3** is a Joint Use Facility and is used by five airlines (American, Northwest, Alaska, American Trans Air, and Midwest) for primarily domestic operations however, international departures may occur. This terminal is comprised of 329,571 square feet and includes two levels and a mezzanine.
- **Terminal 4** is leased by American for both domestic and international operations at many of its gates. The terminal is comprised of 575,296 square feet and includes two levels and a mezzanine.
- **Terminal 5** is leased by Delta and also used by nine other airlines and includes 510,688 square feet. The configuration includes three levels, capable of both domestic and international operations at many of its gates.
- **Terminal 6** is a Joint Use Facility used by Continental, Delta, and United and is also used by three other airlines mainly for domestic operations although international operations may occur. The two levels comprise 430,299 square feet.
- **Terminals 7 and 8** are leased by United, and encompasses approximately 655,869 square feet consisting of two piers concourses supported by a single ticketing and a split baggage claim facility, arranged on three levels with a mezzanine in the satellite. In 1995, improvements were made to permit international operations.
- **Tom Bradley International Terminal (TBIT)** encompasses 1,007,316 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 32 airlines providing international service at the Airport.

(3) Cargo Facilities

Based on data provided by Airports Council International (ACI) for calendar year 2001, the Airport was the fourth busiest cargo airport in the world (behind Memphis, Hong Kong, and Anchorage), and the third busiest cargo airport in the U.S., moving approximately 1.8 tons of cargo through its facilities.

The cargo areas at the Airport comprise almost two million square feet of building space in 26 buildings on 190 acres of cargo-related land uses; approximately 92 percent of

this space is leased. 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, known as the “Cargo City” (also known as “Century Cargo Complex”), the “Imperial Cargo Complex,” and the “South Cargo Area.”

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.

(4) 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, Flight Kitchens, Fuel, Aircraft Rescue and Firefighting and Other Ancillary Facilities.

- **General Aviation** – Two fixed base operators (FBOs), Garrett Aviation and Mercury 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 pilots’ lounge.
- **Ground Service** – Four ground service companies operate at the Airport providing a variety of services, employ some 2,100 employees, and occupy approximately nine acres.
- **Federal Aviation Administration (FAA)** – The FAA occupies the Air Traffic Control Tower completed in 1996 and from the tower, 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 and also has offices in the LAX Theme Building.
- **Airline Administration and Maintenance** – These hangars and support facilities are concentrated in six primary airline complexes at the Airport:
 - Delta/United Airlines
 - American Airlines (2)
 - Continental Airlines
 - Federal Express
 - US Airways
- **Department of Airports** – 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 Kitchens** – There are six large on-airport flight kitchen operators serving the airlines at the Airport. In total, these operators employ 1,460 people and occupy approximately 400,000 square feet.
- **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 111 million gallons per month.
- **Other Ancillary Facilities** – Other ancillary and support facilities at the Airport include the U.S. Post Office, Aircraft Rescue and Firefighting, Airport Police Bureau, and the U.S. Coast Guard.

(5) On-Airport Ground Transportation

The on-airport ground transportation facilities are also known as the landside complex and include the airport access and circulation roadways, public and employee parking, terminal curbsides, rental car areas, taxicab and other commercial vehicle staging areas, and public transportation facilities.

- There are 21,426 **public parking** spaces in the Central Terminal Area (CTA) and in remote lots and 3,267 Department employee parking spaces. Other individual employers provide parking spaces for employees. Crosswalks on the lower-level roadway and sky bridges provide pedestrian connections between the terminals and the parking garages.
- **Public transportation** facilities are available at the City Bus Center and Airport shuttle buses provide transportation from the CTA to the City Bus Center.
- **Car rental** companies provide shuttle bus service from all terminals to their individual off-Airport ready/return lots.

3.2 THE BONDS

The Department intends to use the proceeds of the Bonds: (1) to reimburse itself for previous capital expenditures; (2) prepay certain rental credits owed to LAX Two Corp. for interest cost savings; and (3) pay costs of issuance of the Bonds.

Prior to the issuance of the Bonds, the Department completed the construction of various capital projects using its own funds. As such, a portion of the Bonds are being issued to reimburse the Department for its previous investment in certain capital projects including, but not necessarily limited to the LAX Enhancements program, the construction of cargo and hangar improvements, construction of terminal improvements, and construction of several airfield improvements.

Additionally, airline tenants at the Airport have previously issued special facility bonds through the Regional Airline Improvement Corporation (RAIC) to finance improvements to public and private spaces in several terminals at the Airport. As required by the terms of the relevant lease agreements, the Department grants rental credits to these tenants as reimbursement for the public space component of the improvements financed by the RAIC bonds. The rental credits owed by the Department can be prepaid by the Department at any time. Once such financing was with LAX TWO

Corp. for improvements to Terminal 2. The Department will use a portion of the proceeds of the Bonds, along with moneys provided by the Department from the LAX Revenue Account, to prepay its rental credit obligation to LAX TWO Corp.

Table 3.1, below, presents the estimated uses of the Bonds:

<i>Table 3.1</i>	
<i>Department of Airports, City of Los Angeles</i>	
<i>Los Angeles International Airport</i>	
<i>Report of the Airport Consultant</i>	
USES OF THE BONDS	
Reimbursement of Previous Capital Expenditures	\$108,300,000
Prepayment of LAX TWO Rental Credits	56,200,000
Costs of Issuance	<u>2,500,000</u>
Total	\$167,000,000

Source: Department of Airports, City of Los Angeles

3.3 ADDITIONAL FUTURE CAPITAL IMPROVEMENTS

The Department maintains and regularly updates a 4-year Capital Improvement Program (CIP). **Table 3.2** shows the various projected elements of the Department's proposed 4-year CIP (the CIP has not yet been approved by the Board). These projects will be constructed on the basis of future demand and will be the subject of a future feasibility report(s). As further discussed in Chapter 4, the financial analysis contained in this report includes anticipated funding sources, and preliminary estimates of debt pertaining to this 4-year CIP.

TABLE 3.2

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

SUMMARY OF PROPOSED ANNUAL 4-YEAR CIP EXPENDITURES

DESCRIPTION	FISCAL YEARS				TOTAL COST
	FY 2003	FY 2004	FY 2005	FY 2006	
SECURITY PROJECTS					
ACAMS Replacement System and Terminal V Net	\$500,000	\$12,200,000	\$2,500,000	\$0	\$15,200,000
CCTV System Expansion in the CTA	7,000,000	15,000,000	0	0	22,000,000
Emergency Operations Center	2,500,000	2,500,000	0	0	5,000,000
Radio System Improvement	0	7,800,000	6,000,000	6,800,000	20,600,000
Security Projects for TSA Compliance	12,000,000	28,700,000	4,300,000	0	45,000,000
Security Projects for TSA Compliance	11,000,000	35,000,000	9,000,000	0	55,000,000
Security Projects for TSA Compliance	10,000,000	44,000,000	5,000,000	0	59,000,000
Security Projects for TSA Compliance	33,000,000	107,700,000	18,300,000	0	159,000,000
Other Security Projects	9,500,000	6,200,000	2,300,000	0	18,000,000
Subtotal - Security Projects	\$52,500,000	\$151,400,000	\$29,100,000	\$6,800,000	\$239,800,000
SAFETY PROJECTS					
Aircraft Ramp Lighting Upgrade	\$2,220,000	\$5,250,000	\$0	\$0	\$7,470,000
North Perimeter Storm Drain	1,750,000	20,000,000	6,000,000	0	27,750,000
Taxiway B Reconstruction	7,300,000	0	0	0	7,300,000
LAWA Utilities Survey and Documentation (LUSAD)	2,500,000	5,000,000	5,000,000	0	12,500,000
ASD-X Pilot Project	2,000,000	4,000,000	0	0	6,000,000
Other Safety Projects	7,863,000	0	0	0	7,863,000
Subtotal - Safety Projects	\$23,633,000	\$34,250,000	\$11,000,000	\$0	\$68,883,000
INFRASTRUCTURE UPGRADE/EFFICIENCY PROJECTS					
Century Cargo Complex	\$8,050,000	\$3,730,000	\$31,690,000	\$32,000,000	\$75,470,000
TBIT Interior Improvements	15,600,000	66,500,000	43,900,000	0	126,000,000
Terminal Improvements/Upgrades	7,345,105	21,600,000	12,400,000	6,000,000	47,345,105
LAX Enhancement Program	21,340,000	0	0	0	21,340,000
Other Infrastructure Upgrade/Efficiency Projects	5,485,000	0	1,200,000	1,800,000	8,485,000
Subtotal - Infrastructure Upgrade/Efficiency Projects	\$57,820,105	\$91,830,000	\$89,190,000	\$39,800,000	\$278,640,105
ENVIRONMENTAL PROJECTS					
Residential Acquisition	\$45,000,000	\$65,000,000	\$65,000,000	\$65,000,000	\$240,000,000
Sound Insulation	20,000,000	20,000,000	10,000,000	10,000,000	60,000,000
Other Environmental Projects	1,000,000	7,000,000	5,000,000	5,000,000	18,000,000
Subtotal - Environmental Projects	\$66,000,000	\$92,000,000	\$80,000,000	\$80,000,000	\$318,000,000
OTHER AIRPORTS					
Palmdale Airport Capital Projects	3,700,000	1,800,000	2,900,000	0	8,400,000
Van Nuys Airport	42,837,000	36,928,000	17,580,000	16,500,000	113,845,000
Subtotal - Other Airports	\$46,537,000	\$38,728,000	\$20,480,000	\$16,500,000	\$122,245,000
Grand Total	\$246,490,105	\$408,208,000	\$229,770,000	\$143,100,000	\$1,027,568,105

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

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4. FINANCIAL ANALYSIS

This chapter examines the financial structure of the Airport, cost and financial implications of the Bonds, Maintenance and Operating Expense and nonairline revenue projections, airline rates and charges projections, airline cost per enplaned passenger projections, reserve requirements established by the Senior Lien Trust Indenture, and the rate covenant requirements.

4.1 FINANCIAL STRUCTURE

This section discusses the City Charter, accounting practices employed by the Department, the cost center structure utilized for airline rate-setting purposes, the requirements and provisions of the Senior Lien Trust Indenture, the Subordinate Lien Trust Indenture, and the Parity Subordinate Indenture, and the status of the business and operating relationship between the Department and the airlines operating at the Airport.

(1) City Charter

The City of Los Angeles adopted a new City Charter effective July 1, 2000. Under the City Charter, the Board of Airport Commissioners 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 specific purposes or for refunding indebtedness. Bonds so issued (Revenue Bonds) do not constitute or evidence indebtedness of the City. The Department has no taxing power. As of December 1, 2002, there were four issues of Senior Revenue Bonds outstanding, with a combined principal amount outstanding of approximately \$212 million.

On April 11, 1995, the voters of the City approved Charter Amendment No. 8 relating to the Airport Revenue Fund. This change in the City Charter provides the Department with additional flexibility to account separately for the income and expenses of each airport. 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. The Board has no immediate plans to implement the provisions of this Charter amendment for Van Nuys Airport or Palmdale Regional Airport.

(2) Organization and Airport Accounting

The Airport is owned by the City and operated by the Department. The Department also operates Ontario International Airport, Van Nuys Airport, and Palmdale Regional Airport (collectively, the Airport System). The Department is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the Mayor of the City and approved by the City Council. An Executive Director administers the Department and reports to the Board.

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 government units set forth by the Government Accounting Standards Board (GASB) as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles

Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges.

Maintenance and Operating (M&O) Expenses at the Airport are categorized into Cost Centers. Cost Centers include those areas or functional activities used for the purposes of accounting for the financial performance of the Airport. There are five direct revenue-producing and four indirect Cost Centers included in the Airport's financial structure. The Cost Centers included in the Airport's financial structure are described in greater detail below:

Direct Cost Centers

- Terminal Cost Center - Terminal Cost Center is comprised of the land and all passenger terminal buildings and other related and appurtenant facilities 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 which are integral part of the passenger terminal buildings.
- Apron Cost Center - 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 - Airfield Cost Center is comprised of the land and facilities which 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 - 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 - 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.

Indirect Cost Centers

- Systems Cost Center - Systems includes the costs of providing, maintaining, operating, and administering airport systems. Examples include electrical distribution system, gas distribution system, potable water distribution system, chilled water distribution system, storm and sanitary sewer system, and industrial waste disposal. The Central Utility Plant (CUP) has been treated as a separate cost pool allocable to cost centers based upon BTU consumption.
- General Maintenance Cost Center - General Maintenance includes the costs of providing, maintaining, operating, and administering maintenance services, facilities, and equipment that cannot be directly allocated to cost centers.
- General Administration Cost Center - General Administration 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 - Access 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.

(3) Senior Lien Trust Indenture

The Senior Lien Trust Indenture was initially created on April 1, 1995 to authorize the issuance of Senior Bonds by the Department. Pursuant to the terms of the Senior Lien Trust Indenture, the Board may issue Senior Bonds secured by Pledged Revenues and by certain other security interests as specified therein.

Articles IV and V of the Senior Lien Trust Indenture create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Board. The requirements of the Senior Lien Trust Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key aspects of the Senior Lien Trust Indenture as they pertain to this report are summarized below. The capitalized terms are defined in the Senior Lien Trust Indenture.

Pledged Revenues

Pledged Revenues means LAX Revenues except for the following, which are specifically excluded:

- Ad valorem taxes and interest thereon received by the Board
- Any gifts and grants, including the interest thereon, which by their terms cannot be used to pay debt service
- Insurance proceeds, including the interest thereon, which by their terms cannot be used to pay debt service
- LAX Special Facilities Revenue, including interest thereon

The following amounts are also excluded from Pledged Revenues unless otherwise pledged under the terms of a Supplemental Indenture:

- Swap Termination Payments, including the interest thereon
- Facilities Construction Credits
- LAX PFC receipts, including the interest thereon
- All revenues of the Airport System that are not LAX Revenues
- Interest earnings on any Construction Fund (unless provided for in a Supplemental Indenture)

LAX Revenues

LAX Revenues means all income, except to the extent specifically excluded, received by the Board from the Airport, as determined in accordance with generally accepted accounting principles. LAX Revenues include all income, receipts, and earnings from the investment of amounts held in the LAX Revenue Account of the Airport Revenue Fund and allocated earnings on the Maintenance and Operation Reserve Fund which are attributable to the Airport. LAX Revenues also include all income, receipts, and earnings from the investment of amounts held in any Construction Fund (if allowed pursuant to a Supplemental Indenture) and the Reserve Fund.

Rate Covenant

The Board covenants in Section 5.04 of the Senior Lien Trust Indenture (the 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 in each Fiscal Year will be equal to at least 125% of Aggregate Annual Debt Service for that Fiscal Year.

Additional Bonds

Section 2.11 of the Senior Lien Trust Indenture provides that as a condition to the issuance of any Series of Senior Bonds, there shall first be delivered to the Senior Trustee either:

- a) a certificate prepared by an Authorized Board Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or preceding the first issuance of the proposed Program Senior Bonds were at least equal to 125% of Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Authorized Amount of such proposed Program Senior Bonds (as applicable) were then Outstanding; or
- b) a certificate, dated as of a date between the date of pricing of the bonds being issued and the date of delivery of such Senior Bonds, prepared by a Consultant showing that:
 - (1) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or the

establishment of a Program were at least equal to 125% of Maximum Aggregate Annual Debt Service;

- (2) for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Board will be in compliance with Section 5.04(a) and (b) of the Senior Lien Trust Indenture; and
- (3) the estimated Net Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 125% of Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Authorized Amount of such proposed Program Senior Bonds (as applicable) were then Outstanding.

Application of Revenues

The Board covenants that it shall cause the Treasurer to deposit the revenues for each individual airport within the Airport System to its respective account within the Airport Revenue Fund. The Board covenants and agrees that all LAX Revenues, when and as received, will be deposited by the Board pursuant to the Charter into the LAX Revenue Account of the Airport Revenue Fund in the City Treasury. The application of revenue to the various funds and accounts is governed by the Senior Lien Trust Indenture in compliance with the City Charter. **Exhibit 4.1** illustrates how moneys in the LAX Revenue Account are applied using the order of priority defined in Section 4.04 of the Senior Lien Trust Indenture.

Proposed Amendments to the Senior Lien Trust Indenture

As summarized in the appendices to the Official Statement (Proposed Amendments to the Master Indenture), certain amendments are proposed to the Senior Lien Trust Indenture that require the consent of the Bondholders. As such, these proposed amendments, when effective, would not materially change the financial forecasts or the Board's ability to meet its Rate Covenant as contained herein.

(4) *Subordinate Lien Trust Indenture*

The Subordinate Lien Trust Indenture will be entered into at the time of issuance of the Subordinate 2002 Bonds. Pursuant to the terms of the Subordinate Indenture, the Board may issue Subordinate Obligations secured by Subordinate Pledged Revenues and by certain other security interests as specified therein.

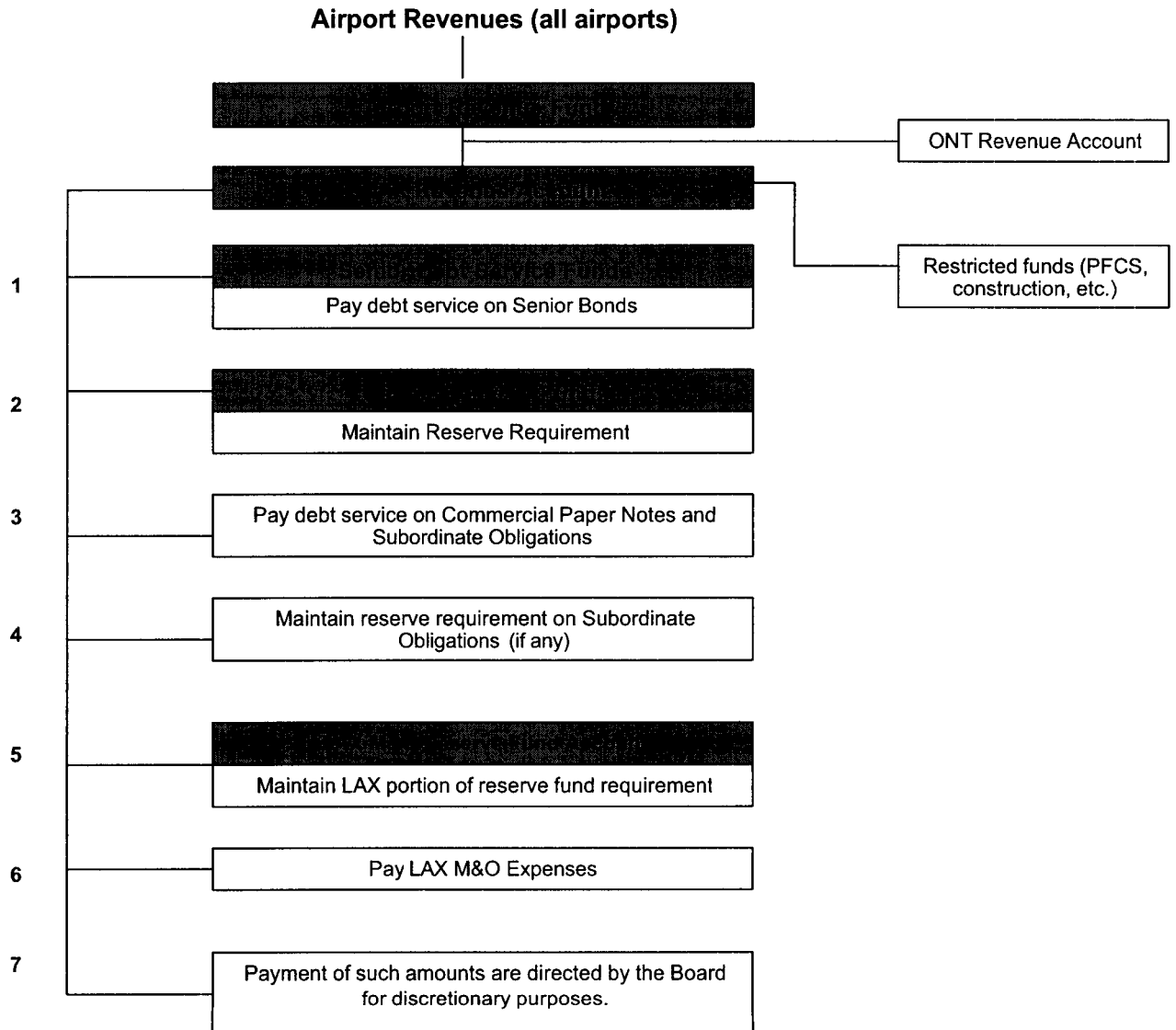


Exhibit 4.1

Source: Los Angeles World Airports,
Master Trust Indenture
Prepared by: Ricondo & Associates, Inc.

Application Airport Revenues Under the Indenture

Articles IV and V of the Subordinate Lien Trust Indenture create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Board. The requirements of the Subordinate Lien Trust 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 Lien Trust Indenture as they pertain to this report are summarized below. The capitalized terms are defined in the Subordinate Lien Trust Indenture.

Net Subordinate Pledged Revenues

Net Subordinate Pledged Revenues are Pledged Revenues remaining after payments of debt service on the Senior Bonds and funding of the Senior reserve funds and the payment of M&O Expenses.

Rate Covenant

The Board covenants in Section 5.04(b) of the Subordinate Indenture (the 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 the Net Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 110% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations. For the purposes of this covenant, the amount of any Transfer taken into account shall not exceed 10% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations in such Fiscal Year.

Additional Bonds

Section 2.11 of the Subordinate Lien Trust Indenture provides that as a condition to the issuance of any Series of Subordinate Obligations, there shall first be delivered to the Subordinate Trustee either:

- a) a certificate prepared by an Authorized Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Obligations or preceding the first issuance of the proposed Subordinate Program Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations and the proposed Series of Subordinate Obligations calculated as if the proposed Series of Subordinated Obligations and the full 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:
 - (1) the Net Subordinate Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Obligations or the establishment of a Program were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to

all Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations;

- (2) for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Board will be in compliance with Section 5.04(a) and (b) of the Subordinate Lien Trust Indenture; and
- (3) the estimated Net Subordinate Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations and calculated as if the proposed Series of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then Outstanding.

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

Transfer

Transfers represent for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH of Section 4.04 of the Senior Lien Trust Indenture have been made as of the last day of the immediately preceding Fiscal Year).

(5) *Parity Subordinate Indenture.*

The Parity Subordinate Indenture was initially created on April 1, 2002 to authorize the issuance of the Department's Commercial Paper Notes. Pursuant to the terms of the Parity Subordinate Indenture, the Department may issue Commercial Paper Notes and other subordinate obligations secured by Subordinate Pledged Revenues and by certain other security interests as specified therein. Pursuant to the Subordinate Lien Trust Indenture, the Department has covenanted to issue only Commercial Paper Notes under the Parity Subordinate Indenture and to issue all other subordinate obligations secured by Subordinate Pledged Revenues pursuant to the Subordinate Lien Trust Indenture. The Department has covenanted in Section 4.04 of the Parity Subordinate Indenture (the 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 the Net Pledged Revenues will be equal to at least 110% of Aggregate Annual Debt Service on all Senior Lien Bonds and subordinate obligations secured by Subordinate Pledged Revenues for that Fiscal Year.

Pursuant to Section 2.11 of the Parity Subordinate Indenture, the Department has covenanted not to issue subordinate obligations secured by a pledge of Subordinate Pledged Revenues in excess of \$300,000,000 unless the Rating Agencies then rating the Commercial Paper Notes confirm their respective ratings and unless there is first delivered to the Issuing and Paying Agent:

- a) a certificate prepared by an Authorized Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed additional Subordinated Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service calculated as if the proposed additional Subordinated Obligations were then Outstanding; or
- b) a certificate prepared by a Consultant showing that:
 - (1) the Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of the issuance of the proposed additional Subordinated Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service; and
 - (2) the estimated Net Pledged Revenues (as calculated by such Consultant) for two fiscal years following the date of issuance of the proposed additional Subordinated Obligations will be at least equal to 110% of Maximum Aggregate Annual Debt Service, taking into account the rates, fees and charges in effect at the time of issuance of the proposed additional Subordinated Obligations.

(6) *Airline Landing and Apron Fees*

Airlines at the Airport operate under a 5-year Operating Permit for the use of Landing Facilities at the Airport, which is cancelable with a 30-day notice from the airlines. The operating permit sets forth various terms and conditions related to the use of Landing Facilities, including, for example, insurance requirements, indemnification provisions, and responsibility for the use and disposal of hazardous substances.

Airline landing fees at the Airport are established using a cost-based, or compensatory methodology. As mentioned previously, costs are accounted for in five direct cost centers and four indirect cost centers. Direct cost centers relate to geographical areas of LAX that directly serve airport users and include the Terminal, Apron, Airfield, Aviation, and Commercial cost centers. The indirect cost centers include the Systems, General Maintenance, General Administration, and Access cost centers, and are allocated to direct cost centers based upon various relationships and formulas.

The airline landing fee is calculated by dividing the total Airfield requirement by the estimated maximum gross landed weight of all airfield users. Accordingly, the total Airfield requirement is calculated based on the following cost components attributable to the Airfield cost center:

- M&O Expenses
- Expenditures for capital items whose cost net of grants, PFCs, and contributed capital is less than \$100,000
- Amortization of capital expenditures whose cost net of grants, PFCs, and contributed capital is \$100,000 or more
- Annual debt service
- Debt service coverage (debt service coverage is included in the rate base for landing fees only to the extent that coverage is greater than amortization costs)
- The M&O Reserve requirement attributable to the Airfield

- The net costs attributable to operating Van Nuys Airport

Similarly, the apron fee is calculated by dividing the costs allocable to the Apron cost center by the estimated maximum gross landed weight of the passenger airlines.

(7) Terminal Building Leases

The Department has entered into essentially two types of terminal building leases at the Airport, depending on whether the terminal financing was accomplished with Department funds or with airline-sponsored funds.

The first type of lease applies to the Tom Bradley International Terminal (TBIT), Terminal 1, and Terminal 3. These leases generally provide for the lease of ticket counter, office, operations, and certain baggage service space on an exclusive-use basis and holdroom, baggage claim, and certain other baggage service space on a joint-use basis. Rental rates are cost-based, and include M&O expenses, debt service, and ground rent attributable to TBIT, Terminal 1, and Terminal 3. The leases generally provide for a 5-year term subject to earlier termination, in part or whole, depending on whether the facilities are being sufficiently utilized for their specified purposes as determined solely by the Executive Director.

The second Type of lease applies to Terminals 2,4,5,6, 7 and 8 at the Airport. In each case the costs to construct an entire terminal or to improve significant portions of an existing terminal were financed by third party debt payable solely from payments made by the airline tenants of each facilities (the airline sponsor). These long-term (15 to 40 year) leases generally contain the following provisions:

- The City may, at any time, “buy back” all of the Airlines’ interest by (i) defeasing the debt obligations relative to the terminal building and (ii) reimbursing the Airline for the unamortized value of improvements financed with other sources of airline funds. If the City, after exercising its “buy back” right, continues to use the facilities as an airport passenger terminal, then the Airline has the option to continue or renew the lease. Title passes to the City on the date of beneficial occupancy or when the debt obligations are retired, depending on the agreement.
- The Airlines agree to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective pro rata direct costs plus a reasonable administrative fee.
- Rental rates on preexisting 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.
- In the event that the leased premises are damaged or destroyed such that the Department can not make repairs, replacements or reconstruction within a reasonable time, the Lease may be terminated at the Airline’s option. If the Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from LAX, by any final action, order or ruling of any governmental authority, the Airlines may, at their option, terminate their respective Leases by 30 days written notice.

4.2 FINANCING PLAN

The Capital Improvement Program (CIP) described in Chapter 3 of this report is anticipated to be funded from a variety of sources including federal grants, Passenger Facility Charges (PFCs), Department funds, commercial paper proceeds, and Additional Bonds.

Table 4.1 presents the project costs and the estimated funding sources for the CIP. As shown, the total CIP from FY 2003 to FY 2006 is estimated to be approximately \$1.0 billion. A description of estimated funding sources for the CIP is presented in greater detail in the following paragraphs.

(1) *AIP Grants*

The FAA Airport Improvement Program (AIP) provides Federal discretionary and entitlement grants for eligible airport projects. The entitlement funds are based upon annual Congressional appropriations levels.

In recent years, City policy precluded LAX from receiving certain types of federal airport aid. This policy was reversed by the Mayor of the City in a letter to staff and the Board on January 17, 2002. On May 7, 2002, the Board authorized the acceptance of federal grants totaling \$46,246,764. The grants cover partial reimbursements for security costs incurred at LAX and Ontario International Airport for implementing new security measures between September 11, 2001, and January 18, 2002, and for construction improvements to an airfield taxiway over Sepulveda Boulevard near LAX.

As shown in Table 4.1, for the period from FY 2003 to FY 2006 total AIP grants for the Airport are anticipated to be approximately \$70.5 million. The AIP grants will be applied to the grant-eligible portion of certain airfield and apron related projects.

(2) *Passenger Facility Charges*

In accordance with the Aviation Safety and Capacity Expansion Act of 1990, as amended by the Aviation Investment and Reform Act for the 21st Century, the Department is currently imposing passenger facility charges, providing for total PFC collection authority of \$440 million to fund a Noise Mitigation Project, including land acquisition and sound proofing. The Department is currently in the process of submitting an application to impose a PFC at LAX to increase the amount of funding from PFCs for the Noise Mitigation Project, for new projects, and to increase the level of PFC charged from the approved amount of \$3.00 per enplaned passenger to \$4.50. The charge effective date for the \$4.50 PFC level is estimated to be toward the end of FY 2003. This new application and amendment will increase the collection authority from \$440 million to \$1.034 billion, and is estimated to have a charge expiration date of February 1, 2009.

TABLE 4.1

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

SUMMARY OF CIP FUNDING SOURCES (FY 2003 - FY 2006)

DESCRIPTION	TOTAL COST	FUNDING SOURCES				
		AIP Funds	PFC Funds	Other Funds ¹	Department Funds	Revenue Bonds/ Commercial Paper ²
SECURITY PROJECTS						
ACAMS Replacement System and Terminal V Net	\$15,200,000	\$12,920,000	\$0	\$0	\$2,280,000	\$0
CCTV System Expansion in the CTA	22,000,000	0	0	0	0	22,000,000
Emergency Operations Center	2,500,000	0	0	0	2,500,000	0
Emergency Operations Center	2,500,000	0	0	0	2,500,000	0
Emergency Operations Center	5,000,000	0	0	0	5,000,000	0
Radio System Improvement	20,600,000	9,600,000	0	0	11,000,000	0
Security Projects for TSA Compliance	159,000,000	0	114,000,000	0	0	45,000,000
Other Security Projects	18,000,000	6,000,000	0	0	12,000,000	0
Subtotal - Security Projects	\$239,800,000	\$28,520,000	\$114,000,000	\$0	\$30,280,000	\$67,000,000
SAFETY PROJECTS						
Aircraft Ramp Lighting Upgrade	\$7,470,000	\$5,600,000	\$0	\$0	\$1,870,000	\$0
North Perimeter Storm Drain	27,750,000	20,810,000	0	0	6,940,000	0
Taxiway B Reconstruction	7,300,000	5,475,000	0	0	1,825,000	0
LAWA Utilities Survey and Documentation (LUSAD)	12,500,000	0	0	0	12,500,000	0
ASD-X Pilot Project	6,000,000	2,000,000	0	0	4,000,000	0
Other Safety Projects	7,863,000	1,350,000	0	0	6,513,000	0
Subtotal - Safety Projects	\$68,883,000	\$35,235,000	\$0	\$0	\$33,648,000	\$0
INFRASTRUCTURE UPGRADE/EFFICIENCY PROJECTS						
Century Cargo Complex	\$75,470,000	\$0	\$0	\$0	\$75,470,000	\$0
TBIT Interior Improvements	126,000,000	0	30,000,000	0	27,105,000	68,895,000
Terminal Improvements/Upgrades	47,345,105	0	0	0	0	47,345,105
LAX Enhancement Program	21,340,000	0	0	0	21,340,000	0
Other Infrastructure Upgrade/Efficiency Projects	8,485,000	0	2,345,000	0	6,140,000	0
Subtotal - Infrastructure Upgrade/Efficiency Projects	\$278,640,105	\$0	\$32,345,000	\$0	\$130,055,000	\$116,240,105
ENVIRONMENTAL PROJECTS						
Residential Acquisition	\$240,000,000	\$0	\$240,000,000	\$0	\$0	\$0
Sound Insulation	60,000,000	0	60,000,000	0	0	0
Remote FlyAway Facilities	15,000,000	0	0	0	15,000,000	0
Underground Storage Tanks Replacement	3,000,000	0	0	0	3,000,000	0
Subtotal - Environmental Projects	\$318,000,000	\$0	\$300,000,000	\$0	\$18,000,000	\$0
OTHER AIRPORTS						
Palmdale Airport	\$8,400,000	\$2,700,000	\$0	\$5,400,000	\$300,000	\$0
Van Nuys Airport	113,845,000	4,000,000	0	0	109,845,000	0
Subtotal - Van Nuys Airport	\$122,245,000	\$6,700,000	\$0	\$5,400,000	\$110,145,000	\$0
Grand Total	\$1,027,568,105	\$70,455,000	\$446,345,000	\$5,400,000	\$322,128,000	\$183,240,105

¹ Anticipated to be funded by a third party.

² To be funded through a combination of Revenue Bonds and/or Commercial Paper.

Source: Department of Airports, City of Los Angeles

Prepared by: Ricondo & Associates, Inc.

As shown in Table 4.1, the financial plan assumes that approximately \$446.3 million in PFC revenues will be approved and available to fund the costs of certain PFC-eligible projects currently in the CIP. All PFC revenues received by the Department through February 1, 2009 are expected to be applied either to project costs on a pay-as-you-go basis or to repay commercial paper notes.

(3) Department Funds

The Department also intends to apply toward the cost of the CIP the amounts it generates from operations after the payment of all of its operating expenses, debt service and other payment obligations. The Department presently projects that approximately \$322.1 million of such funds will be available toward the CIP.

(4) Revenue Bond Proceeds

The Department anticipates that the costs of the CIP not funded from one of the above sources will be funded from the proceeds of additional revenue bonds to be issued during the construction period. In total, approximately \$183.2 million in project costs are anticipated to be funded from the proceeds of additional senior revenue bonds.

The Authority's financial advisor for the Bonds, based on expenditure estimates developed by the Authority, provided the required bond issue size and debt service estimates based upon the following assumptions:

- The Bonds are assumed to have the following coupon rates and weighted average maturities:
 - Series 2002A – 4.73 percent arbitrage yield and 15.06 years weighted average maturity
 - Subseries 2002C1 – 3.50 percent and 15.93 years weighted average maturity
 - Subseries 2002C2 – 3.50 percent and 15.93 years weighted average maturity
 - Series 2003A – 3.60 percent and 12.73 years weighted average maturity
 - Series 2003B – 3.50 percent and 18.72 years weighted average maturity
- Commercial paper was assumed to be used to support the funding of the Airport's CIP as needed at an interest rate of 3.0 percent. Any outstanding commercial paper was also assumed to be taken out with future bond issuances.
- All future bond issuances are assumed to have a 30-year final maturity and a flat 6.0 percent coupon.
- Future bond issuances are structured to provide level overall gross debt service net of reserve fund balances.
- The Debt Service Reserve Requirement on future bonds will be funded from bond proceeds of each issue in an amount equal to the least of (a) 10 percent of the proceeds of the issue, (b) Maximum Annual Debt Service on the issue or (c) 125 percent of Average Annual Debt Service on the issue.

Table 4.2 presents the estimated debt service requirements resulting from the issuance of the Series 2002 Bonds, the Series 2003 Bonds, and future revenue bonds. As presented in Table 4.2, annual debt service on the Series 2002A Bonds is estimated to increase from approximately \$548,000 in FY 2004 to approximately \$1.3 million in FY 2007. Annual Debt service on future senior lien revenue bonds is projected to be approximately \$11.2 million.

As also shown in Table 4.2, the annual debt service on the subordinate bonds (Subseries 2002C1, Subseries 2002C2, Series 2003A, Series 2003B, and the commercial paper) is estimated to range from approximately \$5.4 million per year to \$4.8 million per year, combined.

4.3 MAINTENANCE & OPERATING EXPENSES

In FY 2001, the Department implemented a new SAP accounting system to classify, budget, and record finances at the Airport. Under the new SAP system, Maintenance & Operating Expenses (M&O Expenses) are classified into 13 groups, as presented below:

- Board of Airport Commissioners Group
- Chief Executive Officer Group
- Chief Operating Officer Group
- Environmental Affairs Group
- Project & Facilities Development Group
- Airport Operations Group
- Information Technology Group
- Business Development Group
- Finance Group
- Long Range Planning Group
- Government & External Affairs Group
- Public & Community Relations Group
- Administrative Services Group

Within each group, M&O Expenses are classified by seven expense categories, including salaries and benefits, advertising and public relations, administrative services, contractual services, utilities, materials and supplies, and other. For rate-setting purposes, these expenses are then allocated to the various Airport cost centers described previously.

Historically, M&O Expenses for the Airport increased from \$252.5 million in FY 1997 to \$339.8 million in FY 2002, representing an annual compounded growth rate of 6.1 percent. From FY 1997 to FY 2001, total M&O Expenses at the Airport increased from \$252.5 million to \$352.9 million representing an annual compounded growth rate of approximately 8.7 percent. In FY 2002, M&O expenses decreased to \$339.8 million as a result of cost cutting measures implemented by the Department following the terrorism attacks of September 11.

Following the terrorist attacks of September 11, the Department experienced materially increased operating costs in early FY 2002 due to compliance with expanded federal and management mandated security requirements. As a result, the Department has aggressively implemented expenditure controls that affected a variety of operating expenses in FY 2002. In addition, in order to allow the Department additional flexibility to minimize the impacts of the increased security costs incurred in FY 2002, the Department submitted an application to the FAA to allow it to use its available PFC funds to temporarily pay for increased security costs. This application was submitted

TABLE 4.2

Department of Airports, City of Los Angeles
 Los Angeles International Airport
 Report of the Airport Consultant

ANNUAL DEBT SERVICE REQUIREMENTS

ANNUAL DEBT SERVICE	Actual	Budget	Projected			
	2002	2003	2004	2005	2006	2007
<u>Existing Senior Lien Debt Service</u>						
Series 1995-A	\$6,931,033	\$6,931,033	\$10,201,033	\$26,007,533	\$25,703,133	\$24,018,363
Series 1995-B	2,225,600	20,685,600	16,805,700	0	0	0
Series 1995-C	21,086,919	2,234,669	1,545,419	375,669	340,919	317,169
Series 1995-D	5,161,321	5,161,116	5,161,956	5,158,061	5,158,891	5,158,341
Subtotal - Existing Senior Lien Debt Service	\$35,404,873	\$35,012,418	\$33,714,108	\$31,541,263	\$31,202,943	\$29,493,873
<u>Series 2002 & Future Senior Lien Debt Service</u>						
Series 2002-A	\$0	\$547,875	\$1,314,900	\$1,314,900	\$1,314,900	\$1,314,900
Future Revenue Bonds	0	0	6,489,857	7,440,600	10,750,160	11,235,000
Subtotal - Future Senior Lien Debt Service	\$0	\$547,875	\$7,804,757	\$8,755,500	\$12,065,060	\$12,549,900
TOTAL SENIOR LIEN DEBT SERVICE	\$35,404,873	\$35,560,293	\$41,518,865	\$40,296,763	\$43,268,003	\$42,043,773
<u>SUBORDINATE LIEN DEBT SERVICE</u>						
Subseries 2002-C1	\$0	\$520,138	\$1,291,500	\$1,291,500	\$1,291,500	\$1,291,500
Subseries 2002-C2	0	281,918	700,000	700,000	700,000	700,000
Series 2003-A	0	194,765	782,276	780,124	781,200	781,200
Series 2003-B	0	489,530	1,966,204	1,960,796	1,963,500	1,963,500
Commercial Paper	0	627,677	627,677	752,214	752,214	0
TOTAL SUBORDINATE LIEN DEBT SERVICE	\$0	\$2,114,028	\$5,367,657	\$5,484,634	\$5,488,414	\$4,736,200
TOTAL DEBT SERVICE	\$35,404,873	\$37,674,321	\$46,886,522	\$45,781,397	\$48,756,417	\$46,779,973

Sources: Department of Airports, City of Los Angeles (Existing Debt Service)
 Public Resources Advisory Group (Series 2002 A, Subseries C1, Subseries C1, Series 2003 A,
 Series 2003 B, and Future Debt Service)

Prepared by Ricondo & Associates, Inc.

to the FAA on December 19, 2001 under the FAA guidelines outlined in PFC-35-02, "Temporary Emergency Authority To Use Unliquidated PFC Revenue For Interest Bearing Loans to Fund Other Airport Expenses." The PFC application was approved by the FAA, however, at this time, the Airport does not plan on borrowing PFC funds under this approval.

In FY 2003, Airport M&O Expenses are budgeted to be \$372.2 million. Beyond FY 2003, projections of future Airport M&O Expenses are based on a review of historical trends, the anticipated impacts of inflation (assumed at 4.5 percent annually for these analyses), staffing and operational requirements, impacts of proposed projects, and activity increases. **Table 4.3** presents projected M&O Expenses for the Airport from FY 2002 through FY 2007. As shown, total M&O Expenses are projected to increase from \$339.8 million in FY 2002 to \$372.2 million in FY 2003, and then increase thereafter to \$455.3 million by FY 2007. Overall, the projected increase in M&O expenses from FY 2002 to FY 2007 represents an annual compounded growth rate of 6.0 percent.

Details of the M&O Expense projections by expense category are described below.

(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 4.3, salaries and benefits represented the single largest expense category for the Airport in FY 2002, accounting for nearly 40 percent of total M&O Expenses for the Airport.

A Memorandum of Understanding (MOU) was recently negotiated with the City of Los Angeles, which allows for 2 to 3 percent annual increase in salaries through January 1, 2004. The previous MOU with the City expired on June 30, 2001, and as such, the new MOU will be retroactive to July 1, 2001. In an effort to control Salaries and Benefits expenditures for FY 2003, the Department has taken action to eliminate vacant positions, where possible. Salaries and Benefits will, however, increased in FY 2002 due to new security personnel, security-related overtime, cost of living adjustments retroactive to July 1, 2001, and any negotiated and approved separation incentive offered to LAWA employees.

As shown in Table 4.3, total salaries and benefit expenses are projected to increase from \$135.4 million in FY 2002 to approximately \$177.6 million in FY 2007, representing an annual compounded growth rate of 5.6 percent.

(2) Advertising and Public Relations

Advertising and Public Relations expenses includes 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 LAWA facilities in 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 LAWA airports as safe, secure, and user friendly. Overall, advertising and public relations expenses are projected to increase from \$6.1 million in FY 2002 to approximately \$7.2 million in FY 2007, representing an annual compounded growth rate of 3.3 percent.

TABLE 4.3

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

PROJECTED MAINTENANCE AND OPERATING EXPENSES

Category	Actual	Budget	2004	2005	2006	2007
	2002	2003				
Salaries & Benefits	\$135,416,092	\$146,148,000	\$153,455,400	\$161,128,170	\$169,184,579	\$177,643,807
Advertising & Public Relations	6,113,130	5,920,000	6,216,000	6,526,800	6,853,140	7,195,797
Administrative Services	7,034,929	2,613,000	2,743,650	2,880,833	3,024,874	3,176,118
Contractual Services	97,388,929	113,357,000	120,158,420	127,367,925	135,010,001	143,110,601
Utilities	19,843,108	23,762,000	24,950,100	26,197,605	27,507,485	28,882,860
Materials & Supplies	39,210,762	53,289,000	55,687,005	58,192,920	60,811,602	63,548,124
Other Operating Expenses	34,812,581	27,115,000	28,199,600	29,327,584	30,500,687	31,720,715
SUBTOTAL - M&O EXPENSES	\$339,819,531	\$372,204,000	\$391,410,175	\$411,621,837	\$432,892,368	\$455,278,021
Vehicles & Equipment ¹	1,200,000	1,199,500	1,247,480	1,297,379	1,349,274	1,403,245
TOTAL M&O and VEHICLES & EQUIPMENT	\$341,019,531	\$373,403,500	\$392,657,655	\$412,919,216	\$434,241,642	\$456,681,266
SUMMARY BY COST CENTER						
Terminal	\$150,569,590	177,623,739	\$183,725,216	\$192,949,223	\$202,642,150	\$212,828,129
Apron	7,462,312	8,990,059	9,287,788	9,775,059	10,287,952	10,827,819
Airfield	77,477,003	75,863,714	78,349,331	82,276,178	86,401,859	90,736,541
Aviation	20,392,022	20,395,417	25,721,516	27,016,571	28,377,644	29,808,141
Commercial	58,636,013	66,469,654	70,274,141	74,298,734	78,556,286	83,060,407
Exclusions / Other	12,000,000	11,798,062	12,406,181	13,046,220	13,719,882	14,428,964
Other Airports	14,482,591	12,262,856	12,893,488	13,557,237	14,255,875	14,991,273
TOTAL M&O and VEHICLES & EQUIPMENT	\$341,019,531	\$373,403,500	\$392,657,655	\$412,919,216	\$434,241,642	\$456,681,267

¹ Vehicles & Equipment costs under \$100,000 each are included in the calculation of airline landing fees for rate-setting purposes.

Sources: Department of Airports, City of Los Angeles
Ricondo & Associates, Inc.

(3) Administrative Services

Administrative Services expenses includes expenses associated with training, travel, tuition reimbursement, memberships, and other miscellaneous administrative expenses. Administrative services expenses are projected to generally increase with inflation during the projection period. As shown in Table 4.3, following a decrease in FY 2003, administrative services expenses are projected to increase from \$2.6 million in FY 2003 to approximately \$3.2 in FY 2007, representing an annual compounded growth rate of 5.0 percent.

(4) Contractual Services

Contractual services expenses at the Airport include expenses associated with various contractual obligations at the Airport such as parking lot operations, engineering and consulting contracts, security services, and other miscellaneous contracts. Contractual services represented the second largest expense category for the Airport in FY 2002, accounting for nearly 30 percent of total M&O Expenses for the Airport. For projection purposes, expenses for contractual services are anticipated to increase by an annual compounded growth rate of 6.0 percent through FY 2007. As shown in Table 4.3, contractual expenses are projected to increase from \$97.4 million in FY 2002 to approximately \$143.1 million in FY 2007.

(5) Utilities

Utility expenses include electrical, water, gas, and telephone expenses at the Airport. As shown in Table 4.3, utility expenses are projected to increase from \$19.8 million in FY 2002 to approximately \$28.9 million in FY 2007, representing an annual compounded growth rate of 7.8 percent.

(6) Materials and Supplies

Expenses associated with materials and supplies at the Airport 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. Expenses for materials and supplies are projected to increase slightly higher than inflation during the projection period. As shown in Table 4.3, expenses for materials and supplies are projected to increase from \$39.2 million in FY 2002 to approximately \$63.5 in FY 2007, representing an annual compounded growth rate of 10.1 percent.

(7) Other Operating Expenses

Other operating expenses at the airport include expenses not classified in the other expense categories at the Airport, and include expenses such as insurance, litigation, lease expenses, and other miscellaneous expenses. Expenses for other operating expenses are projected to generally increase with inflation during the projection period. As shown in Table 4.3, following a decrease from \$34.8 million in FY 2002 to \$27.1 million in FY 2003, other operating expenses are projected to increase to approximately \$31.7 in FY 2007, representing an annual compounded growth rate of 4.0 percent.

4.4 AIRPORT REVENUES (EXCLUDING TERMINAL AND LANDING FEE REVENUES)

Nonairline revenues at the Airport are grouped into four primary categories of revenues, including aviation, concessions, sales and services, and miscellaneous. In FY 2002, revenues excluding airline terminal rentals and landing fees (hereinafter referred to as “nonairline revenues”) accounted for approximately \$233.5 million, or 58 percent of total Airport revenues. As a result of the terrorist attacks on September 11, the Airport experienced a material reduction in concession revenues, particularly to terminal concession and parking revenues. Nonairline revenues decreased from \$263.6 million in FY 2001 to approximately \$233.5 million in FY 2002, a decrease of nearly 12 percent over FY 2001.

Nonairline revenue projections were prepared on the basis of expected inflationary trends, the Airport’s historical nonairline revenues, activity projections, and current and assumed future lease terms and provisions. **Table 4.4** summarizes nonairline revenues for actual FY 2002, budget FY 2003, and projected through FY 2007. As shown, nonairline revenues were approximately \$233.5 million in FY 2002 and are projected to increase to approximately \$343.8 million in FY 2007. This results in an annual compounded growth rate of approximately 8.0 percent from FY 2002 to FY 2007.

Nonairline Revenues are discussed in greater detail in the following sections.

(1) Aviation Revenue

Aviation revenues (excluding airline terminal rentals and landing fees) at the Airport consist primarily of building rentals, land rent, fuel fees, ground handling fees, and other aviation revenues. As shown in Table 4.4, aviation revenues (not including terminal rents and airline landing fees) are projected to increase from \$70.3 million in FY 2002 to approximately \$86.3 million in FY 2007, representing an annual compounded growth rate of 4.2 percent.

Specific details regarding key aviation revenues are discussed below.

- Non-passenger **Building rental** revenues at the Airport are generated from the air freight terminal, hangar rentals, maintenance facilities, as well as other miscellaneous shops and storage facilities. Between FY 1997 and FY 2001, nonairline building rental revenue decreased by an annual compounded growth rate of approximately 1.3 percent. This overall decrease is primarily a result due to retroactive and credit adjustments to the aviation leasehold areas. Building rental revenues for the air freight terminal and other miscellaneous shops and storage facilities combined are projected to increase from \$28.5 million in FY 2002 to approximately \$32.4 million in FY 2007, representing an annual compounded growth rate of 2.6 percent.
- **Land rent** 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 market value of land is determined through an appraisal of the property. Since FY 1997, land rental revenue has increased by an average annual compounded growth rate of approximately 5.3 percent. For projection purposes, land rental revenues are projected to increase from \$37.7 million in

TABLE 4.4

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

AIRPORT REVENUES (EXCLUDING TERMINAL AND LANDING FEE REVENUES)

REVENUES BY COST CENTER	Actual	Budget	Projected			
	2002	2003	2004	2005	2006	2007
AVIATION REVENUES						
Building Rent - Other than Passenger Terminals	\$28,513,755	\$28,781,000	\$29,644,430	\$30,533,763	\$31,449,776	\$32,393,269
Land Rentals	37,747,649	37,538,000	38,664,140	39,824,064	41,018,786	42,249,350
Plane Parking	779,966	800,000	830,878	861,543	893,661	924,693
Fuel Fees	596,516	593,000	615,889	638,619	662,426	685,429
Non-Signatory Landing Fees - Freight	0	25,000	25,965	26,923	27,927	28,897
Nonsignatory Landing Fees - Passenger	1,360,480	239,000	246,170	253,555	261,162	268,997
Other Aviation Revenue - Miscellaneous	789,585	506,000	535,937	566,721	599,489	632,589
Other Aviation Revenue - Vehicle Road Permits	0	79,000	83,118	87,354	91,769	96,248
Ground Handling Fees	0	0	8,000,000	8,325,360	8,660,377	8,993,983
TOTAL AVIATION REVENUES	\$70,260,778	\$68,561,000	\$78,646,527	\$81,117,902	\$83,665,373	\$86,273,454
CONCESSION REVENUES						
Auto Parking	\$44,751,519	\$56,550,000	\$58,914,135	\$61,310,174	\$63,777,327	\$66,234,092
Duty Free	23,945,023	37,000,000	37,500,000	37,500,000	37,500,000	37,500,000
Car Rental	34,393,876	42,000,000	52,189,082	54,849,352	57,621,435	60,433,554
Food & Beverage	17,262,299	16,018,000	16,852,874	17,711,927	18,607,087	19,515,175
Gifts & News	15,099,629	15,377,000	15,377,000	15,377,000	15,377,000	15,377,000
Specialty Retail	2,143,334	1,400,000	1,472,969	1,548,052	1,626,291	1,705,659
Bus, Limo & Taxi	3,580,698	3,765,000	3,961,236	4,163,154	4,373,560	4,587,004
Traveler Services	0	6,435,000	6,628,050	6,826,892	7,031,698	7,242,649
Foreign Exchange	6,019,171	6,834,500	7,190,721	7,557,259	7,939,202	8,326,662
ATM Machines	1,320,713	1,400,000	1,472,969	1,548,052	1,626,291	1,705,659
Bus Service VNY to LAX	1,968,057	2,000,000	2,104,242	2,211,503	2,323,272	2,436,656
Hotel & Motel Listing	572,269	590,000	590,000	590,000	590,000	590,000
Public Phones	5,070,902	4,500,000	4,641,710	4,782,662	4,925,860	5,064,960
Terminal Advertising	0	0	7,500,000	15,000,000	15,750,000	16,537,500
TOTAL CONCESSION REVENUES	\$156,127,490	\$193,869,500	\$216,394,990	\$230,976,028	\$239,069,022	\$247,256,569
AIRPORT SALES & SERVICES						
Airfield Bus	\$1,051,459	\$1,570,000	\$1,651,830	\$1,736,030	\$1,823,769	\$1,912,775
Airport Sales - Utilities	63,643	827,000	851,810	877,364	903,685	930,796
Accommodations	72,767	200,000	210,424	221,150	232,327	243,666
ID Badges	55,800	127,000	133,350	140,018	147,018	154,369
Heating & Air Conditioning	0	306,000	321,300	337,365	354,233	371,945
Van Pool Fees	187,264	168,000	176,400	185,220	194,481	204,205
Airport Sales - Inspection Fees	48,337	45,000	46,350	47,741	49,173	50,648
A/P Service - Impound Fees	0	95,000	95,000	95,000	95,000	95,000
Airport Sales-Recycling	0	42,000	43,260	44,558	45,895	47,271
Other Sales & Services	3,881,714	3,841,000	4,041,197	4,247,191	4,461,844	4,679,597
TOTAL AIRPORT SALES & SERVICES	\$5,360,984	\$7,221,000	\$7,570,921	\$7,931,637	\$8,307,425	\$8,690,272
MISCELLANEOUS REVENUES	\$1,726,899	\$1,581,000	\$1,581,000	\$1,581,000	\$1,581,000	\$1,581,000
TOTAL NONAIRLINE REVENUES	\$233,476,151	\$271,232,500	\$304,193,437	\$321,606,566	\$332,622,820	\$343,801,295

Sources: Department of Airports, City of Los Angeles
Ricondo & Associates, Inc.

FY 2002 to approximately \$42.2 million in FY 2007, representing an annual compounded growth rate of 2.3 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. As such, projected revenues from plane parking and fuel fees were assumed to increase based on projected aircraft operational levels at the Airport. Plane parking and fuel fee revenues are projected to increase to \$1.4 million in FY 2002 to approximately \$1.6 million by FY 2007, representing an annual compounded growth rates of 3.6 percent.
- The Department does not currently impose any **ground handling** fees on all third party and airline ground handling services operating at the Airport. As such, the Department has convened a task force to review all aspects of ground handling and determine an appropriate fee for ground handling. There are 44 ground handling companies currently operating at the Airport. Based on these existing ground handling companies and a review of standard industry fees, it is estimated that approximately \$8.0 million in ground handling fees will be generated starting in FY 2004. Beyond FY 2004, ground handling fees were assumed to increase based on projected aircraft operational levels at the Airport.

(2) **Concession Revenue**

Concession revenues at the Airport consist of a number of revenue sources, and are comprised primarily of ground transportation fees (bus, limo, and taxi), rental car, food and beverage, gift and news, duty free, auto parking, and other concession revenues. In general, future concession revenues were projected to increase with enplanement growth as well as inflation impacts.

From FY 2001 to FY 2002, concession revenues decreased from \$203.2 million to \$156.1 million as a result of the impacts of the terrorist attacks of September 11 and the nationwide economic recession. This decrease represents a 23 percent decrease over concession revenues in FY 2001. Beyond FY 2002, concession revenues are projected to recover as the Airport's overall enplanement levels also recover. In addition, in FY 2003, food and beverage and specialty retail concessions are anticipated to be impacted by the expansion of the security checkpoints in each terminal. Overall, the anticipated impacts to the food and beverage and specialty retail concessions is expected to be minimal, resulting in a decrease of approximately \$2.0 million per year in food and beverage and specialty retail revenues from FY 2002 to FY 2003. By FY 2007, total concession revenues are projected to be approximately \$247.3 million, representing an annual compounded growth rate of 9.6 percent between FY 2002 and FY 2007.

Details regarding key concession revenues are discussed below.

- The **auto parking** facilities at the Airport are operated for the City by Five Star Parking under a management contract. Auto parking revenues account for the largest source of concession revenues, accounting for approximately 28.5 percent of total concession revenues in FY 2002.

Following the terrorist attacks of September 11, the terminal area and parking structures were closed to private vehicles until October 20, 2001, and the terminal curbside in the Central Terminal Area at was subsequently reopened to private vehicles for passenger drop-off and pick-up on December 15, 2001. This

extended closure of the parking structures, combined with the decrease in passenger activity at the Airport dramatically impacted in the first half of FY 2002. As a result, public parking revenues were \$44.8 million in FY 2002, which is a decrease of nearly 32 percent over FY 2001.

Offsetting the decreases experienced in parking revenues, the Board recently approved increases to the daily rates charged for parking at facilities located in the Central Terminal Area parking structures. The daily rate was increased from the current \$24 daily rate to \$30 per day. The charge for the first hour will be \$3 and then \$2 for each additional 30 minutes until the \$30 maximum daily rate is reached. Economy Lots B and C rates will increase from the current \$5 and \$7 daily, respectively, to \$8 and \$10 daily. The first two hours of parking remained free at Lots B and C, and the charge after two hours is \$1 per hour until the maximum daily rate is reached. These new parking rates were effective on February 15, 2002. With these rate increases, the Airport is still be priced competitively with nearby, off-airport private parking lots, and other airports in the region.

Based on these factors, public parking revenues are projected to increase from \$44.8 million in FY 2002 to approximately \$66.2 million in FY 2007. Overall, this increase represents an annual compounded growth rate of 8.2 percent from FY 2002 to FY 2007.

- **Duty Free** revenues at the Airport are generated from the sale of duty free merchandise at the Airport. The duty free operator at the Airport is DFS Group L.P, which has been the duty free concessionaire at the Airport since 1982. The Department entered into a new exclusive 5-year agreement with DFS Group L.P. that expires on May 31, 2005, with a 5-year option. The agreement with DFS Group L.P. provides a minimum annual guaranteed revenue to the Department of \$36.0 million the first year, \$37.0 million the second and third years and \$37.5 million the last two years or 30 percent of gross receipts, whichever is greater.

As a result of the terrorist attacks and the subsequent decrease in international passengers at the Airport, duty free revenues have been impacted dramatically. In FY 2001, duty free revenues were \$45.4 million, and decreased to approximately \$23.9 million in FY 2002, representing a decrease of 47 percent. Beyond FY 2002, duty free revenues are projected to remain at the minimum annual guarantee of \$37.5 million through FY 2007.

- The Department has entered into agreements with eight **Rental Car** agencies that run until January 31, 2003. These agreements at the Airport provide for a concession fee equal to the greater of a minimum annual guarantee, ranging from \$2.4 million to \$7.0 million, or a percentage of gross revenues (equal to 9 percent). In total, the minimum annual guarantees with these agencies totals \$27.3 million. Historically, rental car revenues have increased from \$33.5 million in FY 1997 to \$34.4 million in FY 2002, representing an annual compounded growth rate of 0.9 percent. In FY 2004, in conjunction with the new rental car agreements, the rental car commission will be increased from 9 to 10 percent, which will increase rental car revenues collected by the Airport. As such, rental car revenues are projected to increase from \$34.4 million in FY 2002 to \$60.4 million in FY 2007, representing an annual compounded growth rate of 11.9 percent.

- There are a total of 11 **food and beverage** agreements at the Airport, with the largest tenant being Host Marriot, Inc. The concession agreements with these food and beverage operators extend for various periods, with some expiring at the end of FY 2002, and others expiring in FY 2005 and FY 2006. The agreements provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. The percentage rentals generally range from 14 to 24 percent on food and 20 to 24 percent on alcoholic beverages. In total, the minimum annual guarantees for the agreements are \$14.7 million. From FY 1997 to FY 2002, food and beverage revenues increased from \$11.4 million to \$17.3 million, representing an annual compounded growth rate of 8.7 percent. As shown in Table 4.4, food and beverage revenues are estimated to decrease from \$17.3 million in FY 2002 to approximately \$16.0 million in FY 2003. This decrease is primarily a result of the expansion of the security checkpoints in each of the terminals, which will require the elimination of some concessions space in the terminals. Following this decrease in FY 2003, food and beverage revenues are projected to increase to approximately \$19.5 million in FY 2007. Overall, this increase represents an annual compounded growth rate of 2.5 percent between FY 2002 and FY 2007.
- The primary **Gift and news** operator at the Airport is WH Smith, Inc. The agreement with WH Smith expired on May 31, 2002, and provided for a concession fee equal to the greater of a minimum annual guarantee of \$15.25 million or 17 percent of gross receipts. There are also four smaller operators which have agreements that expire July, 2006 and provide total minimum annual guarantees of \$750,000. Since FY 1997, gift and news revenues have remained constant at the minimum annual guarantee. Gift and news revenues are projected to remain at the total minimum annual guarantee of \$15.4 million for all of the gift and news concessionaires.
- **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 have not been increased since 1987, when the current fees were established. As such, the Department is anticipating an increase to trip fees assessed to the ground transportation operators beginning in FY 2004. These increases are anticipated to generate approximately \$2.5 million in additional revenues. Ground transportation revenues for the various operators at the Airport are projected to increase based on these proposed increases in trip fees, as well as enplanement levels at the Airport. Overall, ground transportation revenues are estimated to increase from \$3.6 million in FY 2002 to approximately \$4.6 in FY 2007, representing an annual compounded growth rate of 5.1 percent.
- Pacific Bell Pay Phone provides **public phone** services at the Airport. The agreement with Pacific Bell Pay Phone expires in May, 2003 and provides for 7.54 cents per passenger and 55 percent of the calling card gross revenue. Revenue generated from public phones at the Airport was approximately \$5.1 million in FY 2002, and has increased at an annual compounded growth rate of 0.4 percent since FY 1997. Public phone revenues are projected to remain relatively constant at \$5.1 million through FY 2007.

- Currently, the Airport does not generate any revenues from *advertising* within the terminal buildings. However, the Airport intends to implement an advertising program in the Central Terminal Area and the airline satellites and ticketing buildings. Based on a review of other airports, the Department estimates that it could generate \$20.0 million to \$30.0 million per year in advertising revenue. For the purposes of this analysis, advertising revenues are projected to increase from \$7.5 million in FY 2004 (based on an estimated effective date of January 1, 2003), and \$15 million in FY 2005, to approximately \$16.5 million in FY 2007.

(3) *Airport Sales and Services Revenue*

Airport sales and services revenues at the Airport includes 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. In FY 2002, Airport sales and services revenues accounted for approximately \$5.4 million, and has increased at an annual compounded growth rate of 18.6 percent since FY 1997. In FY 2003, total airport sales and services revenue is budgeted at \$7.2 million. Beyond FY 2003, airport sales and services revenues are projected to increase to approximately \$8.7 million in FY 2007, representing an annual compounded growth rate of 4.7 percent.

(4) *Miscellaneous Revenue*

Miscellaneous revenues at the Airport includes revenue from refunds and reimbursements, litigation settlements, sale of property and equipment, tickets and impound fees, and other miscellaneous revenues. In FY 2002, miscellaneous revenues were negative \$122,000, and are budgeted to be approximately \$1.6 million in FY 2003. Due to the uncertain nature of these revenues, miscellaneous revenues were assumed to remain constant at \$1.6 million through FY 2007.

4.5 AIRLINE REVENUES

As discussed previously, airline landing fees, apron fees, and terminal rental rates presented in these analyses are calculated pursuant to the methodologies contained in the Operating Permit and the terminal lease agreements for the various terminals.

The following sections present greater detail with regards to each specific rate calculation.

(1) *Terminal Rental Rate*

As described previously in Section 4.1 (5), there are two general types of terminal leases, depending upon whether the terminal financing was accomplished through the Department or through a third party. The first type applies to Terminal 1, Terminal 3, and TBIT. Rental rates in these facilities are based on a recovery of capital and operating costs. The capital cost component is essentially fixed, while the operating cost component varies with the change in the level of M&O expenses attributable to the facility. The second type applies to Terminals 2, 4, 5, 6, 7, and 8. Rental rates for these terminals are comprised of three components, including ground rent, facilities, and M&O Expenses. The ground and facilities components of the rental rates are subject to periodic readjustment by the Board based on periodic reappraisals of the facilities. New rental rates for each terminal recalculated and assessed on a calendar year basis based on the previous year's fiscal year results.

Table 4.5 presents a blended average terminal rental rate calculation for all of the terminals at LAX. As shown, the overall blended terminal rental rate is estimated to be \$23.10 in CY 2002 and is projected to increase to approximately \$28.76 in CY 2007. On a fiscal year basis, total terminal revenue is projected to increase from \$50.1 million in FY 2002 to approximately \$57.5 million in FY 2007, representing an annual compounded growth rate of 2.8 percent.

(2) Landing and Apron Fees

The Department implemented compensatory landing fees July 1, 1993. Landing fees are calculated for each fiscal year based upon budgeted costs and are settled annually with the airlines for any variances between actual and budgeted costs. The Landing Fee is calculated by combining the items described previously in Section 4.1(5) above for the Airfield cost center in order to determine the total airfield requirement. The total airfield requirement is then divided by total airline landed weight per thousand pounds to calculate the landing fee. As a result of the fact that the Department establishes landing fees 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 or apron revenues that might result from loss of airline service or other such disruptions.

The apron fee is calculated by combining the items described previously in Section 4.1(4) above for the Apron cost center in order to determine the total apron requirement. The total apron requirement is then divided by passenger airline landed weight per thousand pounds to calculate the apron fee assessed to the passenger airlines.

As shown in **Table 4.6**, the landing fee is projected to increase from \$1.95 per thousand pounds in FY 2002 to \$1.97 in FY 2007, while the apron fee is projected to increase from \$0.22 per thousand pounds to \$0.25 during the same timeframe. Overall, the combined landing fee and apron rate is projected to increase from \$2.22 per thousand pounds in FY 2002 to \$2.23 per thousand pounds in FY 2007. Overall, landing fee and apron revenues are projected to increase from \$115.0 million in FY 2002 to approximately \$141.6 million in FY 2007, representing an annual compounded growth rate of approximately 4.3 percent.

(2) Airline Cost Per Enplanement

Table 4.7 presents the calculation of airline cost per enplanement resulting from the terminal rents, landing, and apron fees for FY 2002 through FY 2007. As the table presents, the cost per enplanement is projected to decrease from \$5.87 in FY 2002 to \$5.73 in FY 2007.

TABLE 4.5

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

AVERAGE TERMINAL RENTAL RATES - ALL TERMINALS (Calendar Year Basis) ¹

	Actual	Projected				
	2002	2003	2004	2005	2006	2007
M&O Expense	\$57,355,842	\$60,510,413	\$63,838,486	\$67,349,603	\$71,053,831	\$74,961,791
Less: Custodial	19,128,467	20,180,533	21,290,462	22,461,437	23,696,816	25,000,141
Net M&O Expense	\$38,227,375	\$40,329,880	\$42,548,024	\$44,888,165	\$47,357,014	\$49,961,650
Add 15% Admin Charge	5,734,106	6,049,482	6,382,204	6,733,225	7,103,552	7,494,248
Total M&O Rental Component	\$43,961,481	\$46,379,363	\$48,930,228	\$51,621,390	\$54,460,566	\$57,455,898
Terminal Area, Excl Voids/Util Rms	3,774,720	3,774,720	3,774,720	3,774,720	3,774,720	3,774,720
Average Basic Rent per sq ft ("Blended Rate")	\$11.6463	\$12.2868	\$12.9626	\$13.6756	\$14.4277	\$15.2212
Airline Areas	2,060,508	2,060,508	2,060,508	2,060,508	2,060,508	2,060,508
Airline Areas M&O	\$23,479,496	\$24,770,843	\$26,133,242	\$27,570,584	\$29,086,971	\$30,686,737
Adj for Baggage Channel(\$2psfpy M&O)	(209,108)	(220,609)	(232,742)	(245,543)	(259,048)	(273,296)
Adj for Scanner CTX 5000(Continental & United)	(11,452)	(12,082)	(12,747)	(13,448)	(14,187)	(14,968)
Adj for Restrooms	(13,836)	(14,597)	(15,399)	(16,246)	(17,140)	(18,083)
Visitor Service Reps	1,669,682	1,761,515	1,858,398	1,960,610	2,068,443	2,182,208
Adjusted Airline Areas M&O	\$24,914,782	\$26,285,070	\$27,730,751	\$29,255,957	\$30,865,039	\$32,562,599
Custodial Surcharge:						
Custodial Expense	\$19,128,467	\$20,180,533	\$21,290,462	\$22,461,437	\$23,696,816	\$25,000,141
Add 15% Admin Charge	2,869,270	3,027,080	3,193,569	3,369,216	3,554,522	3,750,021
Total Custodial Surcharge	\$21,997,737	\$23,207,613	\$24,484,031	\$25,830,653	\$27,251,339	\$28,750,162
Areas Benefited:						
Public Areas	1,318,810	1,318,810	1,318,810	1,318,810	1,318,810	1,318,810
DOA/Other Areas	31,030	31,030	31,030	31,030	31,030	31,030
Airline Areas:						
Airline Baggage Claim	65,841	65,841	65,841	65,841	65,841	65,841
Gate Appendage	2,790	2,790	2,790	2,790	2,790	2,790
Holdrooms	43,587	43,587	43,587	43,587	43,587	43,587
FIS Areas	132,517	132,517	132,517	132,517	132,517	132,517
Other	132,144	132,144	132,144	132,144	132,144	132,144
Subtotal	376,879	376,879	376,879	376,879	376,879	376,879
Total Areas Subject to Surcharge	1,726,719	1,726,719	1,726,719	1,726,719	1,726,719	1,726,719
Average Custodial Surcharge per sq ft	\$12.7396	\$13.4403	\$14.1795	\$14.9594	\$15.7822	\$16.6502
Airlines Custodial Surcharge	\$4,266,775	\$4,501,438	\$4,749,033	\$5,010,215	\$5,285,786	\$5,576,503
Total M&O Rent	\$29,181,557	\$30,786,508	\$32,479,784	\$34,266,172	\$36,150,824	\$38,139,102
Space Rent	17,036,789	17,259,097	17,527,155	18,105,142	18,105,142	19,750,308
Footprint	1,380,246	1,380,246	1,380,246	1,380,246	1,380,246	1,380,246
TOTAL ANNUAL RENTAL	\$47,598,592	\$49,425,850	\$51,387,185	\$53,751,559	\$55,636,212	\$59,269,655
Total Leased Airline Space	2,060,508	2,060,508	2,060,508	2,060,508	2,060,508	2,060,508
Average Terminal Rental Rate	\$23.10	\$23.99	\$24.94	\$26.09	\$27.00	\$28.76
TERMINAL RENTAL REVENUE (CY)	\$47,598,592	\$49,425,850	\$51,387,185	\$53,751,559	\$55,636,212	\$59,269,655
TERMINAL RENTAL REVENUE (FY)	\$50,100,000	\$48,512,221	\$50,406,518	\$52,569,372	\$54,693,886	\$57,452,934

¹ Terminal Rental Rates are calculated on a Calendar Year basis based on the previous Fiscal Year's actual M&O expenses.

Sources: Department of Airports, City of Los Angeles
Ricondo & Associates, Inc.

TABLE 4.6

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

AIRLINE LANDING AND APRON FEES

Cost Center	Estimated	Budget	Projected			
	2002	2003	2004	2005	2006	2007
LANDING FEE						
Operating Expense	\$77,477,003	\$75,863,714	\$78,349,331	\$82,276,178	\$86,401,859	\$90,736,541
Amortization Expense	16,777,832	18,115,064	17,887,347	16,221,111	15,850,679	15,200,047
Debt Service Expense	3,684,410	10,198,499	11,675,386	6,139,733	6,929,395	6,741,845
Debt Service Coverage	0	0	0	0	0	0
M&O Reserve	1,835,033	0	643,775	676,481	710,866	747,018
Van Nuys Reliever Net Costs	4,200,738	11,526,812	12,190,416	12,727,554	13,288,864	13,875,432
PFC Loan Repayment	0	0	0	0	0	0
TOTAL AIRFIELD REQUIREMENT	\$104,512,022	\$115,704,088	\$120,746,256	\$118,041,058	\$123,181,662	\$127,300,883
Total Landed Weight (000's)	53,479,225	55,776,670	59,680,001	61,269,846	62,924,736	64,465,126
Landing Fee Rate	\$1.95	\$2.07	\$2.02	\$1.93	\$1.96	\$1.97
APRON FEE						
Operating Expense	\$7,462,312	\$8,990,059	\$9,287,788	\$9,775,059	\$10,287,952	\$10,827,819
Amortization Expense	2,415,123	2,340,176	3,008,367	3,030,967	3,023,822	2,572,467
Depreciation Expense	0	0	0	0	0	0
Debt Service Expense	363,276	363,306	684,541	887,095	880,910	846,837
Debt Service Coverage	0	0	0	0	0	0
M&O Reserve	222,763	0	76,315	80,371	84,644	89,143
Land Rental	0	0	0	0	0	0
TOTAL APRON REQUIREMENT	\$10,463,474	\$11,693,541	\$13,057,012	\$13,773,493	\$14,277,328	\$14,336,266
Passenger Landed Weight (000's)	47,638,201	49,844,452	53,086,868	54,481,784	55,881,849	57,221,817
Apron Fee Rate	\$0.22	\$0.23	\$0.25	\$0.25	\$0.26	\$0.25
COMBINED RATE	\$2.17	\$2.30	\$2.27	\$2.18	\$2.21	\$2.23

Sources: Department of Airports, City of Los Angeles
Ricondo & Associates, Inc.

TABLE 4.7

*Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant*

AIRLINE COST PER ENPLANEMENT

	Actual	Budget	Projected			
	2002	2003	2004	2005	2006	2007
<u>Airline Revenues</u>						
Terminal Rental Revenue	\$50,100,000	\$48,512,221	\$50,406,518	\$52,569,372	\$54,693,886	\$57,452,934
Landing Fee - Passenger	104,512,022	115,704,088	120,746,256	118,041,058	123,181,662	127,300,883
Landing Fee - Apron	10,463,474	11,693,541	13,057,012	13,773,493	14,277,328	14,336,266
Total Airline Revenue	\$165,075,496	\$175,909,850	\$184,209,785	\$184,383,924	\$192,152,876	\$199,090,083
Enplanements	28,131,661	30,849,900	31,821,400	32,787,700	33,769,400	34,723,000
Airline Cost Per Enplanement	\$5.87	\$5.70	\$5.79	\$5.62	\$5.69	\$5.73

Source: Ricondo & Associates, Inc.

4.6 APPLICATION OF REVENUES

Table 4.8 presents projected cash flow and debt service coverage ratios for the Airport for FY 2002 to FY 2007. Included in this cash flow are Airline Revenues, Nonairline Revenues, Investment Earnings, M&O Expenses, Debt Service, M&O Reserve deposits, and capital lease payments. Assumptions included in this table include the following:

- Total Pledged Revenues include investment earnings which include earnings available from balances in the Airport Revenue Fund, the Airport Insurance Trust Fund, and various bond service funds. The interest income from available balances in the PFC Fund and various construction funds is restricted and unavailable for Pledged Revenues.
- Debt Service Coverage ratios as required by the Indentures are also presented in Table 4.8. Net Pledged Revenues are required to be at least 1.25 times the annual debt service requirement for senior lien debt and 1.10 times for subordinate debt. As presented, the senior lien debt service coverage ratio exceeds the 1.25 coverage requirement in each year of the analyses. In addition, the subordinate debt service coverage ratio is projected to also exceed the 1.10 coverage ratio requirement.¹

Table 4.9 presents the application of Revenues for the Airport for FY 2003 to FY 2007. These tables include the disposition of all cash flow into the appropriate funds as required by the Indenture.

¹ In Table 4.8 annual debt service presented represents estimated “actual” debt service payments required (rather than Maximum Annual Debt Service) so that cash flow can be projected. For actual compliance with tests for the issuance of Bonds, see the separate Consultant Certifications.

TABLE 4.8

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

AIRPORT CASH FLOW / DEBT SERVICE COVERAGE

	Actual	Budget	Projected			
	2002	2003	2004	2005	2006	2007
Aviation Revenues	\$235,336,274	\$244,471,000	\$262,856,312	\$265,501,826	\$275,818,248	\$285,363,537
Concession Revenues	156,127,490	193,869,500	216,394,990	230,976,028	239,069,022	247,256,569
Airport Sales & Services	5,360,984	7,221,000	7,570,921	7,931,637	8,307,425	8,690,272
Miscellaneous Revenues	1,726,899	1,581,000	1,581,000	1,581,000	1,581,000	1,581,000
Investment Earnings ¹	22,687,000	23,717,736	22,785,765	22,717,286	23,259,791	25,075,736
Federal Grant Revenues ²	5,763,334	0	0	0	0	0
Total Revenues	\$427,001,981	\$470,860,236	\$511,188,988	\$528,707,776	\$548,035,487	\$567,967,113
M&O Expenses	\$339,819,531	\$372,204,000	\$391,410,182	\$411,621,844	\$432,892,375	\$455,278,029
NET REVENUES	\$87,182,450	\$98,656,236	\$119,778,806	\$117,085,932	\$115,143,112	\$112,689,085
Senior Lien Debt Service	35,404,873	35,560,293	41,518,865	40,296,763	43,268,003	42,043,773
Subordinate Lien Debt Service	0	2,114,028	5,367,657	5,484,634	5,488,414	4,736,200
M&O Reserve	11,093,835	0	3,860,428	4,062,292	4,274,864	4,498,719
Capital Lease Rental Credits	7,135,826	4,514,744	0	0	0	0
Total - Other Requirements	\$53,634,534	\$42,189,065	\$50,746,950	\$49,843,689	\$53,031,282	\$51,278,692
NET FUNDS REMAINING	33,547,917	56,467,171	69,031,856	67,242,243	62,111,831	61,410,392
SENIOR LIEN DEBT SERVICE COVERAGE						
Total Revenues	\$427,001,981	\$470,860,236	\$511,188,988	\$528,707,776	\$548,035,487	\$567,967,113
LESS: Capital Lease Rental Credits	7,135,826	4,514,744	0	0	0	0
PLEDGED REVENUES	\$419,866,155	\$466,345,492	\$511,188,988	\$528,707,776	\$548,035,487	\$567,967,113
Total M&O Expenses	339,819,531	372,204,000	391,410,182	411,621,844	432,892,375	455,278,029
LESS: PFC-Eligible M&O Expenses	22,839,000	9,343,200	9,810,360	10,300,878	10,815,922	11,356,718
M&O EXPENSES	\$316,980,531	\$362,860,800	\$381,599,822	\$401,320,966	\$422,076,453	\$443,921,311
NET PLEDGED REVENUES	\$102,885,624	\$103,484,692	\$129,589,166	\$127,386,810	\$125,959,034	\$124,045,803
Senior Lien Debt Service	\$35,404,873	\$35,560,293	\$41,518,865	\$40,296,763	\$43,268,003	\$42,043,773
LESS: Cash Defeasance of Series 1995C Bonds	15,749,238	0	0	0	0	0
ADJUSTED SENIOR LIEN DEBT SERVICE	\$19,655,635	\$35,560,293	\$41,518,865	\$40,296,763	\$43,268,003	\$42,043,773
Senior Lien Debt Service Coverage	5.23	2.91	3.12	3.16	2.91	2.95
SUBORDINATE LIEN DEBT SERVICE COVERAGE						
NET PLEDGED REVENUES	\$102,885,624	\$103,484,692	\$129,589,166	\$127,386,810	\$125,959,034	\$124,045,803
LESS: Senior Lien Debt Service	\$19,655,635	\$35,560,293	\$41,518,865	\$40,296,763	\$43,268,003	\$42,043,773
NET SUBORDINATE PLEDGED REVENUES ³	\$83,229,989	\$67,924,399	\$88,070,301	\$87,090,047	\$82,691,031	\$82,002,030
SUBORDINATE LIEN DEBT SERVICE	0	2,114,028	5,367,657	5,484,634	5,488,414	4,736,200
Subordinate Lien Debt Service Coverage ⁴	N/A	32.13	16.41	15.88	15.07	17.31
TOTAL DEBT SERVICE COVERAGE						
NET PLEDGED REVENUES	\$102,885,624	\$103,484,692	\$129,589,166	\$127,386,810	\$125,959,034	\$124,045,803
SENIOR AND SUBORDINATE LIEN DEBT SERVICE	\$19,655,635	\$37,674,321	\$46,886,522	\$45,781,397	\$48,756,417	\$46,779,973
Total Debt Service Coverage	5.23	2.75	2.76	2.78	2.58	2.65

¹ Includes only investment earnings to be included as Pledged Revenues.

² Includes Federal grants received as reimbursements for security expenses at the Airport. Based on GASB 33 reporting procedures, capital contributions are recognized as revenues in the period received.

³ Does not include Transfers.

⁴ As a result of the low annual subordinate debt service requirement, the Subordinate Lien debt service coverage is projected to remain high.

Sources: Department of Airports, City of Los Angeles
Ricondo & Associates, Inc.

TABLE 4.9

Department of Airports, City of Los Angeles
Los Angeles International Airport
Report of the Airport Consultant

APPLICATION OF AIRPORT REVENUES

	Budget		Projected		
	2003	2004	2005	2006	2007
REVENUE FUND					
Beginning Balance	\$378,945,439	\$368,894,636	\$375,799,494	\$410,907,934	\$451,327,840
DEPOSIT: Total Revenue	473,949,236	524,173,812	558,388,889	579,766,343	598,101,825
TRANSFER: Debt Service Funds	25,088,717	31,345,628	34,752,254	37,759,716	36,661,650
TRANSFER: Reserve Fund	0	0	0	0	0
EXPEND: Other Indebtedness Debt Service	2,114,028	5,367,657	5,484,634	5,488,414	4,736,200
EXPEND: Other Indebtedness Reserves	0	0	0	0	0
TRANSFER: LAX M&O Reserve Account	0	3,860,428	4,062,292	4,274,864	4,498,719
EXPEND: LAX M&O Expenses	372,204,000	391,410,182	411,621,844	432,892,375	455,278,029
EXPEND: Per the Charter (Section 239.8	0	0	0	0	0
Subsection A, Paragraph 4 (iii) (a-e)					
EXPEND: Per the Charter (Section 239.8	0	0	0	0	0
Subsection A, Paragraph 4 (iii) (f)					
EXPEND: Capital Leases	4,514,744	0	0	0	0
DEPOSIT: Project Costs Reimbursed from GARBs	108,300,000	0	0	0	0
EXPEND: Prepayment of Capital Leases	77,826,102	0	0	0	0
EXPEND: Capital Project Costs	110,552,448	85,285,060	67,359,424	58,931,068	0
Ending Balance	\$368,894,636	\$375,799,494	\$410,907,934	\$451,327,840	\$548,255,068
DEBT SERVICE FUNDS					
Beginning Balance	\$0	\$0	\$0	\$0	\$0
DEPOSIT: Transfer From Revenue Fund	25,088,717	31,345,628	34,752,254	37,759,716	36,661,650
EXPEND: Debt Service	25,088,717	31,345,628	34,752,254	37,759,716	36,661,650
Ending Balance	0	0	0	0	0
RESERVE FUND					
Beginning Balance	\$27,013,000	\$27,013,000	\$39,414,000	\$39,414,000	\$45,738,000
DEPOSIT: Reserve Funded From Bond Proceeds	0	12,401,000	0	6,324,000	0
Ending Balance	27,013,000	39,414,000	39,414,000	45,738,000	45,738,000
LAX M&O RESERVE ACCOUNT					
Beginning Balance	\$90,377,619	\$90,377,619	\$94,238,047	\$98,300,339	\$102,575,204
DEPOSIT: Transfer From Revenue Fund	0	3,860,428	4,062,292	4,274,864	4,498,719
Ending Balance	90,377,619	94,238,047	98,300,339	102,575,204	107,073,923

Sources: Department of Airports, City of Los Angeles
Ricondo & Associates, Inc.

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APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF
LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF
THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001**

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The Members of the Board of Airport Commissioners
of the City of Los Angeles, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of net assets of Los Angeles International Airport, a departmental component of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of June 30, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the LAWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements present only Los Angeles International Airport and do not purport to, and do not, present fairly the financial position of LAWA or the City of Los Angeles, California, as of June 30, 2002, and 2001, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles International Airport as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, LAWA adopted the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000.

Offices Located Throughout California

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2002 on our consideration of the Los Angeles International Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended June 30, 2002. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Inacciar, Jini & Company LLP

Certified Public Accountants

Los Angeles, California
October 25, 2002

LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT

Statements of Net Assets
June 30, 2002 and 2001
(Dollars in thousands)

ASSETS	<u>2002</u>	<u>2001</u>
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 392,056	\$ 352,887
Accounts receivable, net of allowance for uncollectible accounts of \$2,114 and \$1,346 in 2002 and 2001, respectively	31,596	36,985
Unbilled receivables	20,645	3,738
Federal grants receivable	2,061	9,094
Accrued interest receivable	4,502	8,122
Due from other agencies (Note 7)	45,731	49,666
Prepaid expenses and inventories	2,359	2,425
Total current assets	<u>498,950</u>	<u>462,917</u>
Restricted assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	345,257	353,473
Investments with fiscal agent (Note 3)	38,960	35,578
Accrued interest receivable	3,879	4,867
Passenger facility charges receivable (Note 12)	10,631	12,188
Total restricted assets	<u>398,727</u>	<u>406,106</u>
Capital assets (Note 4):		
Land, land clearance and air easements	400,670	400,670
Buildings, improvements and equipment	1,073,507	1,050,176
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(659,917)	(613,792)
Construction work in process	257,645	205,502
Net capital assets	<u>1,256,328</u>	<u>1,226,979</u>
Deferred bond issuance expenses	2,249	1,471
Total assets	<u>\$ 2,156,254</u>	<u>\$ 2,097,473</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
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LOS ANGELES INTERNATIONAL AIRPORT

Statements of Net Assets (Continued)
June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
LIABILITIES		
Current liabilities:		
Contracts and accounts payable	\$ 24,642	\$ 46,980
Employee benefits (Note 6)	6,191	12,143
Salaries payable	3,811	4,009
Commercial paper notes payable (Note 5)	15,500	-
Due to other agencies	-	4,301
Current obligations under capital leases (Note 11)	1,597	1,945
Deferred revenue	-	1
Other liabilities (Note 6)	4,265	2,431
Current liabilities payable from nonrestricted assets	56,006	71,810
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions (Note 3)	103,848	112,237
Bonds payable, less net deferred charges and credits of \$178 and \$182 in 2002 and 2001, respectively (Note 5)	23,174	22,451
Accrued bond interest payable	1,742	1,883
Contracts, accounts payable and other	3,681	1,635
Total current liabilities payable from restricted assets	132,445	138,206
Long-term liabilities:		
Bonds payable, less net deferred charges and credits of \$1,928 and \$2,106 in 2002 and 2001, respectively (Note 5)	186,932	209,779
Obligations under capital leases - less current portion (Note 11)	122,957	134,696
Employee benefits (Note 6)	15,400	12,495
Other liabilities (Note 6)	18,367	18,367
Total long-term liabilities	343,656	375,337
Total liabilities	532,107	585,353
NET ASSETS		
Invested in capital assets, net of related debt	921,668	858,108
Restricted:		
Capital projects	18,165	30,316
Debt service	37,790	34,546
Special purpose	155,343	147,198
Unrestricted	491,181	441,952
Net assets	\$ 1,624,147	\$ 1,512,120

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2002 and 2001

(Dollars in thousands)

	2002	2001
Operating revenue:		
Aviation revenue		
Landing fees	\$ 116,334	\$ 105,189
Building rentals	78,614	58,729
Other aviation revenue	40,387	39,203
Concession revenue	156,128	205,335
Airports sales and services	5,361	3,765
Miscellaneous revenue	1,727	1,023
Total operating revenue	398,551	413,244
Operating expenses:		
Salaries and benefits	135,416	124,812
Contractual services	97,389	107,009
Administrative expense	7,035	43,936
Material and supplies	39,211	34,714
Utilities	19,843	20,000
Advertising and public relations	6,113	5,882
Other operating expenses	34,813	16,609
Total operating expenses before depreciation and amortization	339,820	352,962
Income from operations before depreciation and amortization	58,731	60,282
Depreciation and amortization	(46,126)	(48,108)
Operating income	12,605	12,174
Nonoperating revenue (expenses):		
Passenger facility charges (Note 12)	67,166	85,745
Federal grant revenue	5,763	-
Interest income	32,017	38,343
Net increase (decrease) in fair value of investments	(3,667)	8,899
Loss on sale of securities	(462)	-
Other nonoperating revenue	361	1,623
Interest expense	(18,135)	(21,384)
Bond expense	(163)	(163)
Other nonoperating expenses	(1,821)	(15,903)
Net nonoperating revenue (expenses)	81,059	97,160
Income before capital grant contributions and transfers	93,664	109,334
Capital grant contributions	35,916	2,701
Inter-agency transfers	(17,553)	-
Change in net assets	112,027	112,035
Net assets, beginning of year, as restated (Note 2)	1,512,120	1,400,085
Net assets, end of year	\$ 1,624,147	\$ 1,512,120

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
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Statements of Cash Flows
For the Years Ended June 30, 2002 and 2001
(Dollars in thousands)

	2002	2001
Cash flows from operating activities:		
Receipts from customers	\$ 386,265	\$ 424,382
Receipts from passenger facility charges	68,723	82,341
Payments for goods and services	(224,697)	(242,223)
Payments to employees	(138,660)	(119,837)
Other receipts (payments), net	843	(3,850)
Net cash provided by operating activities	92,474	140,813
Cash flows from noncapital financing activities:		
Inter-agency transfers out	(17,553)	-
Loans to other funds	-	(22,519)
Federal grants received	5,763	-
Net cash used in noncapital financing activities	(11,790)	(22,519)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(75,474)	(147,377)
Principal paid on bonds	(22,305)	(23,015)
Interest paid on bonds	(13,105)	(14,654)
Principal paid on capital leases	(12,087)	(1,792)
Interest paid on capital leases	(4,994)	(7,631)
Commercial paper issued	15,500	-
Cash transferred (to)/from fiscal agent	(3,382)	1,890
Payment for commercial paper issuance costs	(941)	-
Federal grants received	42,949	9,250
Net cash used in capital and related financing activities	(73,839)	(183,329)
Cash flows from investing activities:		
Interest received	36,164	41,343
Net increase (decrease) in fair value of investments	(3,667)	8,899
Securities lending cash collateral returned	(8,389)	(8,602)
Net cash provided by investing activities	24,108	41,640
Net increase (decrease) in cash and cash equivalents	30,953	(23,395)
Cash and cash equivalents, beginning of year	706,360	729,755
Cash and cash equivalents, ending of year	\$ 737,313	\$ 706,360

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA)
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Statements of Cash Flows (Continued)
For the Years Ended June 30, 2002 and 2001
(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,605	\$ 12,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	46,126	48,108
Change in allowance for uncollectible accounts	768	(203)
Passenger facility charges received	68,723	82,341
Other expenses, net	(1,460)	(14,280)
Changes in operating assets and liabilities:		
Accounts receivable	4,621	3,451
Unbilled receivables	(16,907)	7,890
Prepaid expenses and inventories	66	565
Contracts and accounts payable	(20,292)	(11,605)
Employee benefits	(3,047)	3,809
Salaries payable	(198)	1,166
Deferred revenue	1	(6,889)
Other liabilities	1,834	13,367
Due to other agencies	(4,301)	919
Due from other agencies	3,935	-
Total adjustments	<u>79,869</u>	<u>128,639</u>
Net cash provided by operating activities	<u>\$ 92,474</u>	<u>\$ 140,813</u>

See accompanying notes to financial statements.

**LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT**

Notes to Financial Statements
June 30, 2002 and 2001

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) operates Los Angeles International Airport (LAX) as an independent, financially self-sufficient departmental component of the City of Los Angeles (the City). LAWA also operates Ontario International Airport (Ontario), Van Nuys Airport and Palmdale Regional Airport (collectively, the Airport System).

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated or controlled by the City; and (c) fix, regulate and collect rates and charges for use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position, changes in financial position and cash flows of LAX only and are not intended to present fairly the financial position, changes in financial position or the cash flows of LAWA or the City in conformity with generally accepted accounting principles (GAAP).

(b) Basis of Accounting

LAX is reported as a enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded when the related liability is incurred. LAX applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

(c) Cash and Pooled Investments

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAX's outstanding bonds. In order to maximize investment return, LAX pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAX's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for

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Notes to Financial Statements
June 30, 2002 and 2001

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(c) Cash and Pooled Investments (continued)

regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair maturities at the time of purchase of less than one year are recorded at cost. Interest income arising from such cash and pooled investments is apportioned to LAX based on the relationship of LAX's respective daily cash balances to aggregate cash and pooled investments.

(d) Securities Lending

The City Treasurer engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

(e) Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a Federal grant receivable and as a capital grant contribution or operating grant revenue, as appropriate, in the statement of revenues, expenses, and changes in net assets.

(f) Capital Assets

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 an allowance for accumulated depreciation. Such cost includes, when appropriate, interest capitalized as part of the cost of construction of fixed assets. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAWA has a capitalization threshold of \$5,000 for all capital assets.

(g) Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts, issuance costs, as well as gains and losses on extinguishments are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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Notes to Financial Statements
June 30, 2002 and 2001

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(h) Depreciation and Amortization

Depreciation expense includes amortization of assets under capital leases. Depreciation and amortization are computed on the 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

No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

(i) Preliminary Costs of Capital Projects

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

(j) Operating and Nonoperating Revenue and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives 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 maintenance, insurance and utilities.

(k) Interest Expense

LAX capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest costs charged to expense of \$18,135,000 for the year ended June 30, 2002 and \$21,384,000 for the year ended June 30, 2001 exclude \$189,000 and \$722,000, respectively, of interest capitalized as part of the cost of LAX's construction work in process.

(l) Employee Benefits

LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

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Notes to Financial Statements
June 30, 2002 and 2001

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(m) Allocation of Administrative Expenses

A portion of administrative expenses incurred by LAWA has been allocated to LAX based on LAX's relative share of payroll expense.

(n) Statements of Cash Flows

Cash and cash equivalents as reported in the statements of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are therefore considered to be cash equivalents.

(o) Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

(p) Reclassifications

Certain reclassifications have been made to fiscal year 2001 amounts in order to conform to the fiscal year 2002 presentation.

(q) Inventory

LAX's inventory consists primarily of general office supplies and is recorded at cost on a first in, first out basis.

(r) Inter-agency Transfers

Amounts shown on the financial statements as inter-agency transfers reflect operational and other expenses incurred by Ontario, Palmdale or Van Nuys airports but paid for by LAX. Generally, LAX does not receive reimbursement for these expenses from the other airports, and accordingly, records a transfer in an amount equal to the expenses incurred.

(s) Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

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Notes to Financial Statements
June 30, 2002 and 2001

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(s) Net Assets (continued)

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAX, not restricted for any project or other purpose.

(2) Accounting Changes

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB Statement No. 34 represents the most important single change in the history of accounting and financial reporting for state and local governments.

GASB Statement No. 34 provides new information and restructures information provided in the past. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces both the Income Statement and the Statement of Changes in Retained Earnings and Contributed Capital. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

In June 2001, GASB issued Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*. This statement is effective for the same periods as GASB Statement No. 34 and either clarifies or modifies certain provisions in GASB Statements No. 21 Accounting for Escheat Property and No. 34. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in the Management’s Discussion and Analysis (MD&A), program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc.

LAWA and its individual airports are not required to present an MD&A with their financial statements because LAWA is an Enterprise Fund of the City. MD&A is only required supplementary information for a governmental entity as a whole.

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Notes to Financial Statements
June 30, 2002 and 2001

(2) Accounting Changes (continued)

Also in June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. These new disclosure requirements address the needs of users of financial statements identified by GASB.

The impact of adopting GASB Statement Nos. 34, 37, and 38, resulted in changes in the presentation of the financial statements and providing additional disclosures in the notes to the statements.

(3) Cash and Investments

(a) Cash and Pooled Investments

Cash is deposited with the City Treasurer and generally invested in short-term investments under the City Treasurer's pooled investment program. The Los Angeles City Treasury Investment Procedures and Guidelines, established pursuant to the California Government Code and Los Angeles City Council action, govern the City's investment practices. The primary objectives of the City's investment policy are the safety of capital, the liquidity of the portfolio and the yield on the investments. Investments permitted by the City's investment policy include obligations of the U.S. Government and agencies, certain commercial paper, bankers' acceptances, medium-term corporate notes, negotiable certificate of deposits, repurchase agreements and state and local government pools (e.g., State Local Agency Investment Fund) up to certain specified allowable percentages.

In addition, the Securities Lending Program (the Program) approved by the City Council on October 28, 1991, allows the City to engage in the transfer of securities to other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Under the provisions of the Program, no more than 60% of the par value of the City's General Investment Pool (the Pool) shall be available for loan. Collateral on loaned securities shall be strictly limited to cash which the City can reinvest, and U.S. Treasury securities and U.S. Government Agency securities (noncallable) which can not be pledged or sold by the City unless the borrower defaults. Cash reinvestment shall be made only with security dealers designated as primary dealers by the New York Federal Reserve Bank or with direct issuers. The collateral on loaned securities shall not, on the loan initiation date, be less than 102% of the market value of the loaned securities, including accrued interest. After the initiation date, any aggregate amount that rounds to 102% shall be considered as meeting the 102% collateralization requirement. The securities lending agent shall mark to market the value of both the collateral and the repurchased securities collateral daily. During the fiscal year, the Pool had no losses due to borrowers' default. There was no credit risk exposure to the Pool at

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Notes to Financial Statements
June 30, 2002 and 2001

(3) Cash and Investments (continued)

(a) Cash and Pooled Investments (continued)

June 30, 2002 because the amounts owed the borrowers exceeded the amounts the borrowers owed the Pool. At June 30, 2002 and 2001, the assets and liabilities arising from the reinvested cash collateral have been recognized in LAX's financial statements based on its equity in the pool at year-end. LAX's equity in the City Treasurer's pooled investment and securities lending programs consists of the following cash and investments, based on the relative percentages of such equity to the total of the City Treasurer's pooled funds and is not necessarily indicative of LAX's actual investment in the pooled funds (dollars in thousands):

	2002	2001
Deposits	\$ 49,348	\$ 33,821
U.S. Treasury securities	72,001	129,598
Federal agency securities	333,133	262,887
Commercial paper	51,272	68,085
Medium-term corporate notes	147,391	131,695
State Local Agency Investment Fund	1,006	4,884
Repurchase agreements	83,141	75,199
Money market mutual funds	21	191
Total	737,313	706,360
Less restricted portion	(345,257)	(353,473)
Unrestricted portion	\$ 392,056	\$ 352,887

The restricted portion represents cash and investments that are restricted as to use either by bond indenture requirements, actions of the Board or the Federal Aviation Administration.

At June 30, 2002 and 2001, the bank balance of \$45,327,000 and \$21,316,000, respectively, of LAX's proportionate share of cash deposits was collateralized entirely with collateral held in the pledging bank's trust department or another financial institution. As defined in the California Government Code, all collateral other than mortgage collateral must have a fair value at all times of not less than 110% of the amount of deposit, while mortgage collateral must have a fair value of not less than 150% of the deposit. Such collateral is considered held in the City's name.

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Notes to Financial Statements
June 30, 2002 and 2001

(3) Cash and Investments (continued)

(b) Investments with Fiscal Agents

LAX also maintains investments with a fiscal agent that are pledged to the payment or security of LAX 1995 series bonds. These investments are also generally invested in short-term investments under the control of the fiscal agent. The investment practices of the fiscal agent are similar to those of the City Treasurer, with similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

LAX's investments with the fiscal agent were as follows (dollars in thousands):

	2002	2001
Mutual funds	\$ 3,925	\$ 8,565
U.S. Treasury securities	35,035	27,013
Total	\$ 38,960	\$ 35,578

(c) Custodial Credit Risk Categorization

Investments maintained on behalf of LAX by the City and the fiscal agent are categorized to give an indication of the custodial credit risk assumed by LAX at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by LAWA or by its agent in LAWA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department, but not in LAWA's name. At June 30, 2002 and 2001, substantially all of the City's investments are classified in Category 1 type investments, except for investments in the State Local Agency Investment Fund and money market mutual funds, which are not required to be categorized. Similarly, investments held by the fiscal agent were classified as Category 2 type investments except for investments in mutual funds, which are noncategorized investments.

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(4) Changes in Capital Assets

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance at July 1, 2001	Additions	Deductions	Balance at June 30, 2002
Capital assets, not depreciated:				
Land	\$ 356,325	\$ -	\$ -	\$ 356,325
Air Easements	44,345	-	-	44,345
Construction in Progress	205,502	71,951	(19,808)	257,645
Total capital assets, not Depreciated	606,172	71,951	(19,808)	658,315
Capital assets, depreciated:				
Buildings	473,986	182	-	474,168
Improvements	469,391	19,852	-	489,243
Equipment and Vehicles	106,799	3,297	-	110,096
Leased Property	184,423	-	-	184,423
Total capital assets, Depreciated	1,234,599	23,331	-	1,257,930
Less accumulated depreciation:				
Buildings	(211,620)	(12,426)	-	(224,046)
Improvements	(262,235)	(21,684)	-	(283,919)
Equipment and Vehicles	(73,933)	(8,874)	-	(82,807)
Leased Property	(66,004)	(3,141)	-	(69,145)
Total accumulated depreciation	(613,792)	(46,125)	-	(659,917)
Total capital assets depreciated, net	620,807	(22,794)	-	598,013
Total capital assets, net	<u>\$ 1,226,979</u>	<u>\$ 49,157</u>	<u>\$(19,808)</u>	<u>\$ 1,256,328</u>

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(4) Changes in Capital Assets (continued)

Capital asset activity for the year ended June 30, 2001, was as follows:

	Balance at July 1, 2000	Additions	Deductions	Balance at June 30, 2001
Capital assets, not depreciated:				
Land	\$ 295,623	\$ 60,702	\$ -	\$ 356,325
Air Easements	44,345	-	-	44,345
Construction in Progress	141,568	136,582	(72,648)	205,502
Total capital assets, not depreciated	481,536	197,284	(72,648)	606,172
Capital assets, depreciated:				
Buildings	475,967	-	(1,981)	473,986
Improvements	455,966	13,425	-	69,391
Equipment and Vehicles	103,021	13,103	(9,325)	106,799
Leased Property	184,423	-	-	184,423
Total capital assets, depreciated	1,219,377	26,528	(11,306)	1,234,599
Less accumulated depreciation:				
Buildings	(196,963)	(14,657)	-	(211,620)
Improvements	(242,823)	(19,412)	-	(262,235)
Equipment and Vehicles	(73,165)	(9,264)	8,496	(73,933)
Leased Property	(61,229)	(4,775)	-	(66,004)
Total accumulated depreciation	(574,180)	(48,108)	8,496	(613,792)
Total capital assets depreciated, net	645,197	(21,580)	(2,810)	620,807
Total capital assets, net	\$ 1,126,733	\$ 175,704	\$(75,458)	\$ 1,226,979

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(5) Bonds Payable

LAX issued revenue bonds in 1995 for various airport improvement projects. LAX's revenues are pledged as security for the bonds. In 2002, LAX issued \$15.5 million in commercial paper notes to finance a portion of LAX's short-term borrowing needs as well as paying for all or a portion of the principal and interest on the Notes when due. The commercial paper notes bear interest at a market rate at the date issued not to exceed 12% per annum. LAX recognized \$941,000 in bond issuance expense related to these commercial notes.

LAX revenue bonds mature in varying amounts through 2015 and commercial paper notes at June 30, 2002 are summarized as follows (dollars in thousands):

<u>Debt issue</u>	<u>Interest rate %</u>	<u>Authorized and issued</u>	<u>Included in current liabilities</u>	<u>Included in long- term liabilities</u>	<u>Total</u>
Issue of 1995	5.00 to 8.375	\$365,855	\$23,025	\$188,860	\$211,885
Commercial paper	Variable	15,500	15,500	-	15,500
		<u>381,355</u>	<u>38,525</u>	<u>188,860</u>	<u>227,385</u>
Deferred charges and credits, net		-	(178)	(1,928)	(2,106)
Unredeemed bonds		-	327	-	327
Total		<u>\$381,355</u>	<u>\$38,674</u>	<u>\$186,932</u>	<u>\$225,606</u>

Included in current liabilities are unredeemed portions of bonds outstanding at June 30, 2002.

Changes to LAX's outstanding debt consisted of bond principal payments of \$22,300,000, retirement of unredeemed bonds of \$5,000 and issuance of commercial paper notes of \$15,500,000 for the year ended June 30, 2002. For the year ended June 30, 2001, changes to LAX's outstanding debt consisted of bond principal payments of \$22,975,000.

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(5) Bonds Payable (continued)

Future annual debt service requirements are as follows (dollars in thousands):

Fiscal year ending June 30:	Principal	Interest	Total
2003	\$38,525	\$12,187	\$50,712
2004	23,160	10,554	33,714
2005	22,390	9,151	31,542
2006	23,375	7,828	31,203
2007	22,910	6,584	29,493
2008-2012	83,110	14,270	97,380
2013-2015	13,915	1,564	15,479
Total	<u>\$227,385</u>	<u>\$62,138</u>	<u>\$289,523</u>

The interest rate used to determine the future annual debt service requirements for the variable rate commercial paper notes was based on the actual average interest rate of 1.35% paid throughout the year ended June 30, 2002.

(6) Other Long-Term Liabilities

Other long-term liabilities activity for the year ended June 30, 2002 was as follows:

	Balance at July 1, 2001	Additions	Deductions	Balance at June 30, 2002	Due in one year
Employee Benefits	\$24,638	\$25,607	\$(28,655)	\$21,591	\$6,191
Other Liabilities	20,798	312,463	(310,629)	22,632	4,265
Total	<u>\$45,436</u>	<u>\$338,070</u>	<u>\$(339,284)</u>	<u>\$44,223</u>	<u>\$10,456</u>

Other long-term liabilities activity for the year ended June 30, 2001 was as follows:

	Balance at July 1, 2000	Additions*	Deductions*	Balance at June 30, 2001	Due in one year
Employee Benefits	\$20,829	\$3,809	\$ -	\$24,638	\$12,143
Other Liabilities	7,363	13,435	-	20,798	2,431
Total	<u>\$28,192</u>	<u>\$17,244</u>	<u>\$ -</u>	<u>\$45,436</u>	<u>\$14,574</u>

* Additions and deductions shown net.

(7) Related Party Services

The City provides certain administrative, crash-fire-rescue police services and water and power to LAX. The payments for these services, included in operating expenses for the years ended June 30, 2002 and 2001, was \$45,928,000 and \$56,693,000, respectively. Amounts due and payable for these services at June 30, 2002 and 2001 totaled \$106,000 and \$2,226,000, respectively.

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(7) Related Party Services (continued)

In addition, LAX collects parking taxes on behalf of the City. Parking taxes collected and remitted to the City were \$5,123,000 and \$8,072,000 for the years ended June 30, 2002 and 2001, respectively.

The amounts reported as due from other agencies of \$45,731,000 and \$49,666,000 as of June 30, 2002 and 2001, respectively, represent cash advanced to the Van Nuys Airport and the Palmdale Regional Airport funds for operations.

(8) Retirement System

(a) Retirement Plan Description

All full-time employees of LAX are eligible to participate in the City Employees' Retirement System of the City of Los Angeles, California (the System); a single employer defined benefit pension plan. The System serves as a common investment and administrative agent for various City departments and agencies that participate in the System. Copies of the System's Annual Financial Report can be obtained at 360 E. Second Street, 2nd Floor, Los Angeles, California 90012. LAX makes contributions to the System for its pro rata share of retirement costs attributable to its employees.

The System provides retirement, disability, death benefits, postemployment healthcare and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have 30 or more 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. The System does not have a mandatory retirement age.

(b) Funding Policy and Contributions

The Board of Administration of the System establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to the System at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of the System. LAWA's actuarially required and actual contributions to the System were \$6,169,000, \$7,750,000, and \$8,637,000 for the years ended June 30, 2002, 2001, and 2000, respectively, representing 4.7%, 5.8%, and 8.4% of covered payroll for the respective years. LAX's share of such contributions, based on LAX's salaries relative to total salaries for LAWA as a whole, was \$4,923,000, \$6,617,000, and \$7,222,000 for the years ended June 30, 2002, 2001, and 2000, respectively.

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(8) Retirement System (continued)

(c) Other Postemployment Benefits

LAX, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City, including LAX. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. The System is advance funding the retiree health benefits on an actuarially determined basis.

The City's actuarially required and actual contributions for the health care subsidy were \$27,591,000 (2.17% of covered payroll) for fiscal year 2002. The number of active participants for the City as a whole was 25,930. Separate information for LAX contributions and participants is not available.

(9) Self-Insurance

LAX is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAWA's estimated liability for workers' compensation claims is based on the results of an actuarial study and has been allocated to LAX based on a ratio of LAX salaries to total LAWA salaries. A reconciliation of the accrued workers' compensation liability (included in employee benefits) is as follows (dollars in thousands):

	Year ended June 30	
	2002	2001
Beginning balance	\$ 9,711	\$ 9,193
Provision for claims	5,641	3,794
Claims paid	(2,237)	(3,276)
Ending balance	\$ 13,115	\$ 9,711

For other types of claims, commercial insurance is used when it is either legally or contractually required or judged to be the most effective way to finance risk. LAWA's Risk Management Bureau estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2002, 2001, and 2000, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty and other

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(9) Self-Insurance (continued)

insurance. LAWA also maintains an insurance trust accounts to pay for the deductible for property damage and any claims in excess of the insurance coverage.

(10) Commitments and Contingencies

As of June 30, 2002, a number of claims and lawsuits are pending against LAWA that arose in the normal course of operations at LAX. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAX's operations.

(a) City Services and Reimbursements

Air Transport Association of America v. City of Los Angeles, City of Los Angeles Department of Airports, and Los Angeles Board of Airport Commissioners, Formal Complaint No. 13-95-05 (Federal Aviation Administration); and Aircraft Owners and Pilots Association v. City of Los Angeles, City of Los Angeles Department of Airports, and Los Angeles Board of Airport Commissioners, Formal Complaint No. 13-95-09 (Federal Aviation Administration)—two nearly identical administrative proceedings involving formal complaints filed in March and June 1995 are pending before the Secretary. These proceedings concern a transfer to the City's General Fund in the amount of approximately \$58 million (plus any accrued interest). The actions challenge the transfer of funds related to a condemnation award received from the State of California in connection with real estate acquired by the State for the Century Freeway Project. The complainants, the ATA and Aircraft Owners and Pilots Association, allege that the transfer is a violation of the Airport and Airways Improvement Act of 1982 (AAIA) governing the use of airport revenues and certain grant assurances executed pursuant to AAIA.

The complainants seek an order barring the City from expending the funds for non-airport uses, directing the City to repay to LAWA amounts already transferred, suspending LAX's eligibility for grant funds pending compliance with its grant assurances and imposing a civil penalty of \$50,000. The Federal Aviation Administration (the FAA) failed to act on the complainants' request for a preliminary ruling that the City be barred from using the funds while proceedings are pending. Answers to both complaints have been filed. In December 1995, the FAA denied respondents' motion to dismiss the complaints. There has been no decision by the FAA as to whether or not to institute an investigation on the complaints or to hold full hearings.

(b) Environmental Issues

Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the

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(10) Commitments and Contingencies (continued)

(b) Environmental Issues

environmental cleanup of any sites found to be contaminated. This evaluation has not been completed to date.

LAWA bears the financial responsibility for the cleanup of environmental contamination on property owned by it. However, LAWA believes that if the contamination originated based on contractual arrangements, the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. LAWA, as property owner, however, assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution.

As a result of the hazardous materials management plan noted above, LAWA has already begun cleanup on several sites, is in the process of implementing additional safeguards to prevent additional hazardous substance contamination and is completing the environmental evaluation of LAWA's facilities. However, the extent of the cleanup and/or the ability of the original tenants to reimburse LAWA for such cleanup cannot be determined at the present time. Therefore, it is reasonably possible that losses could be incurred; however, until such matters are resolved, the range of loss, if any, cannot be reasonably estimated.

(c) Other

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$6,751,000 and \$184,260,000 as of June 30, 2002 and 2001, respectively.

(d) Terrorist Activities

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the "September 11 Events"). As a result of the September 11 Events, there was a temporary suspension of air carrier operations in the United States, including operations at LAWA. Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues and parking revenue. For the fiscal year ended June 30, 2002 LAWA experienced a 16% reduction in passenger levels and a 20% reduction in air traffic movements.

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. Capital expenditures were reevaluated and many such expenditures were suspended except

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(10) Commitments and Contingencies (continued)

(d) Terrorist Activities (continued)

where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines were experiencing economic difficulties prior to the September 11 Events. This situation was worsened by the September 11 Events and most of the airlines have been downgraded by the rating agencies. Two smaller airlines which together accounted for less than 1% of LAX's Fiscal 2002 revenues have filed for bankruptcy protection and one of them has suspended its operations. In addition, UAL Corporation, the parent company of United Airlines, which accounted for approximately 19% of enplanements at LAX in Fiscal Year 2002 and approximately 17% of revenues, announced that it may file for bankruptcy protection during 2002.

As of June 30, 2002, the ratings of LAX's outstanding revenue bonds has not changed. LAWA is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAWA, (iii) the future financial condition of the airlines using LAWA's airports, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

(11) Capital Lease Agreements

LAX has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amount to \$184,423,000 at June 30, 2002 and 2001. Accumulated depreciation with respect to such property for the respective years was \$69,145,000 and \$66,004,000.

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(11) Capital Lease Agreements

Estimated future minimum lease payments under these agreements are as follows (dollars in thousands):

Fiscal year ending June 30:	
2003	\$ 8,509
2004	8,538
2005	8,566
2006	8,591
2007	8,671
2008-2012	44,310
2013-2017	54,335
2018-2022	49,252
2023-2026	29,933
Total minimum lease payments	220,705
Less portion consisting of interest	(96,151)
Present value of minimum lease payments	\$ 124,554

LAWA currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAWA by such airlines for terminal leases and landing fees.

(12) Passenger Facility Charges

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system, (2) reduce noise or mitigate noise impacts resulting from an airport or (3) furnish opportunities for enhanced competition between or among carriers.

In April 1993, the FAA approved LAWA's application to collect PFCs at LAX for specifically approved airport improvement projects. The collection authority was for \$360,000,000 for 5 years. Effective July 1, 1993, LAWA began collecting PFCs in the amount of \$3 per passenger. In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at Ontario. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000. In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at Ontario. Accordingly, PFC charges totaling \$126,090,000 imposed and collected at LAX, have been transferred for Ontario's project expenditures as of June 30, 2002. In November 1997 and April 1998, the FAA approved LAWA's application to impose PFCs at LAX and Ontario, respectively, for noise mitigation projects. LAWA began collecting PFCs in the amount of \$3 per passenger effective February 1, 1998 and July 1, 1998 at LAX and Ontario, respectively. Approved collections at LAX of \$150,000,000 are to be used for the soundproofing of City of Los Angeles residences and soundproofing of nearby residences.

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(12) Passenger Facility Charges (continued)

Approved collections of \$45,680,000 at Ontario are to be used for land acquisition and sound insulation of the City of Ontario residences. Of the Ontario-approved PFC, an estimated \$33,680,000 will be used to reimburse LAX for funds previously utilized to acquire land for Ontario.

In October 2, 1998, the FAA approved LAWA's application to amend PFCs at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000. The noise mitigation project was modified to decrease residential soundproofing in the City of Los Angeles and to increase the amount of land to be acquired for noise mitigation purposes.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement. Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (dollars in thousands):

	June 30	
	2002	2001
Amount collected	\$ 475,240	\$ 406,356
Interest earned	44,228	38,403
Cumulative PFC collections	\$ 519,468	\$ 444,759

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

COMPLIANCE SECTION



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The Members of the Board of Airport Commissioners
of the City of Los Angeles, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the accompanying financial statements of Los Angeles International Airport (LAX), a departmental component of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2002 and have issued our report thereon October 25, 2002, which included an explanatory paragraph on LAX's adoption of the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of LAX are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered LAX's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in

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the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Airport Commissioners, management of LAWA and federal or pass-through grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Inman, Jini & Company LLP

Certified Public Accountants

Los Angeles, California
October 25, 2002

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APPENDIX C

SUMMARIES OF THE MASTER SUBORDINATE TRUST INDENTURE AND THE FIRST SUPPLEMENTAL SUBORDINATE TRUST INDENTURE

DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Subordinate Indenture and the First Supplemental Subordinate Indenture.

“Accreted Value” means (a) with respect to any Capital Appreciation Subordinate Obligations, as of any date of calculation, the sum of the amount set forth in a Supplemental Subordinate Indenture as the amount representing the initial principal amount of such Capital Appreciation Subordinate Obligation plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Subordinate Obligations, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Subordinate Obligations plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Subordinate Indenture authorizing the issuance of such Capital Appreciation Subordinate Obligation or Original Issue Discount Subordinate Obligation.

“Adjustable Interest Rate” means any of the following types of interest rates: an Auction Rate, a Daily Interest Rate, a Weekly Interest Rate, a Bond Interest Term Rate and a Long-Term Interest Rate.

“Aggregate Annual Debt Service” means for any Fiscal Year the aggregate amount of Annual Debt Service on all Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations. For purposes of calculating 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 Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series or Subseries of Subordinate Obligations or Unissued Subordinate Program Obligations constitute Balloon Indebtedness, then, for purposes of determining 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 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; with respect to any Series or Subseries 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 or Subseries, Unissued Subordinate Program Obligations or Subordinate Program Obligations, or that portion of a Series or Subseries 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 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 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 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 Tender Indebtedness (but excluding Subordinate Program Obligations or Subordinate Obligations as to which a Qualified Swap is in effect and to which subsection (g) or (h) applies), then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness will be treated as if 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 or Subseries is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued; 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 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; and with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments 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 Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate on such Subordinate Obligations 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 variable 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;

(f) with respect to any Subordinate Program Obligations or Unissued Subordinate Program Obligations (other than a 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 Program are issued to be the expected duration of such Program or, if such expectations have changed, over a term certified by an Authorized Representative to the expected duration of such 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 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 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;

(g) debt service on Repayment Obligations, to the extent such obligations constitute Subordinate Obligations under the Master Subordinate Indenture, will be calculated as provided therein;

(h) (i) for purposes of computing the 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 Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Department fails to 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;

(ii) for purposes of computing the Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Obligations to which such Swap pertains will be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Obligations will, if the Department elects, 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 Swap Provider;

(i) with respect to any Commercial Paper Program which has been Implemented and not then terminated or with respect to any Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Authorized Amount of such Implemented Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such 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 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;

(j) if moneys or Permitted Investments have been irrevocably deposited with and are held by the Trustee or another fiduciary or 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, Permitted Investments, or Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Annual Debt Service;

(k) if Passenger Facility Charges, state and/or federal grants or other moneys have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such Passenger Facility Charges, state and/or federal grants or other moneys or from earnings thereon will be disregarded (unless such Passenger Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Aggregate Annual Debt Service; and

(l) for purposes of computing Aggregate Annual Debt Service on the Parity Subordinate Obligations, the preceding subsections of this definition will apply, except that the term "Subordinate Obligations" will be read to mean the Parity Subordinate Obligations and the term "Commercial Paper Program" will be read to mean the Parity Subordinate Obligations issued as commercial paper notes.

"Aggregate Required Deposits" means, for any month, the sum of the Required Deposits under all Supplemental Subordinate Indentures becoming due in such month.

"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, the Ontario International Airport, the Van Nuys Airport and 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.

"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.

"Alternate Letter of Credit" means an irrevocable letter of credit authorizing drawings thereunder by the Trustee issued by a bank, a trust company or other financial institution and meeting the requirements of the First Supplemental Subordinate Indenture, which Alternate Letter of Credit will be the same in all material respects (except as to expiration date) as the original Letter of Credit.

"Alternate Liquidity Facility" means any letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement by a Liquidity Facility Provider to provide liquidity support to pay the purchase price of such Subseries of Subordinate 2002 Bonds (other than ARS) tendered for purchase in accordance with the provisions of the First Supplemental Subordinate Indenture issued to replace a Liquidity Facility.

"Annual Debt Service" means, with respect to any Subordinate Obligation or Parity Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Qualified Swap is in effect for such Subordinate Obligation, plus the amount payable by the Department (or the Trustee) under the Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Qualified Swap Provider pursuant to the Qualified Swap, calculated using the principles and assumptions set forth in the definition of Aggregate Annual Debt Service.

"Applicable ARS Rate" means, with respect to any Subseries of Subordinate 2002 Bonds which are ARS, the rate per annum at which interest accrues on the Subordinate 2002 Bonds of such Subseries for any ARS Interest Rate Period.

"ARS" means, on any date, a Subseries of Subordinate 2002 Bonds which on such date bears interest at an Auction Rate as provided in the First Supplemental Subordinate Indenture.

“*ARS Interest Payment Date*” means, with respect to each Subseries of ARS, the Business Day immediately following each Auction Period for such Subseries of ARS.

“*ARS Interest Rate Period*” means the period commencing on and including an ARS Interest Payment Date and ending on but excluding the next succeeding ARS Interest Payment Date; provided, that the first ARS Interest Rate Period within each ARS Interest Rate Period will commence on and include the Conversion Date.

“*Auction Procedures*” means the Auction Procedures set forth in First Supplemental Subordinate Indenture.

“*Auction Rate*” means, with respect to the interest rate on a Subseries of ARS, the rate of interest per annum that results from implementation of the Auction Procedures, and determined as described in First Supplemental Subordinate Indenture.

“*Authorized Amount*” means, when used with respect to Subordinate Obligations, including Subordinate Program Obligations, the maximum 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 Program or Supplemental Subordinate Indenture. If the maximum 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 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 Program is established, the 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 “Authorized Amount.” Notwithstanding the provisions of this definition of “Authorized Amount,” in connection with the additional Subordinate Obligations test set forth in the Master Subordinate Indenture (See “—The Master Subordinate Trust Indenture—Test for Issuance of Subordinate Obligations” below) and the calculation of Maximum Annual Debt Service with respect to a Commercial Paper Program, “Authorized Amount” will mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.

“*Authorized Denominations*” means (a) with respect to the Subordinate 2002 Bonds which are subject to a Long-Term Interest Rate Period or a Fixed Interest Rate Period, \$5,000 or any integral multiple thereof; (b) with respect to the Subordinate 2002 Bonds which are ARS, \$25,000 or any integral multiple thereof; and (c) with respect to Subordinate 2002 Bonds which are not described in the preceding clause (a) or clause (b), \$100,000 and in integral multiples of \$5,000 in excess of \$100,000.

“*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, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Trustee.

“*Available Amount*” has the meaning provided in the Reimbursement Agreement.

“*Available Moneys*” means moneys continuously on deposit in trust with the Trustee, or on behalf of the Trustee, for the benefit of the Owners which are (a) proceeds of the Subordinate 2002 Bonds, (b) amounts paid and on deposit for a period of 124 consecutive days during which no petition in bankruptcy under the United States Bankruptcy Code has been filed by or against the Department or the City, as debtor, and no similar proceedings have been instituted under state insolvency or other laws affecting creditors’ rights generally, provided that such amounts will again be deemed Available Moneys if such petition or proceedings have been dismissed and the dismissal is no longer subject to appeal, (c) interest earnings on the proceeds of Subordinate 2002 Bonds, (d) moneys derived from the remarketing of the Subordinate 2002 Bonds, (e) moneys derived from a draw upon the Letter of Credit or a Liquidity Facility or (f) other moneys, but only if the Trustee and the Letter of Credit Bank or the Liquidity Facility Provider, if any, receive an unqualified opinion of counsel nationally recognized as an expert in bankruptcy and

acceptable to the Trustee and the Letter of Credit Bank or the Liquidity Facility Provider, if any, that payment of such amounts to Owners would not constitute a voidable preference under Section 547 of the United States Bankruptcy Code or similar state laws with voidable preference provisions in the event of the filing of a petition for relief under the United States Bankruptcy Code or similar state laws with voidable preference provisions by or against the Department or the City or any borrower or the person from whom the money is received, if other than a borrower. Available Moneys will not be commingled with other moneys held under the First Supplemental Subordinate Indenture, but rather will be segregated and held separately.

“*Balloon Indebtedness*” means, with respect to any Series or Subseries of Subordinate Obligations twenty-five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series or Subseries which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Subordinate Obligations of a Series or Subseries maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series or Subseries which matures during any Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Subordinate Obligations, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Commercial Paper Program and the Commercial Paper constituting part of such Program will not be Balloon Indebtedness.

“*Bank Bonds*” means, in the event a Letter of Credit is in effect, Subordinate 2002 Bonds registered in the name of the Letter of Credit Bank and securing obligations of the Department under the Reimbursement Agreement as provided in the First Supplemental Subordinate Indenture or, in the event a Liquidity Facility is in effect, Subordinate 2002 Bonds purchased by the Liquidity Facility Provider or its assignee pursuant to the Liquidity Facility.

“*Bank Rate*” means, at any date of determination, the rate of interest then borne by Bank Bonds and any other obligations owed by the Department to the Letter of Credit Bank or the Liquidity Facility Provider as determined in accordance with the Reimbursement Agreement or the Liquidity Facility, respectively.

“*Beneficial Owner*” means any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Subordinate 2002 Bond (including any Person holding a Subordinate 2002 Bond through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Subordinate 2002 Bond for federal income tax purposes.

“*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 Master Subordinate Indenture and which are acceptable to the Department.

“*Bond Interest Term*” means, with respect to any Subseries of Subordinate 2002 Bond (other than ARS), each period established in accordance with the First Supplemental Subordinate Indenture during which such Subseries of Subordinate 2002 Bond bears interest at a Bond Interest Term Rate.

“*Bond Interest Term Rate*” means, with respect to each Subordinate 2002 Bond (other than ARS), a term non-variable interest rate on such Subordinate 2002 Bond established periodically in accordance with the First Supplemental Subordinate Indenture.

“*Bond Register*” means the book or books of registration kept by the Registrar in which are maintained the names and addresses and principal amounts registered to each Registered Owner.

“*Business Day*” means any day other than (a) a Saturday, Sunday or other day on which commercial banks located in the States of New York and California are authorized or required by law or executive order to close or (b) a day on which the New York Stock Exchange is closed.

“*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.

“*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 Trustee in the 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.

“*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 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 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 Section 301 of the Charter which is under the control of the Treasurer.

“*Closing Date*” means December 19, 2002, the date of delivery of the Subordinate 2002 Bonds to the Subordinate 2002 Underwriters against payment therefor.

“*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 Program adopted by the Board.

“*Commercial Paper Program*” means a 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 Program.

“*Construction Fund*” means any of the Construction Funds authorized to be created as provided by the Master Subordinate Indenture.

“*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 Master Subordinate Indenture.

“*Conversion*” means a conversion of a Subseries of Subordinate 2002 Bonds from one Interest Rate Period to another Interest Rate Period as provided in the First Supplemental Subordinate Indenture.

“*Conversion Date*” means the effective date of a Conversion of a Subseries of Subordinate 2002 Bonds.

“*Corporate Trust Office*” means with respect to the Trustee its corporate trust office.

“*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: (a) 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; (b) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (c) 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 Department or Independent Consultant; (d) 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; (e) financing expenses, including costs related to issuance of and securing of Subordinate Obligations, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, a Debt Service Reserve Fund, if any, Trustee’s fees and expenses; (f) any Swap Termination Payments due in connection with a Series or Subseries of Subordinate Obligations or the failure to issue such Series or Subseries of Subordinate Obligations, and (g) 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 Issuance*” means all costs and expenses incurred by the Department in connection with the issuance of the Subordinate 2002 Bonds, including, but not limited to, costs and expenses of printing and copying documents, the official statement, the Subordinate 2002 Bonds, bond insurance premium, if any, underwriters’ compensation, and the fees, costs and expenses of Rating Agencies, the Trustee, counsel, accountants, financial advisors, feasibility consultants and other consultants.

“*Counsel*” means an attorney or a firm of attorneys admitted to practice law in the highest court of any state in the United States of America or in the District of Columbia.

“*Credit Facility*” means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Debt Service Reserve Fund Surety Policy or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on Subordinate Obligations whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

“*Credit Provider*” means the party obligated to make payment of principal of and interest on the Subordinate Obligations under a Credit Facility.

“*Daily Interest Rate Period*” means each period during which a Daily Interest Rate is in effect for a Subseries of Subordinate 2002 Bonds.

“*Debt Service Fund*” or “*Debt Service Funds*” means a Debt Service Fund or any of the Debt Service Funds required to be created as provided by the Master Subordinate Indenture.

“*Debt Service Reserve Fund*” means any Debt Service Reserve Fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of any Series or Subseries of Subordinate Obligations and that is required to be funded for the purpose of providing additional security for such Series or Subseries of Subordinate Obligations and under certain circumstances to provide additional security for such other

designated Series or Subseries of Subordinate Obligations issued pursuant to the terms of the Master Subordinate Indenture and as specified in any Supplemental Subordinate Indenture.

“Debt Service Reserve Fund Surety Policy” means an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more Series or Subseries of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

“Department” means the Department of Airports of The City of Los Angeles, or any successor thereto performing the activities and functions under the Charter.

“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 Subseries or multiple Series or Subseries of Subordinate Obligations.

“DTC” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

“Eligible Bonds” means any Outstanding Subseries of Subordinate 2002 Bonds, excluding any Subseries of Subordinate 2002 Bonds owned by or on behalf of the Department or the City, Bank Bonds or any Subseries of Subordinate 2002 Bonds bearing interest at an Adjustable Interest Rate (other than at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate (except a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or longer, or a Long Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the applicable Maturity Date of the respective Subseries of Subordinate 2002 Bonds) or a Bond Interest Term Rate), or a Fixed Interest Rate, except as may be otherwise provided in the Reimbursement Agreement or a Liquidity Facility, as the case may be.

“Estimated Completion Date” means the estimated date upon which a specified Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a specified Project is expected to have been acquired and payment therefor made, in each case, as that date will be set forth in a certificate of an Authorized Representative delivered to the Trustee at or prior to the time of issuance of the Subordinate Obligations which are issued to finance such specified Project.

“Executive Director” means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Trustee by the Department.

“Event of Default” means any occurrence or event specified in the Master Subordinate Indenture.

“Facilities Construction Credit” means the amounts further described in the Master Subordinate Indenture resulting from an arrangement embodied in a written agreement between 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.

“Favorable Opinion of Bond Counsel” means, with respect to any action relating to a Subseries of Subordinate 2002 Bonds, the occurrence of which requires such an opinion, an unqualified written legal opinion of Bond Counsel to the effect that such action is permitted under the First Supplemental Subordinate Indenture and the Master Subordinate Indenture and will not impair the exclusion of interest on the Subordinate 2002 Bonds of such Subseries from gross income for purposes of federal income taxation (subject to the inclusion of any exception contained in the opinion delivered upon the original issuance of such Subseries of Subordinate 2002 Bonds,

including, but not limited to, interest payable to a Bondholder who is a “substantial user” or “related party” within the meaning of Section 147(a) of the Code).

“*First Supplemental Subordinate Indenture*” means the First Supplemental Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Trustee and which sets forth the terms of the Subordinate 2002 Bonds.

“*Fiscal Year*” means the period of time beginning on July 1 of each given year and ending on June 30 of such given year, or such other similar period as the Board 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).

“*Fixed Interest Rate*” means an annual rate of interest payable with respect to a Subseries of Subordinate 2002 Bonds from and after the Fixed Interest Rate Date upon conversion to a Fixed Interest Rate, established by the applicable Remarketing Agent pursuant to the First Supplemental Subordinate Indenture.

“*Fixed Interest Rate Date*” means with respect to a Subseries of Subordinate 2002 Bonds the date on which the annual rate of interest with respect to such Subseries of Subordinate 2002 Bonds becomes fixed and determined for the remainder of the term of the respective Subseries of Subordinate 2002 Bonds, pursuant to the First Supplemental Subordinate Indenture.

“*Fixed Interest Rate Period*” means each period during which a Subseries of Subordinate 2002 Bonds bear interest at a Fixed Interest Rate.

“*Government Obligations*” means (a) United States Obligations (including obligations issued or held in book-entry form); (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, 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.

“*Holder*,” “*holder*,” “*Owner*” or “*Registered Owner*” means the person in whose name any Subordinate Obligation or Subordinate Obligations are registered on the books maintained by the Registrar and will include any Credit Provider or Liquidity Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Subordinate Obligation under the provisions of the Master Subordinate Indenture.

“*Implemented*” means, when used with respect to a Program, a Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Program, the items described in the Master Subordinate Indenture have been filed with the Trustee.

“*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.

“Initial Subordinate Obligations” means those Subordinate Obligations issued in an aggregate Principal Amount for all Series and Subseries not exceeding \$140,000,000.

“Interest Accrual Date” with respect to a Subseries of Subordinate 2002 Bonds other than ARS means:

(a) for any Daily Interest Rate Period or Weekly Interest Rate Period, the first day thereof and, thereafter, the first Business Day of each calendar month during that Daily Interest Rate Period or Weekly Interest Rate Period;

(b) for any Long-Term Interest Rate Period or Fixed Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date; and

(c) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

“Interest Payment Date” means:

(a) with respect to each Subseries of Subordinate 2002 Bonds other than ARS;

(i) for any Daily Interest Rate Period or Weekly Interest Rate Period, the first Business Day of each calendar month;

(ii) the first May 15 or November 15 next succeeding the Conversion Date to a Long-Term Interest Rate or a Fixed Interest Rate and each May 15 and November 15 thereafter, or if any May 15 or November 15 is not a Business Day, the next succeeding Business Day;

(iii) for any Short-Term Interest Rate Period, the Business Day next succeeding the last day of each Bond Interest Term within each Short-Term Interest Rate Period; and

(iv) for Bank Bonds and any other obligations owed by the Department to the Letter of Credit Bank or Liquidity Provider, as the case may be, whereby such obligations bear interest, the days on which interest is due pursuant to the Reimbursement Agreement, the Liquidity Facility or any agreement providing therefor;

(b) with respect to each Subseries of Subordinate 2002 Bonds which are ARS, each ARS Interest Payment Date;

(c) for each Interest Rate Period, the day next succeeding the last day of such Interest Rate Period; and

(d) the Subseries 2002C1 Maturity Date and the Subseries 2002C2 Maturity Date.

“Interest Rate Period” means each Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period, Long-Term Interest Rate Period, ARS Interest Rate Period or Fixed Interest Rate Period.

“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 Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the 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 (b)(i) and (ii) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market

value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

“*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. 173232 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 Senior Lien Trust Indenture and Section 23.10(a) of the Los Angeles Administrative Code and held by the Treasurer within the Airport Revenue Fund.

“*LAX Revenues*” means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Board 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, (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Board for the use or availability of property or facilities at Los Angeles International Airport, (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Board 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 Board 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 Board 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 Senior Lien Trust Indenture. “LAX Revenues” include all income, receipts and earnings from the investment of amounts held in the LAX Revenue Account, any Construction Fund allowed to be pledged by the terms of a supplemental indenture, a reserve fund, and allocated earnings on the Maintenance and Operation Reserve Fund.

“*LAX Special Facilities Revenue*” means the contractual payments and all other revenues derived by or available to the Board from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

“*LAX Special Facilities*” or “*LAX Special Facility*” means, with respect to Los Angeles International Airport, a facility or group of facilities or category of facilities which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Senior Lien Trust Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

“*LAX Special Facility Obligations*” means bonds or other debt instruments issued pursuant to an indenture other than the Senior Lien Trust Indenture to finance LAX Special Facilities and which are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

“*Letter of Credit*” means (a) the irrevocable letter of credit to be issued by the Letter of Credit Bank and delivered to the Trustee on the same date as the initial delivery of the Subordinate 2002 Bonds and being an

irrevocable obligation to make payments to the Trustee of up to the amount therein specified with respect to (i) the principal amount of the Subordinate 2002 Bonds Outstanding as applicable to enable the Trustee to pay (A) the principal amount of the Subordinate 2002 Bonds when due at maturity or upon redemption, and (B) an amount equal to the principal portion of the purchase price of any Subordinate 2002 Bonds tendered for purchase by the Registered Owners thereof, plus (ii) the amount of interest due on the Subordinate 2002 Bonds but not to exceed 34 days' accrued interest at the Maximum Bond Interest Rate or such other number of days' accrued interest at the Maximum Bond Interest Rate as needed to enable the Trustee to pay (A) interest on the Subordinate 2002 Bonds when due and (B) an amount equal to the interest portion, if any, of the purchase price of any Subordinate 2002 Bonds tendered for purchase by the Registered Owner thereof; as the same may be transferred, reissued, extended, amended to change the interest coverage period as contemplated in the First Supplemental Subordinate Indenture, or replaced in accordance with the First Supplemental Subordinate Indenture and the Letter of Credit and (b) upon the issuance and effectiveness thereof, any Alternate Letter of Credit.

"Letter of Credit Bank" means initially and collectively, Bayerische Landesbank, acting through its New York Branch, individually and as Agent, JPMorgan Chase Bank and Landesbank Baden-Württemberg, acting through its New York Branch, which are issuing the initial Letter of Credit, and/or any other entity or entities that is the issuer of a Letter of Credit then outstanding and effective hereunder. Upon issuance and effectiveness of any Alternate Letter of Credit, *"Letter of Credit Bank"* means the issuer thereof and its successors and assigns.

"Liquidity Facility" means any letter of credit, standby bond purchase agreement, line of credit, loan, guaranty or similar agreement by a Liquidity Facility Provider to provide liquidity support to pay the purchase price of Subordinate 2002 Bonds (other than ARS or Subordinate 2002 Bonds bearing interest at a Fixed Interest Rate) tendered for purchase in accordance with the provisions of the First Supplemental Subordinate Indenture and any Alternate Liquidity Facility delivered pursuant to the First Supplemental Subordinate Indenture and with terms that are not inconsistent with the terms of the First Supplemental Subordinate Indenture. When used herein at a time when more than one Liquidity Facility is in effect under the First Supplemental Subordinate Indenture, the term *"Liquidity Facility"* will mean, as the context dictates, either all such Liquidity Facilities, collectively, or only the Liquidity Facility securing the applicable Subseries of Subordinate 2002 Bonds.

"Liquidity Facility Provider" means any provider of a Liquidity Facility, and its successors and permitted assigns, and, upon the effective date of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions or other Person or Persons issuing such Alternate Liquidity Facility, their successors and assigns. When used herein at a time when more than one Liquidity Facility is in effect under the First Supplemental Subordinate Indenture, the term *"Liquidity Facility Provider"* will mean, as the context dictates, either the Liquidity Facility Provider with respect to all such Liquidity Facilities, collectively, or only the Liquidity Facility Provider for the Liquidity Facility securing the applicable Subseries of Subordinate 2002 Bonds.

"Long-Term Interest Rate" means a term, non-variable interest rate established in accordance with the First Supplemental Subordinate Indenture.

"Long-Term Interest Rate Period" means each period during which a Long-Term Interest Rate is in effect.

"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 Board at such location or in which the Board has other rights or from which the Board 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 pursuant to the terms of the Senior Lien Trust Indenture.

“Mandatory Purchase Date” means any date upon which any Subseries of Subordinate 2002 Bonds have been called for mandatory tender for purchase in accordance with the First Supplemental Subordinate Indenture.

“Master Subordinate Indenture” means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Trustee, together with all Supplemental Subordinate Indentures.

“Maximum Aggregate Annual Debt Service” means the maximum amount of Aggregate Annual Debt Service with respect to all Subordinate Obligations, Unissued Subordinate Program Obligations, the Authorized Amount of all Subordinate Obligations then proposed to be issued and Parity Subordinate Obligations in the then current or any future Fiscal Year.

“Maximum Bank Bond Interest Rate” means the lesser of (a) the maximum non-usurious lawful rate of interest permitted by applicable law and (b) 20% per annum.

“Maximum Bond Interest Rate” means the lesser of (a) the rate of 12% per annum calculated in the same manner as interest is calculated for the particular interest rate on the applicable Subseries of Subordinate 2002 Bonds and (b) the Maximum Lawful Rate.

“Maximum Lawful Rate” means the maximum rate of interest on the relevant obligation permitted by applicable law.

“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 Board 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 Trustee) incurred in the collection of such proceeds or award.

“Net Subordinate Pledged Revenues” means for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Aggregate Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture) on the Outstanding (as such term is defined in the Senior Lien Trust Indenture) Senior Lien Revenue Bonds, less, for such period, deposits to any reserve fund or account required pursuant to the Senior Lien Trust Indenture.

“Non-Qualified Swap” means any Swap which is not a Qualified Swap.

“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 Commercial Paper Program.

“Notice Parties” means the Department, the Trustee, each Remarketing Agent, if any, the Letter of Credit Bank, if any, the Liquidity Facility Provider, if any, each auction agent, if any, each market agent, if any, and each broker-dealer, if any.

“*Ordinance No. 173232*” means the City of Los Angeles Ordinance No. 173232 which became effective on June 19, 2000.

“*Original Issue Discount Subordinate Obligations*” means Subordinate Obligations which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Subordinate Obligations by the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued.

“*Outstanding*” when used with respect to Subordinate Obligations means all Subordinate Obligations which have been authenticated and delivered under the Master Subordinate Indenture, except:

(a) Subordinate Obligations cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the 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 provisions of the Subordinate Indenture;

(c) Subordinate Obligations in lieu of which other Subordinate Obligations have been authenticated under 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 Trustee or a 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) Repayment Obligations deemed to be Subordinate Obligations under the Master Subordinate Indenture to the extent such Repayment Obligation 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.

“*Parity Subordinate Indenture*” means the Subordinate Trust Indenture, dated as of April 1, 2002, by and between the Department and U.S. Bank Trust National Association, as issuing and paying agent.

“*Parity Subordinate Obligations*” means the commercial paper notes issued on parity with the Subordinate Obligations from time to time under the terms of the Parity Subordinate Indenture.

“*Participant*” means those broker-dealers, banks and other financial institutions for which the Securities Depository holds certificates as securities depository.

“*Passenger Facility Charges*” 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, as amended from time to time, in respect of any component of the Airport System 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.

“*Paying Agent*” or “*Paying Agents*” means, with respect to the Subordinate Obligations or any Series or Subseries 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. The Trustee will act as the Paying Agent with respect to the Subordinate 2002 Bonds.

“*Payment Date*” means, with respect to any Subordinate Obligations, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“*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 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 Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee; (C) subject to a perfected first lien in favor of the 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 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 Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee; (C) subject to a perfected first lien in favor of the 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 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) Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Trustee to invest; provided that there is delivered to the 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 rating then assigned by such rating agency to any of the Subordinate Obligations.

“*Person*” means a corporation, association, partnership, limited liability company, joint venture, trust, organization, business, individual or government or any governmental agency or political subdivision thereof.

“*Pledged Revenues*” means, except to the extent specifically excluded in the Senior Lien Trust Indenture or under the terms of any supplemental indenture, LAX Revenues. “Pledged Revenues” also includes such additional revenues, if any, as are designated as “Pledged Revenues” under the terms of any supplemental indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “LAX Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Lien Revenue Bonds or the Subordinate Obligations, (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 Lien Revenue Bonds or the Subordinate Obligations, and (iv) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “Pledged Revenues”, unless designated as “Pledged Revenues” under the terms of a supplemental indenture: (a) any Swap Termination Payments paid to the Board pursuant to a Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any supplemental indenture (provided that only Passenger Facility Charges in respect of LAX may be so pledged), and (d) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport. Further, interest earnings or other investment earnings on any Construction Fund established by any supplemental indenture are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such supplemental indenture.

“*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.

“Principal Amount” or *“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.

“Program” means a financing program identified in a Supplemental Subordinate Indenture, including but not limited to a Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items described in the Master Subordinate Indenture have been filed with the Trustee, (b) wherein the Board has authorized the issuance, from time to time, of notes, bonds, commercial paper or other indebtedness in an Authorized Amount, and (c) the 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 Authorized Amount.

“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 or Subseries of Subordinate Obligations.

“Qualified Swap” means any Swap (a) whose Designated Debt is all or part of a particular Series or Subseries of Subordinate Obligations; (b) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; (d) which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Subordinate Obligations; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Obligations, and Moody’s, if Moody’s has an outstanding rating on the Subordinate Obligations.

“Qualified Swap Provider” means a financial institution whose senior long-term debt obligations, or whose obligations under any Qualified Swap are (a) 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) fully secured by obligations described in items (b)(i) or (ii) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

“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 Subordinate Obligations and such Rating Agencies are then maintaining a rating on any of the Subordinate Obligations.

“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.

“Rating Confirmation” means written confirmation from each Rating Agency that the proposed action or event will not in and of itself result in a reduction or withdrawal in such Rating Agency’s current rating on the applicable Subseries of Subordinate 2002 Bonds.

“*Rebate Fund*” means any fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of the Subordinate Obligations or any Series or Subseries of Subordinate Obligations for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means (a) with respect to the Subordinate 2002 Bonds other than ARS, (i) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date; and (ii) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period or Fixed Interest Rate Interest Period, the fifteenth day immediately preceding that Interest Payment Date or, in the event that an Interest Payment Date will occur less than 15 days after the first day of a Long-Term Interest Rate Period or Fixed Interest Rate Period, that first day; and (b) with respect to any Subordinate 2002 Bonds which are ARS, the second Business Day next preceding each ARS Interest Payment Date.

“*Redemption Date*” means the date fixed for an optional redemption prior to maturity of a Subseries of Subordinate 2002 Bonds.

“*Redemption Price*” means, with respect to any Subordinate 2002 Bond or portion thereof, a price equal to the principal amount of a Subordinate 2002 Bond, or portion thereof, plus the interest accrued to the applicable Redemption Date, plus premium, if applicable.

“*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 or Subseries of Outstanding Subordinate Obligations, any Parity Subordinate Obligations or any Senior Lien Revenue Bonds.

“*Registrar*” means, with respect to the Subordinate Obligations or any Series or Subseries 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 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 Trustee will act as the Registrar with respect to the Subordinate 2002 Bonds.

“*Registered Owner*” means a Person in whose name a Subordinate 2002 Bond is registered in the Bond Register.

“*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.

“*Reimbursement Agreement*” means the Reimbursement Agreement, dated as of December 1, 2002, among the Letter of Credit Bank and the Department, as amended and supplemented from time to time. Upon the issuance of any Alternate Letter of Credit, “*Reimbursement Agreement*” will refer to the Reimbursement Agreement executed in connection with such Alternate Letter of Credit.

“*Remarketing Agent*” means, when used herein at a time when more than one Remarketing Agent has been appointed pursuant to the First Supplemental Subordinate Indenture, as the context dictates, either all of the Subseries 2002C1 Remarketing Agent and the Subseries 2002C2 Remarketing Agent, collectively, or only the individual Remarketing Agent appointed with respect to a specific Subseries of Subordinate 2002 Bonds.

“*Repayment Obligations*” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Subordinate Obligations and all other amounts due and owing to a Credit Provider under a Credit Facility, or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Subordinate Obligations and all other amounts due and owing to a Liquidity Provider under a Liquidity Facility.

“*Required Deposits*” means, with respect to any Series or Subseries 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 Trustee will determine the Aggregate Required Deposits from the Required Deposits described under each Supplemental Subordinate Indenture.

“*Reserve Requirement*” means such amount as is otherwise provided for in a Supplemental Subordinate Indenture.

“*Resolution*” means, collectively, Resolution No. 21875 adopted by the Board on October 15, 2002 and approved by the City Council on October 29, 2002 and Resolution No. 21907 adopted by the Board on November 13, 2002, as amended or supplemented.

“*Responsible Officer*” means an officer or assistant officer of the Trustee assigned by the Trustee to administer the Master Subordinate Indenture.

“*Securities Act*” means the federal Securities Act of 1933, as amended, and any successor thereto.

“*Securities Depository*” means DTC or any successor securities depository appointed by the Department pursuant to the First Supplemental Subordinate Indenture.

“*Securities Exchange Act*” means the federal Securities Exchange Act of 1934, as amended, and any successor thereto.

“*Senior Lien Trust Indenture*” means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department, acting through the Board, and the Senior Lien Trustee, together with all amendments and supplements thereto.

“*Senior Lien Trustee*” means the entity from time to time serving in such capacity under the Senior Lien Trust Indenture and which, at the time of execution of the Master Subordinate Indenture, is BNY Western Trust Company.

“*Senior Lien Revenue Bonds*” means all “Bonds” issued pursuant to the terms of the Senior Lien Trust Indenture.

“*Serial Subordinate Obligations*” means Subordinate Obligations for which no sinking installment payments are provided.

“*Series*” means Subordinate Obligations designated as a separate Series by a Supplemental Subordinate Indenture and, with respect to Subordinate Program Obligations or a Commercial Paper Program, means the full 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 2002 Remarketing Reimbursement Fund*” means the Fund of such designation as established and maintained pursuant to the First Supplemental Subordinate Indenture.

“*Short-Term Interest Rate Period*” means each period, consisting of Bond Interest Terms, during which a Subseries of Subordinate 2002 Bonds bears interest at one or more Bond Interest Term Rates.

“*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.

“*Specified LAX Project*” means a Project at LAX or a group of alternative Projects which are described in a certificate of an Authorized Representative delivered to the Consultant preparing the certificate described in the Master Subordinate Indenture, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate therein.

“*State*” means the State of California.

“*Subordinated 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 Lien Revenue Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Senior Lien Revenue Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the reserve fund established pursuant to the Senior Lien Trust Indenture. “Subordinated Obligations” are not Senior Lien Revenue Bonds for purposes of the Senior Lien Trust Indenture; provided, however, that the Board may henceforth by supplemental indenture elect to have the provisions of the Senior Lien Trust Indenture applicable to the Senior Lien Revenue 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 Lien Revenue Bonds from the Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a “Subordinated Obligation” for purposes of the Senior Lien Trust Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Board as a “Subordinated Obligation” in a supplemental indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap (entered into with respect to Senior Lien Revenue Bonds) is in effect or proposes to be in effect, the term “Subordinated Obligation” includes, collectively, both such Subordinated Obligation and either such Swap (entered into with respect to Senior Lien Revenue Bonds) or the obligations of the Board under each such Swap (entered into with respect to Senior Lien Revenue Bonds), as the context requires. The term “Subordinated Obligations” also includes a Swap (entered into with respect to Senior Lien Revenue Bonds) or the obligations of the Board under such Swap (entered into with respect to Senior Lien Revenue Bonds) 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 (entered into with respect to Senior Lien Revenue Bonds) was entered into remain outstanding. In connection with any Senior Lien Revenue Bonds with respect to which a Qualified Swap (entered into with respect to Senior Lien Revenue Bonds) is in effect or proposed to be in effect, the term “Subordinated Obligation” includes any Swap Termination Payment (entered into with respect to Senior Lien Revenue Bonds).

“*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 Repayment Obligations to the extent provided in the Master Subordinate Indenture. The terms “Subordinate Obligation” and “Subordinate Obligations” include Subordinate Program Obligations.

“*Subordinate Pledged Revenues*” means Pledged Revenues available to pay debt service on the Subordinate Obligations after the payment of debt service on the Senior Lien Revenue Bonds and the funding of any reserve requirements in connection with the Senior Lien Revenue Bonds.

“*Subordinate Program Obligations*” means Subordinate Obligations issued and Outstanding pursuant to a Program, other than Unissued Subordinate Program Obligations.

“*Subordinate 2002 Bonds*” means, collectively, the Subseries 2002C1 Bonds and the Subseries 2002C2 Bonds.

“*Subordinate 2002 Underwriters*” means, collectively, the Subseries 2002C1 Underwriter and the Subseries 2002C2 Underwriter.

“*Subseries*” means Subordinate Obligations designated as a separate Subseries by a Supplemental Subordinate Indenture in connection with a particular Series of Subordinate Obligations.

“*Subseries of ARS*” means, on any date, each Subseries of Subordinate 2002 Bonds which on such date are ARS.

“*Subseries 2002C1 Bonds*” means the Department’s Los Angeles International Airport Subordinate Revenue Bonds 2002 Subseries C1, issued in the original aggregate principal amount of \$37,400,000.

“*Subseries 2002C1 Maturity Date*” means May 15, 2020.

“*Subseries 2002C1 Remarketing Agent*” means initially UBS PaineWebber Inc., or any successor appointed pursuant to the First Supplemental Subordinate Indenture.

“*Subseries 2002C1 Remarketing Agreement*” means, initially, the Remarketing Agreement, dated as of December 1, 2002, between the Department and the Subseries 2002C1 Remarketing Agent, relating to the Subseries 2002C1 Bonds, as it may be amended, supplemented or otherwise modified from time to time, and, subsequently, any similar agreement between the Department and any successor Subseries 2002C1 Remarketing Agent, as any such agreement may be amended, supplemented or otherwise modified from time to time.

“*Subseries 2002C1 Remarketing Reimbursement Account*” means the Account in the Series 2002 Remarketing Reimbursement Fund of such designation created in the First Supplemental Subordinate Indenture.

“*Subseries 2002C1 Underwriter*” means UBS PaineWebber Inc., or any successor thereto.

“*Subseries 2002C2 Bonds*” means the Department’s Los Angeles International Airport Subordinate Revenue Bonds 2002 Subseries C2, issued in the original aggregate principal amount of \$20,000,000.

“*Subseries 2002C2 Maturity Date*” means May 15, 2020.

“*Subseries 2002C2 Remarketing Agent*” means initially E. J. De La Rosa & Co., Inc., or any successor appointed pursuant to the First Supplemental Subordinate Indenture.

“*Subseries 2002C2 Remarketing Agreement*” means, initially, the Remarketing Agreement, dated as of December 1, 2002, between the Department and the Subseries 2002C2 Remarketing Agent, relating to the Subseries 2002C2 Bonds, as it may be amended, supplemented or otherwise modified from time to time, and, subsequently, any similar agreement between the Department and any successor Subseries 2002C2 Remarketing Agent, as any such agreement may be amended, supplemented or otherwise modified from time to time.

“*Subseries 2002C2 Remarketing Reimbursement Account*” means the Account in the Series 2002 Remarketing Reimbursement Fund of such designation created in the First Supplemental Subordinate Indenture.

“*Subseries 2002C2 Underwriter*” means E. J. De La Rosa & Co., Inc., or any successor thereto.

“*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 Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid before it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid after it is deemed to have accrued will reflect the time value of such funds; (c) payment dates

and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement.

“*Swap Provider*” means a party to a Swap with the Department.

“*Swap Termination Payment*” means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the 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 Qualified Swap.

“*Synthetic Fixed Rate Debt*” means indebtedness issued by the Department which: (a) is combined, as Designated Debt, with a Qualified Swap and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

“*Tax Compliance Certificate*” means the certificate of the Department prepared by Bond Counsel and delivered by the Department at the time of issuance and delivery of any Series or Subseries of Subordinate Obligations, the interest on which is excluded from gross income for federal income tax purposes pursuant to a favorable opinion of such Bond Counsel, making certifications and representations of the Department as to the status of such Subordinate Obligations under the Code.

“*Tender Indebtedness*” means any Subordinate Obligations or portions of Subordinate Obligations a feature of which is an option 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 Trustee, the 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.

“*Term Subordinate Obligations*” means Subordinate Obligations of a Series or Subseries which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Subordinate Indenture for such Series or Subseries for that purpose and calculated to retire the Subordinate Obligations on or before their specified maturity dates.

“*Transfer*” means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH of the flow of funds set forth in the Senior Lien Trust Indenture have been made as of the last day of the immediately preceding Fiscal Year) (See “SECURITY AND SOURCES OF PAYMENT FOR THE SUBORDINATE 2002 BONDS—Flow of Funds.”)

“*Treasurer*” means the Treasurer of the City as set forth in the Charter.

“*Trustee*” means U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor.

“*Undelivered Bond*” means any Subordinate 2002 Bond which constitutes an Undelivered Bond under the provisions of the First Supplemental Subordinate Indenture.

“*Unenhanced Commercial Paper Program*” is a Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

“*Unissued Subordinate Program Obligations*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from Subordinate Pledged Revenues, issuable in an amount up to the Authorized Amount relating to such Program, which have been approved for issuance by the Board pursuant to a resolution adopted by the Board and with respect to which Program the items described in the Master Subordinate

Indenture have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the 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: (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) 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 (c) the underlying United States Obligations are held in a special account separate from the custodian’s general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. “United States Obligations” will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

“*Variable Rate Indebtedness*” means any Subordinate Obligation or Subordinate Obligations the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

“*Weekly Interest Rate*” means a variable interest rate for a Subseries of Subordinate 2002 Bonds established in accordance with the First Supplemental Subordinate Indenture.

“*Weekly Interest Rate Period*” means each period during which a Weekly Interest Rate is in effect for a Subseries of Subordinate 2002 Bonds.

THE MASTER SUBORDINATE INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SUBORDINATE 2002 BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SUBORDINATE 2000 BONDS” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE” in 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.

Granting 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 Trustee and granted to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that, except with respect to the Parity Subordinate Obligations (which are on parity with the Subordinate Obligations) 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 Rebate Fund) held from time to time by the Trustee under the Master Subordinate Indenture, and to the extent provided in any Supplemental Subordinate Indenture moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) above, and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security 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 the Master Subordinate Indenture, be of equal rank without preference, priority or distinction as to any Parity Subordinate Obligation or any Subordinate Obligation over any other Subordinate Obligation or Subordinate Obligations, except as to the timing of payment of the Parity Subordinate Obligations and the Subordinate Obligations. Any Debt Service Reserve Fund and any Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Subordinate Obligations, a specific Series or Subseries of Subordinate Obligations or one or more Series or Subseries of Subordinate Obligations may, as provided by a Supplemental Subordinate Indenture, secure only such specific Subordinate Obligations, Series or Subseries of Subordinate Obligations or one or more Series or Subseries 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 therein 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 terms of 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 Lien Trust Indenture will not be included as security for any Subordinate Obligations under the Master Subordinate Indenture.

Additional Subordinate Obligations

In addition to the requirements of the Parity Subordinate Indenture and subject to the provisions under subsections (a), (b) or (c) of the last paragraph of this section and excepting the Initial Subordinate Obligations, as a condition to the issuance of any Series or Subseries of Subordinate Obligations, there will first be delivered to the Trustee either:

(a) a certificate prepared by an Authorized Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series or Subseries of Subordinate Obligations or preceding the first issuance of the proposed Subordinate Program Obligations were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, Parity Subordinate Obligations and the proposed Series or Subseries of Subordinate Obligations calculated as if the proposed Series or Subseries of Subordinate Obligations and the full 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 Net Subordinate Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the most recent 24 consecutive months immediately preceding the date of issuance of the proposed Series or Subseries of Subordinate Obligations or the establishment of a Program were at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations and Parity Subordinate Obligations;

(ii) for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with the Master Subordinate Indenture; and

(iii) the estimated Net Subordinate Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 110% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, Parity Subordinate Obligations and calculated as if the

proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding.

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

For purposes of subsections (b)(ii) and (iii) above, in estimating Net 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 will use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the 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 Net Subordinate Pledged Revenues and will also set forth the calculations of Maximum Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants 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 subsections (a) or (b) will be required:

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

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

(c) 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 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 and (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 Subordinate Obligations previously issued for such purpose).

Repayment Obligations Afforded Status of Subordinate Obligations

If a Credit Provider or Liquidity Provider makes payment of principal 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 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 provisions of the Master Subordinate Indenture; provided, however, (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 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 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 Repayment Obligation. Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Obligation will be a subordinated obligation of the Department payable after its obligations to fund the Senior Lien Revenue Bonds, the obligations issued pursuant to the Parity Subordinate Indenture and the Subordinate Obligations. 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 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 Repayment Obligation is to be afforded the status of a Subordinate Obligation under the Master Subordinate Indenture.

Revenues and Funds

Creation and Funding of Debt Service Funds. The Department will, at the time of issuance of each Series or Subseries of Subordinate Obligations create a Debt Service Fund for such Series or Subseries, which Debt Service Fund will be designated "Los Angeles International Airport Subordinate Revenue [Obligations/Bonds/Commercial Paper Notes], Debt Service Fund, [Series/Subseries] _____" (each, respectively, a "Debt Service Fund") which Debt Service Fund and all Subaccounts will be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series or Subseries, as received by the Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created in the various Debt Service Funds and will be held by the Trustee or such agents as will be provided by Supplemental Subordinate Indenture. In addition, to provide for the redemption of any Subordinate Obligations which are subject to optional or mandatory redemption, including mandatory sinking fund redemption, the Department may establish within each Debt Service Fund an account designated the "Redemption Account."

So long as any of the Subordinate Obligations are Outstanding, the Authorized Representative will deliver to the Treasurer, as to each Series or Subseries and Subseries of Subordinate Obligations Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Trustee for deposit in the Debt Service Funds established in respect of each Series or Subseries of Outstanding Subordinate Obligations: (a) sums in equal fractional parts for each one-half year so that at least the full amount required to pay the interest on Subordinate Obligations of that Series or Subseries, as it becomes due, will be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due; (b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Subordinate Obligations of that Series or Subseries, will be set aside in that Debt Service

Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due; and (c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Subordinate Obligations of such Series or Subseries will be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any Series or Subseries of Subordinate Obligations prior to the actual delivery of that Series or Subseries of Subordinate Obligations to the purchasers thereof; provided, however, that subsequent to the issuance of such Series or Subseries of Subordinate Obligations, there will be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series or Subseries of Subordinate Obligations, sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of the Subordinate Obligations with the first interest payment fully funded by the first Business Day prior to the date the first installment of interest is due, and commencing on the first day of the calendar month which is at least 12 months prior to the first Payment Date on which any maturing principal amount of Subordinate Obligations of such Series or Subseries or any sinking fund installment of Subordinate Obligations is due, sums at least sufficient, together with the other transfers required to be made not later than the first date of each calendar month thereafter, to provide in said Debt Service Fund at least one month prior to the first installment of interest the full amount of such installment and at least one month prior to the first maturity the full amount of the principal amount then due. On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Obligations, the 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 Debt Service Funds for the Series or Subseries of Subordinate Obligations for which such payments were made. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Debt Service Fund for any Series or Subseries 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 or Subseries of Subordinate Obligations Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the Redemption Account allocable to sinking fund installment payments of a Series or Subseries may, at the discretion of the Department, be applied to the purchase and cancellation of such Series or Subseries (a price not greater than par) prior to notice of redemption of such Series or Subseries. Such Subordinate Obligations so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Obligations of such Series or Subseries 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 Trustee in writing.

Money set aside and placed in a Debt Service Fund for any Series or Subseries 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 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 Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Obligations of the Series or Subseries for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Event of Default, such earnings will remain in the Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Debt Service Fund established to pay principal of and interest on any Series or Subseries of Subordinate Obligations will be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series or Subseries, as received by the Trustee or its agent, will be deposited therein

and used for such purpose. Accounts and subaccounts will be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Board Representative and will be held by the Trustee or such agents as will be provided by the Supplemental Subordinate Indenture.

The moneys in each Debt Service Fund established for any issue or Series or Subseries 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 herewith and with the provisions of such Supplemental Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Obligations of such Series or Subseries.

On or before each Interest Payment Date for any Outstanding Subordinate Obligations, the Department will deliver to the Trustee a written demand signed by the Chief Financial Officer directing the Trustee to pay the Owners of the Subordinate Obligations of a given Series or Subseries from the appropriate Debt Service Fund or Debt Service Funds, an amount equal to the principal and interest becoming due on such Series or Subseries of Subordinate Obligations; provided that if both principal and interest are due, the demand will state the amount of interest and the amount of principal then due.

On or before the fifteenth day preceding a mandatory redemption date from sinking installment payments for Term Subordinate Obligations of a Series or Subseries of Subordinate Obligations, the Trustee will transfer from the Debt Service Fund to the Redemption Account for such Series or Subseries 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 or before each date on which Term Subordinate Obligations of a Series or Subseries are to be mandatorily redeemed from sinking installment payments, the Department will deliver to the Trustee a written demand authenticated by the signature of the Chief Financial Officer directing the Trustee to pay to the Owners of Subordinate Obligations of such Series or Subseries from the Redemption Account for such Series or Subseries, an amount equal to the amount of interest and the principal amount of Term Subordinate Obligations of such Series or Subseries to be mandatorily redeemed on such date.

On or before each date on which Subordinate Obligations of any Series or Subseries 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 Department will deliver to the Trustee a written demand authenticated by the signature of the Chief Financial Officer directing the Trustee to 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 the date that is specified in such notice and in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Obligations are issued, the Department will have deposited in the Redemption Account for such Series or Subseries, 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 Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Debt Service Fund.

All money remaining in a 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 or Subseries for which that 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 or Subseries, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in the Reserve Fund) to pay in full with respect to Subordinate Obligations of all Series or Subseries all amounts of principal and/or interest due on such date, the Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Obligations of any Series or Subseries, in the order in which such interest came due, then to the payment of past due principal on Subordinate Obligations of any Series or Subseries, 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 or Subseries 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 or Subseries 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 a Debt Service Reserve Fund or 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 such Debt Service Reserve Fund or Debt Service Reserve Funds 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 will have been paid in full, (b) the required payments to replenish any such Debt Service Reserve Fund or Debt Service Reserve Funds 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 Debt Service Reserve Fund or Debt Service Reserve Funds exceeds the amount available for such purpose, the payments made to the Trustee for such purpose will be allocated among the various 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 or Subseries of Subordinate Obligations, provide for different provisions and timing of deposits with the 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 Debt Service Fund created for the Series or Subseries 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 Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

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 Master 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 or Subseries 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 has covenanted and agreed 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 in the Master Subordinate Indenture, 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 therein 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 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 will be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Subordinate Obligations or to replenish the Debt Service Reserve Fund, if any, are then current in accordance with the Master Subordinate Indenture.

Maintenance and Operation 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. 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 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 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 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 Trustee will, to the extent practicable, invest in Permitted Investments specified in (i) of the definition thereof.

The 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 Permitted Investment is held.

The Trustee may buy or sell any Permitted Investment through its own (or any of its affiliates) investment department.

The Department has acknowledged that to the extent regulations of the Comptroller of the Currency or such other applicable entity grants the Department the right to receive brokerage confirmations of security transactions as they occur, the Department will not receive such confirmations to the extent permitted by law. The Trustee will furnish the Department with periodic cash transaction statements which will include details of all investment

transactions made by the Trustee under the Master Subordinate Indenture. The Trustee may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate. The Trustee or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Trustee under the Master Subordinate Indenture.

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 Trustee or a 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 thereunder by the Department, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the pledge of Subordinate Pledged Revenues and the other assets pledged to secure the Subordinate Obligations thereunder will thereupon cease, terminate and become void, and thereupon the 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 Trustee's possession, except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Subordinate Obligations.

A Subordinate Obligation will be deemed to be paid within the meaning of this section and for all purposes of the Master Subordinate 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 Subordinate Obligations and the Master Subordinate Indenture or (b) will have been provided for by depositing with the 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 thereunder, 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 will have been made, the Trustee will notify all Holders of the affected Subordinate Obligations that the deposit required by (b) above has been made with the Trustee and that such Subordinate Obligations are deemed to have been paid in accordance with this section. 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.

In connection with the redemption or defeasance, or partial redemption or defeasance of Subordinate Obligations, the Department may permit, or cause to be assigned to Subordinate Obligations of a single maturity, multiple CUSIP numbers.

Defaults and Remedies

Events of Default. Each of the following events will constitute and is referred to in the Master Subordinate Indenture as an “Event of Default”:

(a) failure to pay the principal of or premium, if any, on any of the Subordinate Obligations, except termination payments under Qualified Swaps, when the same will become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the 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 Master Subordinate Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Trustee, which notice may be given at the discretion of the 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 Trustee, or the 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, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the Holders of such principal amount of 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 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 Lien Revenue Bonds or obligations issued pursuant to the Parity Subordinate Indenture.

If, on any date on which payment of principal of or interest on the Subordinate Obligations is due and sufficient moneys are not on deposit with the Trustee or Paying Agent to make such payment, the Trustee will give telephone notice of such insufficiency to the Department.

Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the 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 Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Holders, and require the Department to carry out any agreements with or for the benefit of the Holders and to perform its or their duties under the Charter or any other law to which it is subject and the Master Subordinate 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 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 Holders.

(b) The Trustee will be under no obligation to take any action with respect to any Event of Default unless the Trustee has actual knowledge of the occurrence of such Event of Default.

(c) In no event, upon the occurrence and continuation of an Event of Default described in the Master Subordinate Indenture, will the Trustee, the Holders, a Credit Provider or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Obligations Outstanding.

Holder's Right To Direct Proceedings. Anything in the Master Subordinate Indenture to the contrary notwithstanding, Holders of a majority in 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 Trustee, to direct the time, method and place of conducting all remedial proceedings available to the 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 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 Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee.

Limitation on Right To Institute Proceedings. No 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 under the Master Subordinate Indenture, or any other remedy thereunder or on such Subordinate Obligations, unless such Holder or Holders previously will have given to the Trustee written notice of an Event of Default as hereinabove provided and unless also Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding will have made written request of the 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 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 Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the 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 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 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 thereunder or under the Subordinate Obligations, except in the manner therein provided, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner therein provided and for the equal benefit of all Holders.

Application of Moneys. If an Event of Default will occur and be continuing, all amounts then held or any moneys received by the Trustee, by any receiver or by any Holder pursuant to any right given or action taken under the provisions of this section (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 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 will 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 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 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 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 Holders and will not be required to make payment to any Holder until such Subordinate Obligations will be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

The Trustee

Standard of Care If an Event of Default has occurred and is continuing, the 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 Trustee will perform the duties set forth in the Master Subordinate Indenture and no implied duties or obligations will be read into the Master Subordinate Indenture against the Trustee. Except during the continuance of an Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the 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 Trustee and conforming to the requirements of the Master Subordinate Indenture. However, the Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Subordinate Indenture.

The 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 Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Trustee was negligent in ascertaining the pertinent facts; and (b) the 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 Bondholders or the Board in the manner provided in the Master Subordinate Indenture.

The 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) an 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 an Event of Default and, with respect to such events for which notice to the Department is required before such events will become Events of Default, such notice has been given, then the Trustee will promptly, after obtaining actual notice of such Event of Default or event described in (b) of the first sentence of this section, give notice thereof to each Holder. Except in the case of a default in payment or purchase on any Subordinate Obligations, the 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 Holders.

Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Subordinate Obligations and may otherwise deal with the Department with the same rights it would have if it were not Trustee. Any Paying Agent or other agent may do the same with like rights.

Eligibility of Trustee. The Master Subordinate Indenture will always have a 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 Trustee. The Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The Holders of a majority in Principal Amount of the Subordinate Obligations may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the Department's consent. The Department may remove the Trustee, by notice in writing delivered to the Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Trustee during any time when an 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 an Event of Default.

No resignation or removal of the Trustee under this section will be effective until a new Trustee has taken office and delivered a written acceptance of its appointment to the retiring Trustee and to the Department. Immediately thereafter, the retiring Trustee will transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee will then (but only then) become effective and the successor Trustee will have all the rights, powers and duties of the Trustee under the Master Subordinate Indenture.

If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Master Subordinate Indenture, the Department will promptly appoint a successor Trustee.

If a Trustee is not performing its duties under the Master Subordinate Indenture and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Trustee, the Department or the Holders of a majority in Principal Amount of the Subordinate Obligations may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Modification of the Master Subordinate Indenture

Supplemental Subordinate Indentures Not Requiring Consent of Holders. The Department may, from time to time and at any time, without the consent of or notice to the Holders, 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 Subseries or multiple Series or Subseries 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 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 Holders;
- (d) to confirm, as further assurance, any interest of the Trustee in and to the pledge of Subordinate Pledged Revenues or in and to the funds and accounts held by the Trustee or in and to any

other moneys, securities or funds of the Department provided pursuant to the Master Subordinate Indenture or to otherwise add additional security for the Holders;

(e) to evidence any change made in the terms of any Series or Subseries of Subordinate Obligations if such changes are authorized by a Supplemental Subordinate Indenture at the time the Series or Subseries 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;

(g) 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 Holders;

(h) to provide for uncertificated Subordinate Obligations or for the issuance of coupons and bearer Subordinate Obligations or Subordinate Obligations registered only as to principal;

(i) to qualify the Subordinate Obligations or a Series or Subseries of Subordinate Obligations for a rating or ratings from a Rating Agency;

(j) to accommodate the technical, operational and structural features of Subordinate Obligations which are issued or are proposed to be issued or of a 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 or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(k) to accommodate the use of a Credit Facility or Liquidity Facility for specific Subordinate Obligations or a specific Series or Subseries of Subordinate Obligations; and

(l) 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 and Subordinate Pledged Revenues into different funds.

Before the Department will, pursuant to this section, execute any Supplemental Subordinate Indenture, there will have been delivered to the Department and 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 Indenture Requiring Consent of Subordinate Obligation Holders.

(a) Except for any Supplemental Subordinate Indenture entered into pursuant to the Master Subordinate Indenture and any Supplemental Subordinate Indenture entered into pursuant to subsection (b) below, subject to the terms and provisions contained in this section and not otherwise, the Holders of not less than a majority 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 or Subseries of Subordinate Obligations and the following subsection (b) is applicable, nothing 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 therein contained, including the provisions of subsection (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 or Subseries 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 hereof, or (v) a reduction in the aggregate Principal Amount of Subordinate Obligations the consent of the 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 Holders of the execution of any Supplemental Subordinate Indenture as authorized in the Master Subordinate Indenture, including the granting, for the benefit of particular Series or Subseries 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 Subseries or multiple Series or Subseries of Subordinate Obligations were issued. If such Supplemental Subordinate Indenture is executed for one of the purposes set forth in the Master Subordinate Indenture, no notice to or consent of the Holders will be required. If such Supplemental Subordinate Indenture contains provisions which affect the rights and interests of less than all Series or Subseries of Subordinate Obligations Outstanding, 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 or Subseries 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 or Subseries; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations of all the affected Series or Subseries 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 Subseries or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations of such Series or Subseries or the rate of interest thereon. Nothing therein contained, however, will be construed as making necessary the approval by Holders of the adoption of any Supplemental Subordinate Indenture as authorized in the Master Subordinate Indenture, including the granting, for the benefit of particular Series or Subseries of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

(c) If at any time the Department will desire to enter into any Supplemental Subordinate Indenture for any of the purposes of this section, the Department will cause notice of the proposed execution of the Supplemental Subordinate Indenture to be given by Mail to all Holders or, under subsection (b) above, all Holders of the affected Series or Subseries. Such notice will briefly set forth the nature of the proposed Supplemental Subordinate Indenture and will state that a copy thereof is on file at the office of the Department for inspection by all Holders and it will not be required that the Holders approve the final form of such Supplemental Subordinate Indenture but it will be sufficient if such Holders approve the substance thereof.

(d) The Department may execute and deliver such Supplemental Subordinate Indenture in substantially the form described in such notice, but only if there will have first been delivered to the

Department (i) the required consents, in writing, of Holders and (ii) the opinion of Bond Counsel required by the Master Subordinate Indenture.

(e) If Holders of not less than the percentage of Subordinate Obligations required by this section will have consented to and approved the execution and delivery thereof as provided in the Master Subordinate Indenture, no Holders will have any right to object to the adoption of such Supplemental Subordinate Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Department from executing the same or from taking any action pursuant to the provisions thereof.

(f) Notwithstanding subsections (c) through (e) above, the Department may, at its discretion, execute and deliver such Supplemental Subordinate Indenture which contains such modifications, alterations, amendments or supplements prior to receipt of the required consents in writing, of the Holders; provided, that such Supplemental Subordinate Indenture or the provisions of such Supplemental Subordinate Indenture subject to the consents of the Holders will not become effective until such time as there has been delivered to the Department (i) the required consents, in writing, of Holders and (ii) the opinion of Bond Counsel required by the Master Subordinate Indenture. In the event the Department decides to execute and deliver a Supplemental Subordinate Indenture in accordance with this subsection (f), the notice required in subsection (c) will make reference to a final and executed Supplemental Subordinate Indenture as opposed to a proposed Supplemental Subordinate Indenture.

Amendments to the Senior Lien Trust Indenture.

The Holders of the Subordinate Obligations have no right to consent to or reject any amendments to the Senior Lien Trust Indenture that require the consent of the holders of the Senior Lien Revenue Bonds (as provided for in the Senior Lien Trust Indenture), except for amendments to the flow of funds that require the consent of the holders of the Senior Lien Revenue Bonds as provided for in the Senior Lien Trust Indenture.

Rights of Credit Provider

The Master Subordinate Indenture states that if a Credit Facility is provided for a Series or Subseries 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 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 Trustee or appointing a Trustee under the Master 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—Supplemental Subordinate Indenture Requiring Consent of Subordinate Obligation Holders” above, except with respect to any amendments described in subsections (a)(i) through (iv) and (b)(i) or (ii) under the caption “—Amendments—Supplemental Subordinate Indenture Requiring Consent of Subordinate Obligation Holders” above, which consent of the actual 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.

THE FIRST SUPPLEMENTAL SUBORDINATE TRUST INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SUBORDINATE 2002 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SUBORDINATE 2002 BONDS” above, the following is a summary of certain provisions of the First 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 First Supplemental Subordinate Indenture.

Establishment of Funds

The First Supplemental Subordinate Indenture establishes the following funds and accounts: the Subseries 2002C1 Debt Service Fund and therein an Interest Account, a Principal Account and a Redemption Account, the Subseries 2002C2 Debt Service Fund and therein an Interest Account, a Principal Account and a Redemption Account, the Subseries 2002C1 Costs of Issuance Fund, the Subseries 2002C1 Costs of Issuance Fund, the Series 2002 Remarketing Reimbursement Fund and therein a Subseries 2002C1 Remarketing Reimbursement Account and a Subseries 2002C2 Remarketing Reimbursement Account and the Series 2002 Rebate Fund.

Debt Service Funds. The Trustee will deposit into the applicable Interest Account amounts received from the Letter of Credit (provided a Letter of Credit is in effect) and amounts received from the Department, as provided in the Master Subordinate Indenture, to be used to pay interest on the applicable Subseries of Subordinate 2002 Bonds and to reimburse the Letter of Credit Bank for drawings on the Letter of Credit. The Trustee will also deposit into the applicable Interest Account any other amounts deposited with the Trustee for deposit in the applicable Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the applicable Interest Accounts 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 an Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Trustee will deposit into the applicable Principal Account amounts received from the Letter of Credit (provided a Letter of Credit is in effect) and amounts received from the Department to be used to pay principal of each Subseries of Subordinate 2002 Bonds at maturity and to reimburse the Letter of Credit Bank for drawings on the Letter of Credit. The Trustee will also deposit into the applicable Principal Account any other amounts deposited with the Trustee for deposit into the applicable Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the applicable Principal Accounts 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 an Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Trustee will deposit into the applicable Redemption Account amounts received from the Letter of Credit (provided a Letter of Credit is in effect) and amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on each Subseries of Subordinate 2002 Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund) and to reimburse the Letter of Credit Bank for drawings on the Letter of Credit. Earnings on the applicable 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 Trustee by an Authorized Representative at the time of such deposit.

The Debt Service Fund will be invested and reinvested in Permitted Investments as directed by an Authorized Representative.

Rebate Fund

The First Supplemental Subordinate Indenture creates the Series 2002 Rebate Fund for the Subordinate 2002 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 Trustee with respect to the Subordinate 2002 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 Subordinate 2002 Bonds. Such excess is to be deposited into the Series 2002 Rebate Fund and periodically paid to the United States of America. The Series 2002 Rebate Fund while held by the 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 Subordinate 2002 Bonds.

General Terms of the Subordinate 2002 Bonds

Maximum Bond Interest Rate. No Subordinate 2002 Bond will, at any time, bear interest in excess of the Maximum Bond Interest Rate, except that, as provided in the First Supplemental Subordinate Indenture, the interest rate paid by the Department on Bank Bonds and any other obligations owed to the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, pursuant to the Reimbursement Agreement or a Liquidity Facility will not exceed the Maximum Bank Bond Interest Rate, and the Auction Rate on ARS will not exceed the Maximum Bond Interest Rate.

Interest Accrual and Payment. Except as provided in the First Supplemental Subordinate Indenture with respect to Bank Bonds and any other obligations owed to the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, under the Reimbursement Agreement or the Liquidity Facility, each Subordinate 2002 Bond will bear interest from and including the Interest Accrual Date immediately preceding the date of authentication thereof, or, if such date of authentication is an Interest Accrual Date to which interest on such Subordinate 2002 Bonds has been paid in full or duly provided for or the date of initial authentication of the Subordinate 2002 Bonds, from such date of authentication; provided, however, that if, as shown by the records of the Trustee, interest on any Subseries of Subordinate 2002 Bonds is in default, Subordinate 2002 Bonds issued in exchange for such Subseries of Subordinate 2002 Bonds surrendered for registration of transfer or exchange will bear interest from the date to which interest has been paid in full on such Subseries of Subordinate 2002 Bonds so surrendered or, if no interest has been paid on such Subseries of Subordinate 2002 Bonds from the date of the first authentication of such Subseries of Subordinate 2002 Bonds. Interest on the Subordinate 2002 Bonds will be payable on each Interest Payment Date for the period commencing on the immediately preceding Interest Accrual Date or otherwise as provided in the First Supplemental Subordinate Indenture and ending on the day immediately preceding such Interest Payment Date. In any event, interest on the Subordinate 2002 Bonds will be payable for the final Interest Rate Period to the date on which such applicable Subseries of Subordinate 2002 Bonds will have been paid in full, except as otherwise provided with respect to Bank Bonds. Except during a Long-Term Interest Rate Period, a Fixed Interest Rate Period or an ARS Interest Rate Period, interest on the Subordinate 2002 Bonds will accrue on the basis of the actual number of days elapsed during the Interest Rate Period and a year of 365 days (366 days in a leap year). Interest on each Subseries of Subordinate 2002 Bonds bearing interest at a Long-Term Interest Rate or a Fixed Interest Rate will accrue on the basis of a 360-day year based on twelve 30-day months. Interest on each Subseries of Subordinate 2002 Bonds bearing interest at an Auction Rate will accrue on the basis of the actual number of days elapsed during a year of 360 days.

Interest Rates. The terms of each Subseries of Subordinate 2002 Bonds will be divided into consecutive Interest Rate Periods during each of which the Subordinate 2002 Bonds of such Subseries will bear interest at a Daily Interest Rate, Weekly Interest Rate, Bond Interest Term Rates, Long-Term Interest Rate, Fixed Interest Rate or Applicable ARS Rate.

Amendments of the Letter of Credit, Reimbursement Agreement or Liquidity Facility Upon Conversion

In connection with any Conversion in the Interest Rate Period applicable to a Subseries of Subordinate 2002 Bonds (other than a Conversion to a Fixed Interest Rate, a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or longer, a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the Subseries 2002C1 Maturity Date or the Subseries 2002C2 Maturity Date, as the case may be, or the Applicable ARS Rate, which do not require a Letter of Credit or a Liquidity Facility to be in effect), if such converted Interest Rate Period requires a Letter of Credit or a Liquidity Facility to be effective and would extend beyond the expiration date of the applicable Letter of Credit or Liquidity Facility or would require a modification to the Available Commitment from that which is provided currently in the applicable Letter of Credit,

the Reimbursement Agreement or Liquidity Facility, the Department, as a condition to the effectiveness of the direction to convert the Interest Rate Period, must supply the Trustee with an amendment to the applicable Letter of Credit or Liquidity Facility or an Alternate Letter of Credit or Alternate Liquidity Facility with respect to the applicable Subseries of Subordinate 2002 Bonds.

Certain Additional Conditions

No Conversion from one Interest Rate Period to another may take effect under the First Supplemental Subordinate Indenture unless each of the following conditions, to the extent applicable, has been satisfied.

(a) With respect to the new Interest Rate Period (except for a Fixed Interest Period, a Long-Term Interest Rate Period effective to the Subseries 2002C1 Maturity Date or the Subseries 2002C2 Maturity Date, as the case may be, a Long-Term Interest Rate Period with a duration of two years or longer or an ARS Interest Rate Period), there will be in effect a Letter of Credit or a Liquidity Facility if and as required under the First Supplemental Subordinate Indenture and providing sufficient funds thereunder to satisfy the requirements of the Rating Agencies for the new Interest Rate Period.

(b) The Trustee will have received a Favorable Opinion of Bond Counsel with respect to such Conversion.

(c) In the case of any Conversion with respect to which there is no Letter of Credit or Liquidity Facility in effect to provide funds for the purchase of the applicable Subseries of Subordinate 2002 Bonds on the Conversion Date, the remarketing proceeds available on the Conversion Date will not be less than the amount required to purchase all of the applicable Subseries of Subordinate 2002 Bonds at the purchase price.

(d) In the case of any Conversion of a Subseries of Subordinate 2002 Bonds from any ARS Interest Rate Period to any other Interest Rate Period, prior to the Conversion Date the Department will have appointed a Remarketing Agent and a Letter of Credit Bank or a Liquidity Facility Provider (except that no Letter of Credit Bank or Liquidity Facility Provider will be appointed in the event such Conversion is to a Fixed Interest Rate Period, a Long-Term Interest Rate Period effective to the Subseries 2002C1 Maturity Date or the Subseries 2002C2 Maturity Date, as the case may be, or a Long-Term Interest Rate Period the duration of which is two years or longer) with respect to such applicable Subseries of Subordinate 2002 Bonds, and there will have been executed and delivered with respect to such applicable Subseries of Subordinate 2002 Bonds a Remarketing Agreement and a Reimbursement Agreement or a Liquidity Facility (except that no Letter of Credit or Liquidity Facility will be required in the event such Conversion is to a Fixed Interest Rate Period, a Long-Term Interest Rate Period effective to the Subseries 2002C1 Maturity Date or the Subseries 2002C2 Maturity Date, as the case may be, or a Long-Term Interest Rate Period the duration of which is two years or longer). In the event that such Letter of Credit is not an Alternate Letter of Credit as defined in the First Supplemental Subordinate Indenture, such Letter of Credit nonetheless will meet all the requirements of an Alternate Letter of Credit set forth in the First Supplemental Subordinate Indenture; or, in the event that such Liquidity Facility is not an Alternate Liquidity Facility as defined in the First Supplemental Subordinate Indenture, such Liquidity Facility nonetheless will meet all the requirements of an Alternate Liquidity Facility set forth in the First Supplemental Subordinate Indenture.

(e) In the case of any Conversion of a Subseries of Subordinate 2002 Bonds from any Weekly Interest Rate Period, Daily Interest Rate Period, Long-Term Interest Rate Period or Short-Term Interest Rate Period to an ARS Interest Rate Period, prior to the Conversion Date the Department will have appointed an Auction Agent, a Market Agent and a Broker-Dealer with respect to such a Subseries of Subordinate 2002 Bonds, and there will have been executed and delivered with respect to such a Subseries of Subordinate 2002 Bonds an Auction Agent Agreement, a Market Agent Agreement and a Broker-Dealer Agreement.

Failure to Meet Conditions

In the event that any condition to the Conversion of a Subseries of Subordinate 2002 Bonds will not have been satisfied as provided in the First Supplemental Subordinate Indenture, then the Interest Rate Period will not be converted and the Subordinate 2002 Bonds of such Subseries will continue to bear interest at the Weekly Interest Rate, Daily Interest Rate, or Bond Interest Term Rates, as the case may be, as in effect immediately prior to such proposed Conversion (provided, however, in the event of a failed Conversion from a Long-Term Interest Rate Period the applicable Subseries of Subordinate 2002 Bonds will continue to bear interest at a Long-Term Interest Rate as in effect immediately prior to such proposed Conversion until a new Long-Term Interest Rate and new Long-Term Interest Rate Period are set pursuant to the provisions of the First Supplemental Subordinate Indenture or until the Department receives a Favorable Opinion of Bond Counsel and the applicable Subseries of Subordinate 2002 Bonds are converted to a different Interest Rate Period (or such other Adjustable Interest Rate allowed pursuant to a Favorable Opinion of Bond Counsel), and in the event of a failed Conversion from an ARS Interest Rate Period the applicable Subseries of Subordinate 2002 Bonds will bear interest at the ARS Maximum Rate for the initial ARS Interest Rate Period after the failed Conversion and thereafter at the Applicable ARS Rate), and the Subordinate 2002 Bonds of such Subseries (except ARS) will continue to be subject to mandatory tender for purchase on the date which would have been the effective date of the Conversion as provided in the First Supplemental Subordinate Indenture.

Notice of Mandatory Tender for Purchase

In connection with any mandatory tender for purchase of Subordinate 2002 Bonds, as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender" (except for a mandatory tender described under the second paragraph under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase on First Day of Each New Interest Rate Period and Last Day of Each Bond Interest Term," the Trustee will give notice of a mandatory tender for purchase as a part of the notice given pursuant to a Conversion of the Interest Rate Period or the termination, expiration or replacement of the Letter of Credit or the Liquidity Facility, as the case may be. Such notice will state (i) in the case of a mandatory tender for purchase as described under the first paragraph of the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase on First Day of Each New Interest Rate Period and Last Day of Each Bond Interest Term," the type of Interest Rate Period to commence on such Mandatory Purchase Date; (ii) in the case of a mandatory tender for purchase as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility," that the Letter of Credit or the Liquidity Facility, as the case may be, will expire, terminate or be replaced and that such Subseries of Subordinate 2002 Bonds will no longer be payable from the Letter of Credit or the Liquidity Facility, as the case may be, then in effect and that any rating applicable thereto may be reduced or withdrawn; (iii) that the purchase price of any Subordinate 2002 Bond so subject to mandatory purchase will be payable only upon surrender of such Subordinate 2002 Bond to the Trustee at its Corporate Trust Office for delivery of Subordinate 2002 Bonds accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the holder thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution; (iv) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Subseries of Subordinate 2002 Bonds by the applicable Remarketing Agent or through the Letter or Credit or the Liquidity Facility, all Subordinate 2002 Bonds so subject to mandatory tender for purchase will be purchased on the Mandatory Purchase Date, and that if any Owner of a Subordinate 2002 Bond subject to mandatory tender for purchase will not surrender such Subordinate 2002 Bond to the Trustee for purchase on such Mandatory Purchase Date, and moneys sufficient to pay the purchase price thereof are on deposit with the Trustee, then such Subordinate 2002 Bond will be deemed to be an "Undelivered Bond," and that no interest will accrue thereon on and after such Mandatory Purchase Date and that the holder thereof will have no rights under the First Supplemental Subordinate Indenture, other than to receive payment of the purchase price thereof; and (v) in the event that moneys sufficient to pay the purchase price of such Subordinate 2002 Bonds have not been provided to the Trustee either through the remarketing of such Subordinate 2002 Bonds or from the Letter of Credit or the Liquidity Facility, as the case may be, that such Subordinate 2002 Bonds will not be purchased or deemed purchased and will continue to bear interest as if such failed purchase will not have occurred.

In connection with any mandatory tender for purchase of Subordinate 2002 Bonds as described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility,” as a result of the replacement, termination or expiration of the Letter of Credit or a Liquidity Facility, as the case may be, such notice will also (A) describe generally the Letter of Credit or the Liquidity Facility, as the case may be, if any, in effect prior to such termination, replacement or expiration and the Alternative Letter of Credit or the Alternate Liquidity Facility, as the case may be, if any, in effect or to be in effect upon such termination, replacement or expiration and identify the provider of such Alternative Letter of Credit or Alternate Liquidity Facility, as the case may be, and whether in the case of an event of termination, replacement or expiration of the Alternative Letter of Credit or Alternate Liquidity Facility, as the case may be, there is an obligation on the part of such applicable Letter of Credit Bank or Liquidity Facility Provider, as the case may be, to purchase upon mandatory tender of the Subordinate 2002 Bonds, pursuant to such Alternative Letter of Credit or Alternate Liquidity Facility, as the case may be, and if not, the events of termination, replacement or expiration which give rise to the termination, replacement or expiration of the obligation to purchase under such Alternative Letter of Credit or Alternate Liquidity Facility, as the case may be without an obligation to purchase upon mandatory tender of the Subordinate 2002 Bonds; (B) state the date of such replacement, termination or expiration, and the date of the proposed provision of the Alternative Letter of Credit or Alternate Liquidity Facility, as the case may be, if any; (C) specify the ratings, if any, to be applicable to such Subordinate 2002 Bonds after such replacement, termination or expiration of the Letter of Credit or the Liquidity Facility, as the case may be, or state that no ratings will be assigned to such Subordinate 2002 Bonds subsequent to such replacement, termination or expiration of the Letter of Credit or the Liquidity Facility, as the case may be; and (D) describe any special restrictions or procedures, if any, applicable to the registration of transfer of such Subordinate 2002 Bonds.

For payment of the purchase price of any Subordinate 2002 Bond required to be purchased as described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender,” on the date specified, such Subordinate 2002 Bond must be delivered, at or prior to 12:00 noon, New York City time, on the purchase date, to the Trustee at its Corporate Trust Office for delivery of Subordinate 2002 Bonds accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee, executed in blank by the holder thereof or his duly authorized attorney-in-fact, with such signature guaranteed by an eligible guarantor institution. In the event any such Subordinate 2002 Bond is delivered after 12:00 noon, New York City time, on the purchase date, payment of the purchase price of such Subordinate 2002 Bond need not be made until the Business Day following the date of delivery of such Subordinate 2002 Bond but such Subordinate 2002 Bond will nonetheless be deemed to have been purchased on the date specified in such notice and no interest will accrue thereon from and after such date.

Notice of Owner’s Election to Tender Subordinate 2002 Bonds Deemed to be Irrevocable; Undelivered Bonds

The giving of notice by an Owner of a Subordinate 2002 Bond as described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Optional Tender,” will constitute the irrevocable tender for purchase of each such Subordinate 2002 Bond with respect to which such notice has been given, regardless of whether such Subordinate 2002 Bond is delivered to the Trustee for purchase on the relevant purchase date as provided in the First Supplemental Subordinate Indenture; provided that moneys sufficient to pay the purchase price of such Subordinate 2002 Bond are on deposit with the Trustee for such purpose.

The Trustee may refuse to accept delivery of any Subordinate 2002 Bond for which a proper instrument of transfer has not been provided; such refusal, however, will not affect the validity of the purchase of such Subordinate 2002 Bond. If any Bondholder of a Subordinate 2002 Bond who has given notice of tender of purchase as described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Optional Tender” fails to deliver such Subordinate 2002 Bond to the Trustee at the place and on the applicable date and at the time specified, or fails to deliver such Subordinate 2002 Bond properly endorsed, and moneys sufficient to pay the purchase price thereof are on deposit with the Trustee for such purpose, such Subordinate 2002 Bond will constitute an Undelivered Bond. If funds in the amount of the purchase price of the Undelivered Bonds (including the Undelivered Bonds referred to in “—Notice of Mandatory Tender for Purchase” above) are available for payment to the holder thereof on the date and at the time specified, from and after

the date and time of that required delivery, (A) each Undelivered Bond will be deemed to be purchased and will no longer be deemed to be Outstanding; (B) interest will no longer accrue thereon; and (C) funds in the amount of the purchase price of each such Undelivered Bond will be held by the Trustee for the benefit of the holder thereof (provided that the holder will have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Bond to the Trustee at its Corporate Trust Office for delivery of Subordinate 2002 Bonds. Any funds held by the Trustee as described in clause (C) of the preceding sentence will be held uninvested and not commingled.

Draws on Letter of Credit

The Department has authorized and directed the Trustee to draw on the Letter of Credit pursuant to its terms, in the amounts and at the times necessary to pay principal of, redemption price, purchase price and interest on the applicable Subseries of Subordinate 2002 Bonds (excluding any premium) pursuant to the First Supplemental Subordinate Indenture. In no circumstances will the Trustee use moneys drawn on the Letter of Credit to pay the principal of or interest on Bank Bonds or to pay premium, if any, on any Subseries of Subordinate 2002 Bonds. Any moneys received by the Trustee from a draw on the Letter of Credit will be held without investment or commingling thereof. Except as otherwise provided in the First Supplemental Subordinate Indenture, neither the Department nor the Trustee will grant any lien or encumbrance to any Person on the moneys received from a drawing on the Letter of Credit.

The Trustee will draw upon the Letter of Credit in accordance with the terms thereof on or before 11:00 a.m., New York City time at the principal office of the Letter of Credit Bank where the draw request is to be presented, on the Business Day prior to any Interest Payment Date (or the maturity date or any date set for a redemption of the applicable Subseries of Subordinate 2002 Bonds which is not an Interest Payment Date), and on or before 10:30 a.m., New York City time at the principal office of the Letter of Credit Bank where the draw request is to be presented, on each tender date for the applicable Subseries of Subordinate 2002 Bonds pursuant to an optional or mandatory tender. The Trustee will determine the amount necessary to make all required payments of principal and interest on the applicable Subseries of Subordinate 2002 Bonds or purchase price payments of the applicable Subseries of Subordinate 2002 Bonds on the next succeeding Interest Payment Date, maturity date, other redemption date or such tender date for the applicable Subseries of Subordinate 2002 Bonds, and will present a signed draft to the Letter of Credit Bank (together with the required certificates under the Letter of Credit) in such amount, so as to permit the timely transfer of funds from the Letter of Credit Bank to the Trustee for payment of interest on the applicable Subseries of Subordinate 2002 Bonds on each Interest Payment Date, for payment of the principal of and interest on the applicable Subseries of Subordinate 2002 Bonds when due, whether at maturity or upon prior redemption, or the payment of the purchase price of the applicable Subseries of Subordinate 2002 Bonds when due on the applicable tender date for the applicable Subseries of Subordinate 2002 Bonds.

If on the date and by the time of any required drawing on the Letter of Credit to pay interest on the applicable Subseries of Subordinate 2002 Bonds, the Trustee is not able to determine the amount of interest accruing on the date of the required drawing, the Trustee will assume that for such day the applicable Subseries of Subordinate 2002 Bonds bear interest at the Maximum Bond Interest Rate.

In calculating the amount to be drawn on the Letter of Credit for the payment of principal of and interest on the applicable Subseries of Subordinate 2002 Bonds, whether on an Interest Payment Date, at maturity or upon redemption, the Trustee will not take into account the existence of any other moneys in the applicable Debt Service Funds and Accounts, but will draw on the Letter of Credit for the full amount of principal and interest coming due on the applicable Subseries of Subordinate 2002 Bonds. If sufficient moneys are available in the Remarketing Reimbursement Fund to pay the purchase price of the applicable Subseries of Subordinate 2002 Bonds tendered for purchase, the Trustee will not draw on the Letter of Credit but will forward such amounts directly to the tendering Owners. The Trustee will draw on the Letter of Credit to pay the purchase price of applicable Subseries of Subordinate 2002 Bonds tendered for purchase only to the extent that moneys in the Remarketing Reimbursement Fund are insufficient to purchase the applicable Subseries of Subordinate 2002 Bonds so tendered. In calculating the amount, if any, to be drawn on the Letter of Credit for the purchase of the applicable Subseries of Subordinate 2002 Bonds on a tender date for the applicable Subseries of Subordinate 2002 Bonds, the Trustee will take into account funds received from the purchasers of the applicable tendered Subordinate 2002 Bonds or from the applicable Remarketing Agent by 10:00 a.m., New York City time at the principal office of the Letter of Credit

Bank where the draw request is to be presented on such tender date with respect to the remarketing of such applicable Subordinate 2002 Bonds or otherwise, and by 10:30 a.m., New York City time at the principal office of the Letter of Credit Bank where the draw request is to be presented on the applicable tender date will draw on the Letter of Credit only such amounts as may be necessary to purchase such applicable Subordinate 2002 Bonds after taking into account all funds received by 10:00 a.m., New York City time at the principal office of the Letter of Credit Bank where the draw request is to be presented on such date which are attributable to the remarketing of such applicable Subordinate 2002 Bonds. Upon receipt of such moneys from the Letter of Credit Bank, the Trustee will deposit (and hold uninvested) the amount representing a draw on the Letter of Credit for the payment of principal and interest on the applicable Subseries of Subordinate 2002 Bonds in a separate subaccount in the applicable Debt Service Funds and Accounts, as appropriate, and apply the same only to the payment of such principal and interest when due on the applicable Subseries of Subordinate 2002 Bonds, will deposit (and hold uninvested) the amount representing a draw on the Letter of Credit for the purchase of applicable Subseries of Subordinate 2002 Bonds in the Remarketing Reimbursement Fund and disburse said amount only to the tendering Owners of the applicable Subseries of Subordinate 2002 Bonds being purchased and, and subject to the prior satisfaction of all principal, purchase price and interest on payments then due or on account of which funds will have been paid to the Trustee by the Department or will have been obtained by the Trustee by a drawing or drawings on the Letter of Credit, by wire transfer will pay, on behalf of the Department, but only from and to the extent of moneys available in the applicable Debt Service Fund or Account or the Remarketing Reimbursement Fund any amounts due and payable to the Letter of Credit Bank under the Reimbursement Agreement for any drawing made on the Letter of Credit.

Demand for Purchase of Subordinate 2002 Bonds under a Liquidity Facility

In the event there is a Liquidity Facility in effect instead of a Letter of Credit with respect to the applicable Subseries of Subordinate 2002 Bonds, by 10:30 a.m., New York City time (or such other time as may be agreed to between the Department and the Liquidity Facility Provider), on the tender date for the applicable Subordinate 2002 Bonds, the Trustee is directed to notify the Liquidity Facility Provider as to the aggregate purchase price of the applicable tendered Subseries of Subordinate 2002 Bonds required to be purchased by the Liquidity Facility Provider and to make a demand for purchase of such applicable Subseries of Subordinate 2002 Bonds under the Liquidity Facility in accordance with the terms of the Liquidity Facility, such that the Trustee will have amounts sufficient to pay the purchase price plus accrued interest, if any, of the applicable Subseries of Subordinate 2002 Bonds tendered by no later than 3:00 p.m., New York City time (or such other time as may be agreed to between the Department and the Liquidity Facility Provider). Upon the receipt of amounts payable under the Liquidity Facility, the Trustee will deposit such purchase price in the applicable account of the Remarketing Reimbursement Fund. In determining the amount of any such purchase price then due, the Trustee will not take into consideration any purchase price due on the applicable Subseries of Subordinate 2002 Bonds registered in the name of the City, the Department or the Liquidity Facility Provider or any affiliate of the City, the Department or the Liquidity Facility Provider to the extent identified to the Trustee and no demand for purchase under the Liquidity Facility will be made to pay the purchase price of any applicable Subordinate 2002 Bonds, registered in the name of the City, the Department or the Liquidity Facility Provider or any affiliate of the City, the Department or the Liquidity Facility Provider to the extent identified to the Trustee. By 3:30 p.m., New York City time (or such other time as may be agreed to between the Department and the Liquidity Facility Provider), the Trustee will purchase the applicable tendered Subseries of Subordinate 2002 Bonds and immediately remit to the Liquidity Facility Provider such funds in the applicable account of the Remarketing Reimbursement Fund which were not used to purchase the applicable Subseries of Subordinate 2002 Bonds tendered.

Remarketing Agents for Subordinate 2002 Bonds

UBS PaineWebber Inc. has been appointed as the initial Subseries 2002C1 Remarketing Agent. The Subseries 2002C1 Remarketing Agent has agreed to perform its duties and obligations as provided in the Subseries 2002C1 Remarketing Agreement. E. J. De La Rosa & Co., Inc. has been appointed as the initial Subseries 2002C2 Remarketing Agent. The Subseries 2002C2 Remarketing Agent has agreed to perform its duties and obligations as provided in the Subseries 2002C2 Remarketing Agreement. The Department will appoint any successor Remarketing Agent for the applicable Subseries of Subordinate 2002 Bonds, subject to the conditions set forth in the following paragraph. Each successor Remarketing Agent will designate its principal office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument of acceptance delivered

to the Department and the Letter of Credit Bank under which the applicable Remarketing Agent will agree, particularly, to keep such books and records as will be consistent with prudent industry practice and to make such books and records available for inspection by the Department and the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, at all reasonable times.

Any Remarketing Agent appointed under the First Supplemental Subordinate Indenture will be a member of the National Association of Securities Dealers, having a combined capital stock, surplus and undivided profits of at least \$75,000,000 (or such other amounts as may be agreed to by the Department), and authorized by law to perform all the duties imposed upon them by the Master Subordinate Indenture, the First Supplemental Subordinate Indenture and the applicable Remarketing Agreement. Any Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this the Master Subordinate Indenture, the First Supplemental Subordinate Indenture and the applicable Remarketing Agreement by giving notice to the Notice Parties. Such resignation will take effect on the forty-fifth day (or such other day as may be agreed to by the Department in a Remarketing Agreement) after the receipt by the Department of the notice of resignation. The applicable Remarketing Agent may be removed at any time by the Department Board and the applicable Remarketing Agent will be removed at any time by the Department if such Remarketing Agent is in default under the applicable Remarketing Agreement by written notice given by the Department and delivered to the Notice Parties.

Remarketing of Subordinate 2002 Bonds

No later than 3:00 p.m. New York City time at the principal corporate trust office of the Trustee (a) on the eighth Business Day prior to each tender date while an applicable Subseries of the Subordinate 2002 Bonds bear interest at a Long-Term Interest Rate, or (b) the sixth calendar day prior to each tender date or the next succeeding Business Day if such sixth day is not a Business Day while an applicable Subseries of Subordinate 2002 Bonds bear interest at a Weekly Interest Rate, or (c) the fifth Business Day prior to each tender date while an applicable Subseries of Subordinate 2002 Bonds bear interest at a Bond Interest Term Rate, the Trustee will give notice to the applicable Remarketing Agent by telephone or telecopy, confirmed on the same day in writing, which states (i) the name and address of each Owner which has given notice of exercise of an option with respect to such tender date as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Optional Tender", and the principal amount of an applicable Subseries of Subordinate 2002 Bonds to be tendered by such Owner or deemed tendered by such Registered Owner, and (ii) the aggregate principal amount of an applicable Subseries of Subordinate 2002 Bonds which are deemed to be tendered as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender."

No later than 9:30 a.m. New York City time at the principal corporate trust office of the Trustee on the tender date while an applicable Subseries of Subordinate 2002 Bonds bear interest at a Daily Interest Rate, the Trustee will give notice to the applicable Remarketing Agent by telephone or telecopy, confirmed on the same day in writing, which states (i) the name and address of each Owner which has given notice of exercise of an option with respect to such tender date as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Optional Tender", and the principal amount of an applicable Subseries of Subordinate 2002 Bonds to be tendered by such Owner or deemed tendered by such Registered Owner, and (ii) the aggregate principal amount of an applicable Subseries of Subordinate 2002 Bonds which are deemed to be tendered as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender."

Based upon such notices from the Trustee, the applicable Remarketing Agent will use its best efforts to sell all of the Subordinate 2002 Bonds tendered pursuant to the First Supplemental Subordinate Indenture for settlement on the applicable tender date.

The applicable Remarketing Agent will have the right to remarket any Subordinate 2002 Bond (or portion thereof) tendered pursuant to the First Supplemental Subordinate Indenture; provided, however, that no such Subordinate 2002 Bond will be remarketed at a price less than 100% of the principal amount thereof plus accrued interest (if any). The applicable Remarketing Agent will have the right to purchase any Subordinate 2002 Bond tendered or deemed tendered pursuant to the First Supplemental Subordinate Indenture at 100% of the principal

amount thereof, and to thereafter sell such Subordinate 2002 Bond. Any such purchase will constitute a remarketing hereunder.

The applicable Remarketing Agent will not remarket any Subordinate 2002 Bond to the Department, any guarantor of a related Subseries of Subordinate 2002 Bonds (excluding the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be) or any person which is an "insider" of the Department or any such guarantor within the meaning of the United States Bankruptcy Code.

No later than 10:00 a.m., New York City time, the applicable Remarketing Agent will pay to the Trustee, in immediately available funds, the proceeds theretofore received by such Remarketing Agent from the remarketing of such Subseries of Subordinate 2002 Bonds tendered for purchase; provided, that such Remarketing Agent may use its best efforts to cause the purchasers of the remarketed such Subseries of Subordinate 2002 Bonds to pay the purchase price plus accrued interest (if any) to the Trustee in immediately available funds. The proceeds from the remarketing of any Subseries of Subordinate 2002 Bonds will be segregated from any funds of the Department and will in no case be considered to be or be assets of the Department.

There will be deposited in the applicable account of the Remarketing Reimbursement Fund, on each tender date, the applicable remarketing proceeds received by the Trustee pursuant to this section plus, if necessary, any moneys from a draw on the Letter of Credit or the Liquidity Facility, as the case may be, to be used to pay the purchase price of the applicable Subseries of tendered Subordinate 2002 Bonds. The Trustee will use the amounts deposited in the applicable account of the Remarketing Reimbursement Fund to pay the purchase price of the related Subseries of tendered Subordinate 2002 Bonds.

Delivery of Subordinate 2002 Bonds and Remarketing of Bank Bonds

On or before the Business Day next preceding each tender date, the applicable Remarketing Agent, by telephonic advice, will notify the Trustee and the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, of (a) the principal amount of applicable Subseries of Subordinate 2002 Bonds to be sold by such Remarketing Agent pursuant to the First Supplemental Subordinate Indenture and the purchase price, names, addresses and social security numbers or other tax identification numbers of the proposed purchasers thereof and (b) the principal amount of the applicable Subseries of Subordinate 2002 Bonds tendered for purchase on such tender date which will not be sold by such Remarketing Agent pursuant to the First Supplemental Subordinate Indenture. Such telephonic advice will be confirmed by written notice delivered or mailed on the same date as the telephonic advice.

Subordinate 2002 Bonds purchased by the Trustee on a tender date will be delivered as follows:

(a) Subordinate 2002 Bonds sold by the applicable Remarketing Agent pursuant to the First Supplemental Subordinate Indenture will be delivered to the purchasers thereof.

(b) Subordinate 2002 Bonds not sold by the applicable Remarketing Agent pursuant to the First Supplemental Subordinate Indenture will be held as Bank Bonds, by the Trustee, as agent for the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, subject to any instructions from the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, to deliver the Bank Bonds to the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be. Any Bank Bonds held by the Trustee will not be released or transferred except to the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, or to the applicable Remarketing Agent at the written direction of the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, as provided in the last paragraph of this section. Subordinate 2002 Bonds not sold by the applicable Remarketing Agent will be deemed purchased by the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, upon application of the proceeds of a draw on the Letter of Credit or the Liquidity Facility, as the case may be, to pay the purchase price thereof.

Subordinate 2002 Bonds (other than Bank Bonds) delivered as provided in this section will be registered (or recorded through the Securities Depository) in the manner directed by the recipient thereof. Bank Bonds will be

registered (or recorded through the Securities Depository) in the name of the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, or its designee, as requested by the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be.

The applicable Remarketing Agent will use its best efforts to remarket Bank Bonds; provided, however, such Remarketing Agent will not remarket Bank Bonds held as a result of a mandatory tender as described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility,” prior to receiving written notice from the Trustee that the Letter of Credit or any Alternate Letter of Credit or the Liquidity Facility or the Alternate Liquidity Facility, as the case may be, has been replaced and satisfies the requirements of the First Supplemental Subordinate Indenture. Upon the remarketing of the Bank Bonds, the applicable Remarketing Agent will notify the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, the Trustee and the Department of such remarketing, the name, address and social security or other tax identification number of the purchaser, and the date (the “Placement Date”) that the purchaser will deliver the purchase price to the Trustee or the applicable Remarketing Agent by 10:00 a.m., New York City time at the principal office of the Trustee. The Placement Date will be at least two Business Days after the date the notice of the purchase is given by the applicable Remarketing Agent.

No later than 10:00 a.m., New York City time on each Placement Date, the applicable Remarketing Agent will pay to the Trustee, in immediately available funds, the proceeds theretofore received by such Remarketing Agent from the remarketing of Bank Bonds on such Placement Date; provided, that the applicable Remarketing Agent may use its best efforts to cause the purchasers of the remarketed Bank Bonds to pay the purchase price plus accrued interest (if any) to the Trustee in immediately available funds. The proceeds from the remarketing of the Bank Bonds will be segregated from any funds of the Department and will in no case be considered to be or be assets of the Department. The Trustee will deposit such funds in the applicable account of the Remarketing Reimbursement Fund and will pay the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, such funds by wire transfer on the Placement Date. The Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, will deliver any Bank Bonds held by the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be (or evidence of book-entry interests in such Bank Bonds) which have been so remarketed to the Trustee against payment on the Placement Date. With respect to any Bank Bonds not so held by the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, will direct the Trustee to release such Bank Bonds which have been so remarketed to the applicable Remarketing Agent against payment therefor on the Placement Date. On the Placement Date, the Trustee will authenticate and deliver, if applicable, new Subordinate 2002 Bonds in replacement of the remarketed Bank Bonds to the purchasers thereof.

Letter Of Credit; Liquidity Facility

General. The Department has agreed to maintain a Letter of Credit or a Liquidity Facility with respect to each Subseries of Subordinate 2002 Bonds, as the case may be, at all times while the such Subseries of Subordinate 2002 Bonds, as the case may be, are Outstanding, except when such Subseries of Subordinate 2002 Bonds, as the case may be, are bearing interest at: (a) a Fixed Interest Rate, (b) a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the Maturity Date of the applicable Subseries of Subordinate 2002 Bonds, (c) a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or longer, or (d) an Auction Rate. A Letter of Credit or a Liquidity Facility must be in effect prior to any Conversion from an Auction Rate to another Adjustable Interest Rate, except for a (i) a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the Maturity Date of the applicable Subseries of Subordinate 2002 Bonds or (ii) a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or longer. If at any time the Department obtains a Letter of Credit or a Liquidity Facility with respect to a Subseries of Subordinate 2002 Bonds which were previously not entitled to the benefit thereof, the Department will submit such Letter of Credit or a Liquidity Facility to Moody’s, S&P, Fitch or such other Rating Agency as the Department may select for the purposes of obtaining a rating on such Subseries of Subordinate 2002 Bonds. The Trustee will be furnished with any Letter of Credit or a Liquidity Facility obtained pursuant to this section together with evidence of any rating or ratings obtained on the applicable Subseries of Subordinate 2002 Bonds in connection therewith. If at any time the Trustee resigns or is removed pursuant

to the Master Subordinate Indenture, the Trustee will transfer the Letter of Credit or the Liquidity Facility, as applicable, to the successor Trustee. Except as otherwise provided in the First Supplemental Subordinate Indenture, neither the Department nor the Trustee will grant any lien or encumbrance to any Person on the moneys received from a drawing on the Letter of Credit or a Liquidity Facility, as the case may be.

Alternate Letter of Credit.

(a) At any time, the Department may provide for the delivery to the Trustee of an Alternate Letter of Credit. The terms of any Alternate Letter of Credit will be the same as the original Letter of Credit in all respects material to the security for the Subordinate 2002 Bonds; provided that the termination date of such Alternate Letter of Credit will be a date not earlier than (i) one year from its date of issuance, subject to earlier termination upon the occurrence of an event of default under the related reimbursement agreement or other corresponding agreement relating to such Alternate Letter of Credit, (ii) the issuance of a subsequent Letter of Credit, (iii) payment in full of the outstanding Subseries or Subordinate 2002 Bonds or (iv) a Conversion of the Interest Rate Period to (A) a Fixed Interest Rate, (B) a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the Maturity Date of the applicable Subseries of Subordinate 2002 Bonds, (C) a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or longer, or (D) an Auction Rate. On or prior to the date of the delivery of any Alternate Letter of Credit to the Trustee, the Department will furnish to the Trustee (1) a Favorable Opinion of Bond Counsel with respect to the delivery of such Alternate Letter of Credit and (2) confirmation from S&P, if such applicable Subseries of Subordinate 2002 Bonds are then rated by S&P, from Moody's, if such applicable Subseries of Subordinate 2002 Bonds are then rated by Moody's, from Fitch, if such applicable Subseries of Subordinate 2002 Bonds are then rated by Fitch, or another Rating Agency, if such applicable Subseries of Subordinate 2002 Bonds are then rated by such Rating Agency, to the effect that such Rating Agency has reviewed the proposed Alternate Letter of Credit and that the substitution of the proposed Alternate Letter of Credit for the current Letter of Credit will not, by itself, result in a reduction or withdrawal of its long or short-term rating of the applicable Subseries or Subordinate 2002 Bonds below the rating category of S&P, Moody's or Fitch or such other Rating Agency, as the case may be, then in effect with respect to such Subseries of Subordinate 2002 Bonds. The Trustee will provide notice of delivery of an Alternate Letter of Credit by first class mail to the Owners at their addresses shown on the books of registry at least 10 days prior to the delivery thereof.

(b) Nothing contained in the First Supplemental Subordinate Indenture will prevent the Department from delivering an Alternate Letter of Credit in substitution for the current Letter of Credit which will result in a decline in the short-term and long-term ratings assigned to such Subseries of Subordinate 2002 Bonds by Moody's, S&P, Fitch or such other Rating Agency as a result of the Alternate Letter of Credit; provided, that (i) the Favorable Opinion of Bond Counsel referred to in the preceding paragraph is obtained and (ii) all applicable Outstanding Subseries of Subordinate 2002 Bonds are subject to mandatory tender for purchase as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility," (unless the applicable Subseries of Subordinate 2002 Bonds bear interest at (A) a Fixed Interest Rate, (B) a Long-Term Interest Rate whereby the Long-Term Interest Rate Period is effective to the Maturity Date of the applicable Subseries of Subordinate 2002 Bonds, (C) a Long-Term Interest Rate whereby the duration of the Long-Term Interest Rate Period is two years or longer, or (D) an Auction Rate). The Department will deliver notice to the Trustee of the substitution of an Alternate Letter of Credit which will result in a decline in the short-term or long-term ratings assigned to such Subseries of Subordinate 2002 Bonds pursuant to this Section at least 45 days before the date of substitution.

Liquidity Facility or Alternate Liquidity Facility. If at any time there will be delivered to the Trustee (which date must be not less than five days prior to the termination, expiration or replacement of the existing Letter of Credit or Liquidity Facility, as the case may be):

(a) a Liquidity Facility or an Alternate Liquidity Facility, as the case may be, covering an applicable Subseries of Subordinate 2002 Bonds which will contain administrative provisions reasonably satisfactory to the Trustee;

(b) a Favorable Opinion of Bond Counsel;

(c) an opinion of counsel satisfactory to the Notice Parties, to the effect that such Liquidity Facility or Alternate Liquidity Facility, as the case may be, is a valid and enforceable obligation of the issuer or provider thereof;

(d) an opinion of Bond Counsel or other nationally recognized counsel acceptable to the Department addressed to the Notice Parties, that no registration of the applicable Subseries of Subordinate 2002 Bonds or such Liquidity Facility or Alternate Liquidity Facility, as the case may be, is required under the Securities Act and no qualification of the Master Subordinate Indenture or the First Supplemental Subordinate Indenture under the Trust Indenture Act of 1939, as amended, is required in connection with the delivery of such Liquidity Facility or Alternate Liquidity Facility, as the case may be;

(e) Rating Confirmation or a Favorable Opinion of Bond Counsel in the event a Rating Confirmation cannot be obtained; and

(f) all information required to give the notice of mandatory tender for purchase of the applicable Subseries of Subordinate 2002 Bonds as and if required by the First Supplemental Subordinate Indenture;

then the Trustee will accept such Liquidity Facility or Alternate Liquidity Facility, as the case may be, and, after the date of the mandatory tender for purchase as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility," (if such purchase is required under the First Supplemental Subordinate Indenture) or not less than 15 days after the date notice of such Liquidity Facility or Alternate Liquidity Facility, as the case may be, is mailed to the Owners of the applicable Subseries of Subordinate 2002 Bonds, as provided in the last paragraph of this section if no such mandatory tender for purchase is required as such tender is described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility" promptly thereafter surrender the Letter of Credit or the Liquidity Facility, as the case may be, then in effect to the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, for cancellation.

In the event that the Trustee will be provided with a Liquidity Facility or an Alternate Liquidity Facility, as the case may be, together with the other items required by this section, the applicable Subseries of Subordinate 2002 Bonds will be required to be tendered for mandatory tender for purchase as described under the caption "DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility," and the Trustee will mail notice to the Owners as described in the First Supplemental Subordinate Indenture.

Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility. In the event (a) the Letter of Credit Bank or a Liquidity Facility Provider, as the case may be, does not agree to extend the commitment period of such Letter of Credit or Liquidity Facility beyond the expiration date of such Letter of Credit or Liquidity Facility, as the case may be, or a firm commitment for an Alternate Letter

of Credit or an Alternate Liquidity Facility, as the case may be, has not been obtained by the Department within 90 days prior to such expiration date; or (b) the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, will have notified the Notice Parties that an “Event of Default” will have occurred under the Letter of Credit or the Liquidity Facility, as the case may be, and that the Letter of Credit Bank’s or the Liquidity Facility Provider’s, as the case may be, obligation to purchase the applicable Subseries of Subordinate 2002 Bonds will terminate 15 days after receipt of such notice, the Department will take all action necessary, in accordance with the terms hereof, to: (i) convert the applicable Subseries of Subordinate 2002 Bonds to a Fixed Interest Rate in accordance with the First Supplemental Subordinate Indenture; (ii) convert the applicable Subseries of Subordinate 2002 Bonds to an Auction Rate in accordance with the First Supplemental Subordinate Indenture; (iii) defease the applicable Subseries of Subordinate 2002 Bonds or provide for the payment or redemption thereof in accordance with the First Supplemental Subordinate Indenture; or (iv) obtain an Alternate Letter of Credit or an Alternate Liquidity Facility, as the case may be, for delivery on a date not less than five days prior to the expiration date of such Letter of Credit or Liquidity Facility, as the case may be, and, in the case of an “Event of Default” under such Letter of Credit or Liquidity Facility, as the case may be, on a date prior to the termination date of such Letter of Credit or Liquidity Facility, as the case may be. In the event the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, does not agree to modify the Available Amount necessary to effect a change in the Interest Rate Period, then the Department will take all action necessary to either (A) stay in the same Interest Rate Period; or (B) effect the options provided in (i) through (iv) of the immediately preceding sentence. On the date of such conversion, defeasance or redemption of the applicable Subseries of Subordinate 2002 Bonds or expiration, substitution or termination of the Letter of Credit or Liquidity Facility, as the case may be, all Bank Bonds will be purchased by the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, and all amounts payable to the Letter of Credit Bank or Liquidity Facility Provider, as the case may be, in connection with the Letter of Credit or Liquidity Facility, as the case may be, and the Bank Bonds (except as may be set forth in the Letter of Credit or Liquidity Facility, as the case may be) will be paid in full.

The Trustee will give notice by Mail to the Owners of the applicable Subseries of Subordinate 2002 Bonds then payable from the Letter of Credit or Liquidity Facility, as the case may be, (a) on or before the ninth day preceding the expiration of any Letter of Credit or Liquidity Facility in accordance with its terms; (b) on or before the thirteenth day preceding any replacement of the Letter of Credit or Liquidity Facility; or (c) in the case of receipt by the Trustee of notice from the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, that an “Event of Default” has occurred under the Letter of Credit or Liquidity Facility, as the case may be (but only if such Event of Default would result in the applicable Subseries of Subordinate 2002 Bonds being subject to tender as described under the caption “DESCRIPTION OF THE SUBORDINATE 2002 BONDS—Tender and Purchase of Subordinate 2002 Bonds—Mandatory Tender—Mandatory Tender for Purchase upon Termination, Expiration or Replacement of the Letter of Credit or a Liquidity Facility”). Any such notice will, to the extent applicable, (i) describe generally the Letter of Credit or Liquidity Facility, as the case may be, in effect prior to such termination, expiration or replacement and the Alternate Letter of Credit or Alternate Liquidity Facility, if any, in effect or to be in effect upon such replacement, termination or expiration and identify the provider of such Alternate Letter of Credit or Alternate Liquidity Facility, as the case may be, and whether in the case of each event of termination thereof there is an obligation to purchase upon mandatory tender of the applicable Subseries or Subordinate 2002 Bonds pursuant to the existing Letter of Credit or Liquidity Facility, as the case may be, or any Alternate Letter of Credit or Alternate Liquidity Facility, and if not, the events which give rise to the termination of the obligation to purchase under such Alternate Letter of Credit or Alternate Liquidity Facility without an obligation to purchase upon mandatory tender of the applicable Subseries of Subordinate 2002 Bonds, (ii) state the date of such replacement, termination or expiration, and the date of the proposed provision of the Alternate Letter of Credit or Alternate Liquidity Facility, if any; (iii) describe any replacement, termination or expiration of the Letter of Credit or Liquidity Facility, and the effective date thereof; (iv) specify the ratings, if any, to be applicable to the applicable Subordinate 2002 Bonds after such replacement, termination or expiration of the Letter of Credit or Liquidity Facility, as the case may be, or state that no ratings have been obtained with respect to such applicable Subseries of Subordinate 2002 Bonds for the period subsequent to such replacement, termination or expiration of the Letter of Credit or Liquidity Facility, as the case may be; and (v) state whether a mandatory tender for purchase of the applicable Subseries of Subordinate 2002 Bonds is required in connection therewith, and if

so, state that the applicable Subseries of Subordinate 2002 Bonds will be purchased pursuant to the First Supplemental Subordinate Indenture on the second Business Day preceding such expiration, replacement or termination. The Department will give the Trustee, the applicable Remarketing Agents, and the Rating Agencies written notification of any replacement, termination or expiration of the Letter of Credit or the Liquidity Facility, as the case may be, as soon as practicable after receiving knowledge thereof. The Department will provide the Trustee with written notice of any information required to enable the Trustee to give the foregoing notice and will provide the Trustee with the form of such notice; provided, however, that in the event the Department will fail to provide such notice, the Trustee will provide such notice.

Notice by Trustee to Reduce Liquidity Facility. In the event that the applicable Subseries of Subordinate 2002 Bonds will be redeemed in whole or in part, the Trustee, at the written direction of the Department, will give notice to the Letter of Credit Bank or the Liquidity Facility Provider, as the case may be, in the manner required by the Letter of Credit or the Liquidity Facility, as the case may be, to reflect such reduction in the principal amount of the applicable Subseries or Subordinate 2002 Bonds as a result of such redemption and no notice to the Owners of the applicable Subseries of Subordinate 2002 Bonds of such reduction, nor any purchase thereof under the First Supplemental Subordinate Indenture will occur as a result thereof.

Additional Event of Default

The occurrence of any event or failure to comply with any provision of the Tax Compliance Certificate executed by the Department at the time of issuance of the Subordinate 2002 Bonds which results in interest on the Subordinate 2002 Bonds being includable in gross income for federal income tax purposes is an Event of Default under the First Supplemental Subordinate Indenture.

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APPENDIX D

PROPOSED AMENDMENTS TO THE SENIOR LIEN TRUST INDENTURE

(Additions to the Senior Lien Trust Indenture are show in bold and double underline and deletions are shown in ~~strikethrough~~)

The Proposed Amendments may not take effect until the Senior Lien Trust Indenture Consent Requirement is met.

GRANTING CLAUSE

Amend Granting Clause to read as follows:

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Board of all the covenants, agreements and conditions expressed or implied herein or contained in the Bonds, the Board hereby pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under this Indenture, moneys and securities held in the Reserve Fund or any Debt Service Reserve Fund and any Reserve Fund Surety Policy or Debt Service Reserve Fund Surety Policy, as hereinafter defined, provided at any time in satisfaction of all or a portion of the Reserve Requirement, and to the extent provided in any Supplemental Indenture moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause (except to the extent excluded from the definition of "Pledged Revenues" by this Indenture), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any security or Credit Facility provided for specific Bonds or a specific Series of Bonds may, as provided by Supplemental Indenture, secure only such specific Bonds or Series of Bonds and, therefore, shall not be included as security for all Bonds under this Indenture and moneys and securities held in trust as provided in Section 4.10 exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under Article VII hereof shall be held solely for the payment of such specific Bonds.

ARTICLE I – Definitions

The following definitions are to be amended to read as follows:

(a) Subparagraph (vi) of the definition of "Aggregate Annual Debt Service"

(vi) with respect to any Program Bonds or Unissued Program Bonds (other than a Commercial Paper Program) (a) debt service on 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 Program Bonds, it will be assumed that the full principal amount of such Unissued Program Bonds will be amortized over a term certified by an Authorized Board Representative at the time the initial Program Bonds of such Program are issued to be the expected duration of such Program or, if such expectations have changed, over a term

certified by an Authorized Board Representative to be the expected duration of such Program at the time of such calculation, but not to exceed 30 years from the date the initial Program Bonds of such Program are issued and it will be assumed that debt service will be paid in substantially level 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 Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(b) Subparagraph (x) of the definition of "Aggregate Annual Debt Service"

(x) with respect to any Commercial Paper Program which has been implemented and not then terminated or with respect to any Commercial Paper Program then proposed to be implemented, the principal and interest thereon shall be calculated as if the entire Authorized Amount of such Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Commercial Paper Program is implemented and with substantially level Annual Debt Service payments; the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes.

(c) The definition of "Costs" or "Costs of a Project"

"Costs" or "Costs of a Project" shall mean all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and 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 Independent Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, the Reserve Fund, ~~if any,~~ any Debt Service Reserve Fund (other than the Reserve Fund), Trustee's fees and expenses; (6) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series of Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department.

- (d) The definition of “Credit Facility”

“*Credit Facility*” shall mean a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Reserve Fund Surety Policy, **a Debt Service Reserve Fund Surety Policy (other than the Reserve Fund Surety Policy)**, or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

- (e) The definition of “Debt Service Reserve Fund”

“Debt Service Reserve Fund” shall mean any Debt Service Reserve Fund (other than the Reserve Fund) created by the Board pursuant to a Supplemental Indenture in connection with the issuance of any Series of Bonds and that is required to be funded for the purpose of providing additional security for such Series of Bonds and under certain circumstances to provide additional security for such other designated Series of Bonds issued pursuant to the terms of this Indenture and as specified in any Supplemental Indenture.

- (f) The definition of “Debt Service Reserve Fund Surety Policy”

“Debt Service Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit (other than a Reserve Fund Surety Policy) deposited with the Trustee for the credit of a Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy shall be rated in one of the two highest long-term rating Categories by both Moody’s if Moody’s is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds at the time such instrument is provided.

- (g) The definition of “Implemented”

“Implemented” shall mean, when used with respect to a Program, a Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Program, the items described in Section 2.09(a) through (g) have been filed with the Trustee.

- (h) The last sentence of the definition of “LAX Revenues”

“*LAX Revenues*” include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Construction Fund allowed to be pledged by the terms of a Supplemental Indenture, the Reserve Fund, **any Debt Service Reserve Fund** and allocated earnings on the Maintenance and Operation Reserve Fund.

- (i) The definition of “Pledged Revenues”

“*Pledged Revenues*” shall mean, except to the extent specifically excluded herein or under the terms of any Supplemental Indenture, LAX Revenues. “*Pledged Revenues*” shall also include such additional revenues, if any, as are designated as “*Pledged Revenues*” under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “LAX Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent

with the payment of debt service on the Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “Pledged Revenues,” unless designated as “Pledged Revenues” under a terms of a Supplemental Indenture: (a) any Swap Termination Payments paid to the Board pursuant to a Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture (provided that only Passenger Facility Charges in respect of LAX may be so pledged), and (d) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (e) Released LAX Revenues. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Indenture.”

(j) The definition of “Released Revenues”

“Released LAX Revenues” shall mean LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SIXTH of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SIXTH of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of this Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody’s (provided such Rating Agencies have been requested by the Department to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of this Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Bonds.

For purposes of subparagraph (b) above, no Transfer shall be taken into account in the computation of Pledged Revenues.

Additionally, the Department shall give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Bonds and S&P is then maintaining a rating on any of the Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of this Indenture as proved in this definition of “Released LAX Revenues.

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board shall no longer be included in Pledged Revenues and shall be excluded from the pledge and lien of this Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of this Indenture pursuant to a Supplemental Indenture.

(k) The definition of “Reserve Requirement”

“Reserve Requirement” shall mean an amount equal to the lesser of (i) Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund or a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture, (ii) ten percent of the principal amount of the Bonds that have been issued and are participating in the Reserve Fund or in a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture, less the amount of original issue discount with respect to any Bond if such original issue discount exceeded 2% on such Bond at the time of its original sale and (iii) 125% of the average Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund or a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture.

(l) The first sentence of the definition of “Subordinated Obligation”

“Subordinated Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund and any Debt Service Reserve Fund.

(m) The definition of “Transfer”

“Transfer” shall mean for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH of Section 4.04 hereof have been made as of the last day of the immediately preceding Fiscal Year).

OTHER PROVISIONS

Amend Section 2.11 by adding the following sentence immediately after subparagraph (3) of Section 2.11(b):

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

Amend second paragraph of Section 4.04(a) to read as follows:

Earnings on the various funds and accounts created under any Supplemental Indenture shall be deposited as provided in such Supplemental Indenture, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Indentures, (ii) earnings on the Construction Funds may, if so provided by Supplemental Indenture, be retained in such Construction Fund, ~~and~~ (iii) pursuant to Section 4.07(d) of this Indenture, earnings on the Reserve Fund may be retained in such fund under the conditions therein described, **and (iv) earnings on any Debt Service Reserve Fund may, if so provided by Supplemental Indenture, be retained in such fund.**

Amend paragraph SECOND of Section 4.04(b) to read as follows:

SECOND To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07 **or any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;**

Amend paragraphs seven and eight of Section 4.06 to read as follows:

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in the Reserve Fund **or any Debt Service Reserve Fund**) to pay in full with respect to Bonds of all Series all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day (without regard to any amounts in the Reserve Fund **or any Debt Service Reserve Fund**) as follows: first to the payment of past due interest on Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on 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 Bonds of each Series due on such Payment Date and, if the amount available shall not be sufficient to pay in full all interest on the 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 Bonds and, if the amount available shall not be sufficient to pay in full all principal on the Bonds then due, then *pro rata* among the Series according to the Principal Amount then due on the Bonds.

If the Reserve Fund **or any Debt Service Reserve Fund** has been used to make payments on the Bonds, then the Board shall replenish the Reserve Fund **or any Debt Service Reserve Fund** or reimburse the provider thereof from Pledged Revenues; provided that (1) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full as provided herein and (2) the required payments to replenish the Reserve Fund **or any Debt Service Reserve Fund** or reimburse the provider thereof shall be due in no less than 12 substantially equal monthly installments commencing in the month following any such withdrawal.

Amend Section 4.09 to read as follows:

Section 4.09. Construction Fund. Each Construction Fund established to pay the Costs of a Project may be held either by the Board in the City Treasury or by the Trustee or any agent of the Trustee or in part by the Board in the City Treasury and in part by the Trustee or any agent of the Trustee, all as provided by this Indenture, a Supplemental Indenture or Supplemental Indentures. All moneys in each Construction Fund shall be held and disbursed as provided in the Supplemental Indenture or Supplemental Indentures under which such fund or funds are created. Notwithstanding this provision, no Construction Fund shall be required for a given Series of Bonds if all of the proceeds thereof (except those deposited into the Reserve Fund, **a Debt Service Reserve Fund** or a Debt Service Fund) are spent at the time of issuance of such Series or are used

to refund Bonds or otherwise the Board determines that there is no need to create a Construction Fund for such Series.

Amend Section 4.13 to read as follows:

Section 4.13. **Creation of Debt Service Reserve Fund;** Additional Funds and Accounts. **Notwithstanding Section 4.07 hereof, instead of making or causing a deposit to be made to the Reserve Fund, the Board may, at the time of issuance of any Series of Bonds, except for such Series of Bonds designated as Variable Rate Indebtedness, provide by Supplemental Indenture for the creation of a Debt Service Reserve Fund as security for such Series, and in its discretion reserving the right to allow a future Series of Bonds to participate in such Debt Service Reserve Fund, or provide that such Series of Bonds participate in a Debt Service Reserve Fund previously created for an Outstanding Series of Bonds. Any Debt Service Reserve Fund established under a Supplemental Indenture shall be funded in an amount equal to the Reserve Requirement. The Board shall, by such Supplemental Indenture, provide for the manner of funding and replenishing of such Debt Service Reserve Fund and shall establish such other terms with respect to such Debt Service Reserve Fund as the Board may deem to be appropriate, including providing a Credit Facility in lieu thereof. In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.** The Board may, in its discretion, create additional funds and accounts for a particular Series of Bonds pursuant to the terms of a Supplemental Indenture.

Amend Section 5.04(b) to read as follows:

(b) The Board further agrees that it will establish, fix, prescribe and collect tolls, fees, rentals and charges in connection with Los Angeles International Airport and for services rendered in connection therewith, so that during each Fiscal Year the Net Pledged Revenues, **together with any Transfer,** will be equal to at least 125% of Aggregate Annual Debt Service **on the Outstanding Bonds.** **For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 25% of Aggregate Annual Debt Service on the Outstanding Bonds in such Fiscal Year.**

Amend Paragraph (2) of Section 5.06 to read as follows:

(2) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish the Reserve Fund **or a Debt Service Reserve Fund** are then current in accordance with Section 4.04 of this Indenture.

Amend Article XI to read as follows:

If a Credit Facility is provided for a Series of Bonds or for specific Bonds, the Board may in the Supplemental Indenture under which such Bonds are issued, provide any or all of the following rights to the Credit Provider as the Board shall deem to be appropriate:

(1) the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings all as provided in Article VII of this Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider shall be deemed to be the Bondholder of such Bonds; ~~and~~

(2) the right to act in place of the owners of the Bonds which are secured by the Credit Facility for purposes of removing a Trustee or appointing a Trustee under Article IX hereof; **and**

(3) the right to consent to Supplemental Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Principal Amount of the Bonds, entered into pursuant to Section 10.03, except with respect to any amendments described in Sections 10.03(a)(i) through (iv) and 10.03(b)(i) or (ii) which consent of the actual Bondholders shall still be required, of this Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider shall be deemed to be the Bondholder of such Bonds.

The rights granted to any such Credit Provider, with respect to the provisions of Articles VIII and IX hereof shall be disregarded and be of no effect if the Credit Provider is in default of its payment obligations under its Credit Facility.

APPENDIX E

PROPOSED FORM OF CO-BOND COUNSEL OPINION

[Closing Date]

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

\$37,400,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Revenue Bonds
2002 Subseries C1

\$20,000,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Revenue Bonds
2002 Subseries C2

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the Department of Airports of the City of Los Angeles, California (the "Department") acting through the Board of Airport Commissioners (the "Board") of \$37,400,000 aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2002 Subseries C1 (the "Subseries 2002C1 Bonds") and \$20,000,000 aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2002 Subseries C2 (the "Subseries 2002C2 Bonds," and together with the Subseries 2002C1 Bonds, the "Subordinate 2002 Bonds"). The proceeds of the Subordinate 2002 Bonds are being used to (a) reimburse the Department for certain previous capital expenditures and (b) finance certain costs of issuance all as described in the hereinafter defined First Supplemental Subordinate Indenture.

The Subordinate 2002 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 Sections 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the "Charter"), a Master Subordinate Trust Indenture, dated as of December 1, 2002 (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank, N.A., as trustee (the "Trustee"), and a First Supplemental Subordinate Trust Indenture, dated as of December 1, 2002 (the "First Supplemental Subordinate Indenture"), by and between the Department and the Trustee. Issuance of the Subordinate 2002 Bonds has been authorized by Resolution No. 21875 (the "Authorizing Resolution") adopted by the Board on October 15, 2002 and approved by the City Council on October 29, 2002 and Resolution No. 21907 (the "Documents Resolution," and together with the Authorizing Resolution, the "Resolution") adopted by the Board on November 13, 2002.

The Subordinate 2002 Bonds are revenue obligations of the Department payable from the Subordinate Pledged Revenues, as defined in the Master Subordinate Indenture. Neither the faith and credit nor the taxing power of the City of Los Angeles (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, premium, if any, or interest on the Subordinate 2002 Bonds. The Department has no power of taxation.

In connection with the issuance of the Subordinate 2002 Bonds, we have examined the following:

- (a) a copy of the Charter;
- (b) a certified copy of the Authorizing Resolution;
- (c) a certified copy of the Documents Resolution;

- (d) an executed counterpart of the Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented (the "Senior Lien Trust Indenture"), by and between the Department, acting through the Board, and BNY Western Trust Company, as successor to U.S. Trust Company of California, N.A., as trustee;
- (e) an executed counterpart of the Master Subordinate Indenture;
- (f) an executed counterpart of the First Supplemental Subordinate Indenture;
- (g) an executed counterpart of the Subordinate Trust Indenture, dated as of April 1, 2002 (the "Parity Subordinate Indenture"), by and between the Department and U.S. Bank Trust National Association, as issuing and paying agent;
- (h) certifications of the Department and others;
- (i) an executed counterpart of a Tax Compliance Certificate dated this date relating to the Subordinate 2002 Bonds and other matters (the "Tax Certificate");
- (j) an opinion of the City Attorney with respect to the Department; and
- (k) 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, duly organized and operating pursuant to the Charter and has the power to execute the Master Subordinate Indenture and the First Supplemental Subordinate Indenture and to issue the Subordinate 2002 Bonds.
2. The Master Subordinate Indenture and the First Supplemental Subordinate Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Trustee, represent valid and binding agreements of the Department and the Trustee enforceable in accordance with their terms.
3. The Subordinate 2002 Bonds have been validly authorized, executed and issued in accordance with the Charter, the Resolution, the Master Subordinate Indenture and the First Supplemental Subordinate Indenture and represent valid and binding limited obligations of the Department. The principal of, premium, if any, and interest on the Subordinate 2002 Bonds shall be payable solely from and are secured by an assignment and pledge by the Department to the Trustee of the Subordinate Pledged Revenues as defined in the Master Subordinate Indenture and certain funds and accounts created under the Master Subordinate Indenture and the First Supplemental Subordinate Indenture, and not out of any other fund or moneys of the Department or the City.
4. Under existing laws, regulations, rulings and judicial decisions, interest on the Subordinate 2002 Bonds is excluded from gross income for federal income tax purposes. Interest on the Subordinate 2002 Bonds is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations, however, such interest is included in the 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 alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations.
5. The opinions set forth in the first sentence of paragraph 4 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Subordinate Indenture, the First Supplemental Subordinate Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Subordinate 2002 Bonds to be included in gross income retroactive to the date of issue of the Subordinate 2002 Bonds. Although we are of the opinion that interest on the Subordinate 2002 Bonds is excluded from gross income for federal tax purposes, the

accrual or receipt of interest on the Subordinate 2002 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.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Subordinate 2002 Bonds is exempt from present State of California personal income tax.

The obligations of the Department and the security provided therefor, as contained in the Subordinate 2002 Bonds, the Master Subordinate Indenture and the First 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. Our engagement with respect to the Subordinate 2002 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. Neither the City nor the Department make any representations as to the accuracy or the completeness of such information. The beneficial owners of the Subordinate 2002 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE CITY NOR THE 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 SUBORDINATE 2002 BONDS UNDER THE 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 SUBORDINATE 2002 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 SUBORDINATE 2002 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SUBORDINATE 2002 BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

DTC will act as securities depository for the Subordinate 2002 Bonds. The Subordinate 2002 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 the Subordinate 2002 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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 Subordinate 2002 Bonds 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. 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 Subordinate 2002 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Subordinate 2002 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Subordinate 2002 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Subordinate 2002 Bonds, except in the event that use of the book-entry system for the Subordinate 2002 Bonds is discontinued.

To facilitate subsequent transfers, all Subordinate 2002 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 Subordinate 2002 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 Subordinate 2002 Bonds; DTC records reflect only the identity of the Direct Participants to whose accounts such Subordinate 2002 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 Subordinate 2002 Bonds are in the book-entry only system, redemption notices shall be sent to DTC. If less than all of the Subordinate 2002 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 Subordinate 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Subordinate 2002 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 Subordinate 2002 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Subordinate 2002 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Department, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Subordinate 2002 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

As more fully described in this Official Statement, the Owner of a Subordinate 2002 Bond may elect or may be required to have its Subordinate 2002 Bond purchased at a purchase price equal to one hundred percent (100%) of the principal amount thereof, plus accrued interest, if any, to the date of purchase on the purchase dates, at the times and in the manner set forth herein. So long as Cede & Co. is the registered owner of the Subordinate 2002 Bonds, as nominee of DTC, the right of an Owner to tender any Subordinate 2002 Bond for purchase, the mechanics for exercising such right to tender and the right of such Owner to receive payment of the purchase price

of any Subordinate 2002 Bond tendered for purchase as described herein pertain only to the rights of Cede & Co. and not the rights of any Beneficial Owner. The ability of any Beneficial Owner to tender its interest in any Subordinate 2002 Bond and receive payment therefor is based solely upon and subject to the procedures and limitations of the book-entry only system, including the contractual arrangement of such Beneficial Owner with one of the Direct or Indirect Participants and the contractual arrangements of such Direct or Indirect Participants with DTC. Such procedures and limitations may cause a delay in the ability of a Beneficial Owner to exercise a right to tender its interest in the Subordinate 2002 Bonds, or to receive timely payment of the purchase price thereof in the manner described in this Official Statement. None of the City, the Board, the Trustee or the respective Remarketing Agents will have any responsibility to any Beneficial Owner with respect to the timely exercise by DTC or any Direct or Indirect Participant of any direction by a Beneficial Owner with respect to its election or its requirement to tender its interest in the Subordinate 2002 Bonds or with respect to the timely remittance by DTC or any Direct or Indirect Participant of the purchase price of the Subordinate 2002 Bonds.

DTC may discontinue providing its services as depository with respect to the Subordinate 2002 Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Bonds depository). In that event, bond certificates will be printed and delivered.

The 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.

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 SUBORDINATE 2002 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SUBORDINATE 2002 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SUBORDINATE 2002 BONDS. Each person for whom a Participant acquires an interest in the Subordinate 2002 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

THE DEPARTMENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE SUBORDINATE 2002 BONDS. NO ASSURANCE CAN BE GIVEN BY THE DEPARTMENT THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES RECEIVED AS THE REGISTERED OWNER OF THE SUBORDINATE 2002 BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Department determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Subordinate 2002 Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Subordinate 2002 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 Subordinate 2002 Bonds will be governed by the provisions of the Resolutions.

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 Subordinate 2002 Bonds.

In addition, Beneficial Owners of the Subordinate 2002 Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Subordinate 2002 Bonds 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 Subordinate 2002 Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Subordinate 2002 Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Subordinate 2002 Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Subordinate 2002 Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.