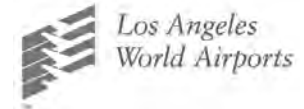


In the opinion of Kutak Rock LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2012 Senior Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2012A Senior Bond or Series 2012B Senior Bond for any period during which such Series 2012A Senior Bond or Series 2012B Senior Bond, as applicable, is held by a “substantial user” of the facilities financed or refinanced by the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, or a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Bond Counsel is further of the opinion that (a) interest on the Series 2012A Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2012B Senior Bonds and the Series 2012C Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2012 Senior Bonds is exempt from State of California personal income taxes. See “TAX MATTERS” herein.



\$279,110,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT



\$105,610,000
Senior Revenue Bonds
2012 Series A
(Private Activity - AMT)

\$145,630,000
Senior Revenue Bonds
2012 Series B
(Private Activity - Non-AMT)

\$27,870,000
Senior Revenue Bonds
2012 Series C
(Governmental - Non-AMT)

Dated: Date of Delivery

Due: May 15, as shown on the inside cover

The Los Angeles International Airport, Senior Revenue Bonds, 2012 Series A (the “Series 2012A Senior Bonds”), the Los Angeles International Airport, Senior Revenue Bonds, 2012 Series B (the “Series 2012B Senior Bonds”) and the Los Angeles International Airport, Senior Revenue Bonds, 2012 Series C (the “Series 2012C Senior Bonds” and collectively with the Series 2012A Senior Bonds and the Series 2012B Senior Bonds, the “Series 2012 Senior Bonds”) of the Department of Airports of the City of Los Angeles (the “Department”) are being issued as described herein. Capitalized terms not defined on the cover of this Official Statement shall have the meanings ascribed to them in this Official Statement.

The Series 2012A Senior Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at Los Angeles International Airport (“LAX”), including a portion of the Series 2012 Senior Bonds Projects, (ii) refund certain outstanding Subordinate Commercial Paper Notes, (iii) make a deposit to the Senior Reserve Fund and (iv) pay costs of issuance of the Series 2012A Senior Bonds. The Series 2012B Senior Bonds are being issued to (i) refund certain outstanding Subordinate Commercial Paper Notes, (ii) make a deposit to the Senior Reserve Fund and (iii) pay costs of issuance of the Series 2012B Senior Bonds. The Series 2012C Senior Bonds are being issued to (i) refund certain outstanding Subordinate Commercial Paper Notes, and (ii) pay costs of issuance of the Series 2012C Senior Bonds. See “PLAN OF FINANCE.”

The Series 2012 Senior Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Net Pledged Revenues and (ii) certain funds and accounts held by the Senior Trustee. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS.” The Series 2012 Senior Bonds are being issued on a parity with the Existing Senior Bonds.

The Series 2012 Senior Bonds do not constitute or evidence an indebtedness of the City of Los Angeles (the “City”) or a lien or charge on any property or the general revenues of the City. Neither the faith and the credit nor the taxing power of the City, the State of California or any public agency, other than the Department, to the extent of the Net Pledged Revenues is pledged to the payment of the principal of or interest on the Series 2012 Senior Bonds. The Department has no power of taxation. The Series 2012 Senior Bonds shall constitute and evidence an obligation of the Department payable only in accordance with Section 609(b) of the City Charter and any other applicable provisions thereof. None of the properties of the Airport System is subject to any mortgage or other lien for the benefit of the owners of the Series 2012 Senior Bonds. The Department is under no obligation to pay the Series 2012 Senior Bonds, except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Senior Indenture.

Interest on the Series 2012 Senior Bonds will be payable on each May 15 and November 15, commencing May 15, 2013. The Series 2012 Senior Bonds are being issued only as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), and will be available in authorized denominations of \$5,000 and integral multiples thereof. The Series 2012 Senior Bonds initially are being issued and delivered in book-entry form only.

The Series 2012A Senior Bonds and the Series 2012B Senior Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See “DESCRIPTION OF THE SERIES 2012 SENIOR BONDS – Redemption Provisions.” The Series 2012C Senior Bonds are not subject to redemption prior to maturity.

The Series 2012 Senior Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Kutak Rock LLP, Bond Counsel to the Department and certain other conditions. Certain legal matters will be passed upon for the Department by Carmen Trutanich, City Attorney of the City. Polsinelli Shughart LLP serves as Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Sidley Austin LLP. Public Resources Advisory Group and Public Financial Management, Inc. serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2012 Senior Bonds will be made through DTC on or about December 18, 2012.

Citigroup

Cabrera Capital Markets, LLC

Siebert Brandford Shank & Co., L.L.C.

Wells Fargo Securities

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

**\$105,610,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Senior Revenue Bonds
2012 Series A
(Private Activity - AMT)**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. [†] (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. [†] (544435)
2014	\$4,945,000	3.000%	0.510%	V49	2022	\$3,860,000	5.000%	2.120%	W48
2015	6,285,000	4.000	0.730	V56	2023	4,060,000	5.000	2.270 ^C	W55
2016	7,145,000	4.000	0.940	V64	2024	4,260,000	5.000	2.370 ^C	W63
2017	7,295,000	4.000	1.150	V72	2025	4,475,000	5.000	2.430 ^C	W71
2018	7,430,000	5.000	1.370	V80	2026	9,115,000	5.000	2.500 ^C	W89
2019	7,635,000	5.000	1.480	V98	2027	9,575,000	5.000	2.560 ^C	W97
2020	6,640,000	5.000	1.700	W22	2028	10,055,000	5.000	2.620 ^C	X21
2021	3,675,000	5.000	1.900	W30	2029	9,160,000	5.000	2.660 ^C	X39

**\$145,630,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Senior Revenue Bonds
2012 Series B
(Private Activity - Non-AMT)**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. [†] (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. [†] (544435)
2013	\$1,075,000	2.000%	0.260%	Z37	2022	\$3,640,000	5.000%	1.670%	Y46
2014	2,660,000	2.000	0.310	X47	2023	3,820,000	5.000	1.850 ^C	Y53
2015	2,715,000	3.000	0.480	X54	2024	4,010,000	5.000	1.950 ^C	Y61
2016	2,795,000	4.000	0.640	X62	2025	4,210,000	5.000	2.010 ^C	Y79
2017	2,905,000	4.000	0.800	X70	2029	1,400,000	5.000	2.260 ^C	Z52
2018	3,025,000	4.000	0.960	X88	2030	6,485,000	4.000	2.590 ^C	Z78
2019	3,145,000	5.000	1.070	X96	2030	4,600,000	5.000	2.340 ^C	Y87
2020	3,300,000	5.000	1.250	Y20	2031	11,575,000	4.000	2.650 ^C	Y95
2021	3,465,000	5.000	1.450	Y38	2032	12,040,000	4.000	2.710 ^C	Z29

\$39,470,000 – 5.000% Series 2012B Term Bonds due May 15, 2035 – Yield 2.640%^C, CUSIP No. 544435Z60

\$29,295,000 – 4.000% Series 2012B Term Bonds due May 15, 2037 – Yield 3.030%^C, CUSIP No. 544435Z45

**\$27,870,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Senior Revenue Bonds
2012 Series C
(Governmental - Non-AMT)**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. [†] (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No. [†] (544435)
2015	\$ 410,000	3.000%	0.480%	Z86	2018	\$6,165,000	4.000%	0.960%	2B5
2016	5,705,000	4.000	0.640	Z94	2019	9,660,000	5.000	1.070	2C3
2017	5,930,000	4.000	0.800	2A7					

^C Priced to par call date of May 15, 2022.

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

No dealer, broker, salesperson or other person has been authorized by the Department to give any information or to make any representation, other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Department. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2012 Senior Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2012 Senior Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Senior Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2012 Senior Bonds. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Department since the date hereof.

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

In connection with the offering of the Series 2012 Senior Bonds, the Underwriters may over-allot or effect transactions that may stabilize or maintain the market price of such Series 2012 Senior Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

CITY OF LOS ANGELES OFFICIALS

Antonio R. Villaraigosa, Mayor
Carmen Trutanich, City Attorney
Wendy Greuel, City Controller
Miguel Santana, City Administrative Officer
Antoinette Christovale, Director of Finance/City Treasurer
June Lagmay, City Clerk

CITY COUNCIL

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

BOARD OF AIRPORT COMMISSIONERS

	Michael A. Lawson, President	
Valeria C. Velasco, Vice President		Ann M. Hollister, Commissioner
Joseph A. Aredas, Commissioner		Boyd Hight, Commissioner
Robert D. Beyer, Commissioner		Fernando Torres-Gil, Commissioner

LOS ANGELES WORLD AIRPORTS STAFF

Gina Marie Lindsey, Executive Director
Stephen C. Martin, Chief Operating Officer
Debbie Bowers, Deputy Executive Director, Commercial Development
Michael D. Feldman, Deputy Executive Director, LAWA Facilities Management
Roger Johnson, Deputy Executive Director, Airports Development
Samson Mengistu, Deputy Executive Director, Administration
Arif Alikhan, Deputy Executive Director, Law Enforcement and Homeland Security
Edward F. Maslin, Deputy Executive Director, Real Estate Services
Jacqueline Yaft, Deputy Executive Director, Operations and Emergency Management
Wei Chi, Deputy Executive Director, Comptroller
Dominic Nessi, Deputy Executive Director, Chief Information Officer
David Shuter, Deputy Executive Director, Facilities Engineering and Maintenance
Ryan Yakubik, Director of Capital Development and Budget
Raymond Ilgunas, General Counsel

SENIOR TRUSTEE

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

BOND COUNSEL

Kutak Rock LLP

DISCLOSURE COUNSEL

Polsinelli Shughart LLP

CO-FINANCIAL ADVISORS

Public Resources Advisory Group and Public Financial Management, Inc.

AIRPORT CONSULTANT

Ricondo & Associates, Inc.

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OFFICIAL STATEMENT

\$279,110,000

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

\$105,610,000	\$145,630,000	\$27,870,000
Senior Revenue Bonds	Senior Revenue Bonds	Senior Revenue Bonds
2012 Series A	2012 Series B	2012 Series C
(Private Activity - AMT)	(Private Activity - Non-AMT)	(Governmental - Non-AMT)

PART I

INTRODUCTION

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

General

The purpose of this Official Statement, which includes the cover page, the inside cover pages, the table of contents, Part I of this Official Statement and Part II of this Official Statement and the appendices of this Official Statement, is to provide certain information concerning the issuance by the Department of Airports (the "Department") of the City of Los Angeles, California (the "City"), acting through the Board of Airport Commissioners of the City (the "Board"), of its \$105,610,000 Los Angeles International Airport, Senior Revenue Bonds, 2012 Series A (the "Series 2012A Senior Bonds"), \$145,630,000 Los Angeles International Airport, Senior Revenue Bonds, 2012 Series B (the "Series 2012B Senior Bonds"), and \$27,870,000 Los Angeles International Airport, Senior Revenue Bonds, 2012 Series C (the "Series 2012C Senior Bonds" and collectively with the Series 2012A Senior Bonds and the Series 2012B Senior Bonds, the "Series 2012 Senior Bonds"). Generally, Part I of this Official Statement contains an introduction to the offering of and certain terms and conditions relating to the Series 2012 Senior Bonds and Part II of this Official Statement contains certain financial and operating information concerning the Department and Los Angeles International Airport ("LAX"). See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SENIOR INDENTURE AND THE THIRTEENTH SUPPLEMENTAL SENIOR INDENTURE."

The City, the Department and the Airport System

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

Aviation Activity

According to Airports Council International ("ACI") statistics, in calendar year 2011 LAX was ranked as the 6th busiest airport in the world and the 3rd busiest in the United States as measured by total number of enplaned and deplaned passengers and the 13th busiest airport in the world and the 5th busiest in the United States in terms of volume of air cargo. LAX is classified by the FAA as a large hub airport. See "LOS ANGELES INTERNATIONAL AIRPORT" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Plan of Finance

The Series 2012A Senior Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at LAX, including a portion of the Terminal 5 Improvement Project (as defined herein) and a portion of the Terminal 6 Improvement Project (as defined herein), (ii) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with financing a portion of the Terminal 6 Improvement Project, (iii) make a deposit to the Senior Reserve Fund and (iv) pay costs of issuance of the Series 2012A Senior Bonds.

The Series 2012B Senior Bonds are being issued to (i) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with the Terminal 5 Refinancing (as defined herein), (ii) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with financing a portion of the Terminal 5 Improvement Project and a portion of the Terminal 6 Improvement Project, (iii) make a deposit to the Senior Reserve Fund and (iv) pay costs of issuance of the Series 2012B Senior Bonds.

The Series 2012C Senior Bonds are being issued to (i) refund certain outstanding Subordinate Commercial Paper Notes issued by the Department in connection with the redemption of certain Senior Bonds, and (ii) pay costs of issuance of the Series 2012C Senior Bonds.

See “PLAN OF FINANCE,” “DESCRIPTION OF THE SERIES 2012 SENIOR BONDS” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Capital Planning

The Department is undertaking a multi-billion dollar development program at LAX. Program projects include, among other things, the Bradley West Project and several significant airfield, terminal and other supporting facilities as described in more detail under “CAPITAL PLANNING.”

Airport Planning

In order for the Department to plan to meet the projected needs for air transportation while balancing those needs with the concerns of airport area communities, the Department has undertaken a LAX Master Plan, a LAX Specific Plan and other community focused steps as part of its capital development for LAX as described in more detail under “AIRPORT PLANNING.”

Series 2012 Senior Bonds

The Series 2012 Senior Bonds are being issued pursuant to the Master Trust Indenture, dated as of April 1, 1995, as amended (the “Master Senior Indenture”), by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee (the “Senior Trustee”), and a Thirteenth Supplemental Trust Indenture, to be dated as of December 1, 2012 (the “Thirteenth Supplemental Senior Indenture,” and together with the Master Senior Indenture and all supplements thereto, the “Senior Indenture”), by and between the Department, acting through the Board, and the Senior Trustee; Resolution No. 24919 adopted by the Board on September 24, 2012 and approved by the City Council of the City (the “City Council”) on October 30, 2012, and Resolution No. 24970 adopted by the Board on November 13, 2012 (collectively, the “Resolutions”), authorizing the issuance of the Series 2012 Senior Bonds; and under and in accordance with Section 609 of the Charter of the City of Los Angeles, relevant ordinances of the City and the Los Angeles Administrative Code (collectively, the “Charter”).

The Series 2012 Senior Bonds are secured by a pledge of and first lien on Net Pledged Revenues. “Net Pledged Revenues” means, for any given period, Pledged Revenues for such period, less, for such period, LAX Maintenance and Operations Expenses. Pledged Revenues generally includes certain income and revenue received by the Department from LAX but excludes any income and revenue from the Department’s other airports. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS.” The Series 2012 Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues on a parity with the Existing Senior Bonds (as defined under “—Existing Senior Bonds”), and any additional bonds or other obligations issued on parity with respect to Net Pledged Revenues with the Series 2012 Senior Bonds and the Existing Senior Bonds under the terms and provisions of the Master Senior Indenture (the “Additional Senior Bonds”).

For purposes of this Official Statement, “Senior Bonds” means the Series 2012 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds. As of the date of this Official Statement, the only obligations the Department has issued pursuant to the Master Senior Indenture are the Existing Senior Bonds. Net Pledged

Revenues are available for the equal and proportionate benefit of all Senior Bonds and any other obligations issued on parity with respect to Net Pledged Revenues pursuant to the Master Senior Indenture. The Series 2012 Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Pledge of Net Pledged Revenues.”

THE SERIES 2012 SENIOR BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE NET PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2012 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2012 SENIOR BONDS SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2012 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2012 SENIOR BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS.”

Existing Senior Bonds

Pursuant to the Master Senior Indenture and the Charter, the Department, acting through the Board, has previously issued and, as of November 1, 2012, there were outstanding \$2,660,600,000 aggregate principal amount of its:

- (i) Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the “Series 2008A Senior Bonds”);
- (ii) Los Angeles International Airport Senior Refunding Revenue Bonds, 2008 Series B (the “Series 2008B Senior Bonds” and together with the Series 2008A Senior Bonds, the “Series 2008 Senior Bonds”);
- (iii) Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the “Series 2009A Senior Bonds”);
- (iv) Los Angeles International Airport Senior Revenue Bonds, 2010 Series A (the “Series 2010A Senior Bonds”); and
- (v) Los Angeles International Airport Senior Revenue Bonds, 2010 Series D (the “Series 2010D Senior Bonds” and collectively with the Series 2008 Senior Bonds, the Series 2009A Senior Bonds and the Series 2010A Senior Bonds, the “Existing Senior Bonds”).

The Existing Senior Bonds are secured by a pledge of and first lien on the Net Pledged Revenues on a parity with the Series 2012 Senior Bonds. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.”

Existing Subordinate Obligations

The Subordinate Obligations (as defined below) are secured by a pledge of and first lien on “Subordinate Pledged Revenues,” which includes Pledged Revenues less all amounts necessary to pay LAX Maintenance and Operation Expenses, less all debt service and reserve requirements on the Senior Bonds.

Subordinate Bonds

Pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended and supplemented (the “Subordinate Indenture”), by and between the Department and U.S. Bank National Association, as trustee (the “Subordinate Trustee”), and the Charter, the Department has previously issued and, as of November 1, 2012, there were outstanding \$782,550,000 aggregate principal amount of its:

- (i) Los Angeles International Airport, Subordinate Revenue Bonds, 2008 Series C (the “Series 2008C Subordinate Bonds”);
- (ii) Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series C (the “Series 2009C Subordinate Bonds”);
- (iii) Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series D (the “Series 2009D Subordinate Bonds”);
- (iv) Los Angeles International Airport, Subordinate Refunding Revenue Bonds, 2009 Series E (the “Series 2009E Subordinate Bonds” and collectively with the Series 2009C Subordinate Bonds and the 2009D Subordinate Bonds, the “Series 2009 Subordinate Bonds”);
- (v) Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series B (the “Series 2010B Subordinate Bonds”); and
- (vi) Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series C (the “Series 2010C Subordinate Bonds” and together with the Series 2010B Subordinate Bonds, the “Series 2010 Subordinate Bonds” and collectively with the Series 2008C Subordinate Bonds and the Series 2009 Subordinate Bonds, the “Existing Subordinate Bonds”). See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.”

For purposes of this Official Statement, “Subordinate Bonds” means the Existing Subordinate Bonds and any additional bonds issued on parity with the Subordinate Bonds under the terms and provisions of the Subordinate Indenture (“Additional Subordinate Bonds”).

Subordinate Commercial Paper Notes

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

As of November 1, 2012, Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately \$272.1 million (including approximately \$244.7 million of Subordinate Commercial Paper Notes to be refunded with a portion of the proceeds of the Series 2012 Senior Bonds, as described under “PLAN OF FINANCE”).

For purposes of this Official Statement, “Subordinate Obligations” means the Subordinate Bonds, the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreements (as defined herein) and any other obligations issued on parity with respect to Subordinate Pledged Revenues (as defined herein) pursuant to the Subordinate Indenture.

As of November 1, 2012, the only Subordinate Obligations the Department had issued or incurred are the Existing Subordinate Bonds, the Subordinate Commercial Paper Notes and the payment obligations of the Department under the CP Reimbursement Agreements. Subordinate Pledged Revenues are available for the equal and proportionate benefit of all Subordinate Obligations. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings.”

Investment Considerations

The purchase and ownership of the Series 2012 Senior Bonds involve investment risks. Prospective purchasers of the Series 2012 Senior Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2012 Senior Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS.”

Continuing Disclosure

In connection with the issuance of the Series 2012 Senior Bonds, the Department will covenant for the benefit of the owners of the Series 2012 Senior Bonds to provide annually certain financial information and

operating data concerning the Department to the Municipal Securities Rulemaking Board (“MSRB”) and notice of certain enumerated events, pursuant to the requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission (“Rule 15c2-12”). Within the past five years, the Department has not failed to comply, in all material respects, with any continuing disclosure undertaking to provide annual financial and operating information or notices of certain enumerated events.

See “CONTINUING DISCLOSURE” and APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Report of the Airport Consultant

Included as APPENDIX A to this Official Statement is a Report of the Airport Consultant dated November 28, 2012 (the “Report of the Airport Consultant”) prepared by Ricondo & Associates, Inc. (the “Airport Consultant”) and its sub-consultant, Partners for Economic Solutions, in conjunction with the issuance of the Series 2012 Senior Bonds.

The Report of the Airport Consultant includes, among other things, descriptions of: the underlying economic and demographic base of LAX’s Air Trade Area (as defined herein); the economic outlook; airlines and air traffic activity at LAX; factors affecting aviation demand and the airline industry; the Airport Consultant’s projections for air traffic activity at LAX through Fiscal Year 2018 and the assumptions upon which such projections are based; existing LAX facilities; the Department’s capital plan; the Series 2012 Senior Bonds Projects; the Other Incorporated Projects; the Ongoing Projects; the Department’s financing plan, including assumptions and analysis regarding the Department’s expected use of PFC revenues; LAX Maintenance and Operation Expenses; LAX Revenues; the Airport Consultant’s projections of debt service, expenses and revenues through Fiscal Year 2018 and a description of the assumptions upon which such projections were based.

No assurances can be given that the projections and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the projections are based will be realized. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2012 Senior Bonds. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety. The financial projections in the Report of the Airport Consultant are based upon certain information and assumptions that were provided or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for financial projections. See “—Forward-Looking Statements,” “CERTAIN INVESTMENT CONSIDERATIONS – Assumptions in the Report of the Airport Consultant,” “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of Airport Consultant; Projected Debt Service Coverage” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Forward-Looking Statements

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

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

Changes from the Preliminary Official Statement

This Official Statement includes certain information which was not available for inclusion in the Preliminary Official Statement dated November 28, 2012 in order to make this Official Statement complete as of its date, including information relating to the Department management's recommendation of a preferred SPAS (as defined herein) alternative and the principal amounts, maturity dates, interest rates, prices and other terms of the Series 2012 Senior Bonds.

Additional Information

Brief descriptions of the Series 2012 Senior Bonds, the Senior Indenture, the Subordinate Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department or LAX since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department and purchasers or owners of any of the Series 2012 Senior Bonds. The Department maintains certain websites, the information on which is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in deciding whether to invest in the Series 2012 Senior Bonds.

PLAN OF FINANCE

The Series 2012 Senior Bonds Projects

The "Series 2012 Senior Bonds Projects" consist of the following (and are described in more detail in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT"):

Terminal 6 Improvement Project

The "Terminal 6 Improvement Project" consists of improvements made as part of the modernization of Terminal 6, including a new in-line baggage screening system, renovated ticketing/check-in lobby with kiosks for check-in and bag-check, new boarding areas, a new passenger lounge, new gate information displays, and renovated U.S. Customs and Border Protection facilities to accommodate international passengers.

Terminal 5 Improvement Project

The "Terminal 5 Improvement Project" consists of improvements made as part of the modernization of Terminal 5, including a new in-line baggage screening system, a new outbound baggage system, renovated U.S. Customs and Border Protection facilities to accommodate international passengers, renovated passenger security screening checkpoints, renovated ticketing/check-in lobby, renovated baggage claim areas, and the replacement of 13 passenger boarding bridges.

Terminal 5 Refinancing

The "Terminal 5 Refinancing" consists of the issuance of approximately \$47.2 million of Subordinate Commercial Paper Notes to refund certain Regional Airports Improvement Corporation ("RAIC") bonds issued to finance and refinance certain improvements in Terminal 5.

General

The Series 2012A Senior Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at LAX, including a portion of the Terminal 5 Improvement Project and a portion of the Terminal 6 Improvement Project, (ii) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with financing a portion of the Terminal 6 Improvement Project, (iii) make a deposit to the Senior Reserve Fund and (iv) pay costs of issuance of the Series 2012A Senior Bonds.

The Series 2012B Senior Bonds are being issued to (i) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with the Terminal 5 Refinancing, (ii) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with financing a portion

of the Terminal 5 Improvement Project and a portion of the Terminal 6 Improvement Project, (iii) make a deposit to the Senior Reserve Fund and (iv) pay costs of issuance of the Series 2012B Senior Bonds.

The Series 2012C Senior Bonds are being issued to (i) refund certain outstanding Subordinate Commercial Paper Notes, issued by the Department in connection with the redemption of certain Senior Bonds, and (ii) pay costs of issuance of the Series 2012C Senior Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2012 Senior Bonds described in the table below:

	Series 2012A Senior Bonds	Series 2012B Senior Bonds	Series 2012C Senior Bonds	Total
SOURCES:				
Principal Amount	\$105,610,000.00	\$145,630,000.00	\$ 27,870,000.00	\$279,110,000.00
Original Issue Premium	19,102,133.50	22,959,147.45	4,820,692.10	46,881,973.05
TOTAL:	\$124,712,133.50	\$168,589,147.45	\$ 32,690,692.10	\$325,991,973.05
USES:				
Deposit to Senior Construction Fund ⁽¹⁾	\$ 70,050,000.00	\$ --	\$ --	\$ 70,050,000.00
Refund Subordinate Commercial Paper Notes	50,000,000.00	162,199,000.00	32,512,000.00	244,711,000.00
Deposit to Senior Reserve Fund	3,919,257.28	5,298,155.24	--	9,217,412.52
Costs of Issuance ⁽²⁾	742,876.22	1,091,992.21	178,692.10	2,013,560.53
TOTAL:	\$124,712,133.50	\$168,589,147.45	\$ 32,690,692.10	\$325,991,973.05

⁽¹⁾ To be used to pay a portion of the costs of the Series 2012 Senior Bonds Projects.

⁽²⁾ Includes legal fees, underwriters' discount, trustee fees, financial advisory fees, consultant fees, rating agencies' fees, printing costs and other costs of issuance.

DESCRIPTION OF THE SERIES 2012 SENIOR BONDS

General

The Series 2012 Senior Bonds will bear interest at the rates and mature, subject to redemption prior to maturity, on the dates set forth on the inside front cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2012 Senior Bonds will be dated their date of delivery and bear interest from that date payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2013 (each an "Interest Payment Date"). Interest due and payable on the Series 2012 Senior Bonds on any Interest Payment Date will be payable to the person who is the registered owner as of the Record Date (DTC, so long as the book-entry system with DTC is in effect). Each Series 2012 Senior Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is an Interest Payment Date, in which event such Series 2012 Senior Bond will bear interest from such date of authentication, or unless such date of authentication is after a Record Date and before the next succeeding Interest Payment Date, in which event such Series 2012 Senior Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before May 1, 2013, in which event such Series 2012 Senior Bond will bear interest from its date of delivery. If interest on the Series 2012 Senior Bonds is in default, Series 2012 Senior Bonds issued in exchange for Series 2012 Senior Bonds surrendered for transfer or exchange will bear interest from the last Interest Payment Date to which interest has been paid in full on the Series 2012 Senior Bonds surrendered.

The Series 2012 Senior Bonds are being issued in denominations of \$5,000 and integral multiples thereof ("Authorized Denominations"), in fully registered form in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2012 Senior Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2012 Senior Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2012 Senior Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2012 Senior Bonds.

So long as Cede & Co. is the registered owner of the Series 2012 Senior Bonds, the principal and redemption price of and interest on the Series 2012 Senior Bonds are payable by wire transfer by the Senior Trustee to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Direct and Indirect Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX E – "BOOK ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption

The Series 2012A Senior Bonds maturing on or before May 15, 2022 are not subject to optional redemption prior to maturity. The Series 2012A Senior Bonds maturing on or after May 15, 2023 are redeemable at the option of the Department on or after May 15, 2022, in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2012A Senior Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

The Series 2012B Senior Bonds maturing on or before May 15, 2022 are not subject to optional redemption prior to maturity. The Series 2012B Senior Bonds maturing on or after May 15, 2023 are redeemable at the option of the Department on or after May 15, 2022, in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2012B Senior Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

The Series 2012C Senior Bonds are not subject to optional redemption prior to maturity.

Mandatory Sinking Fund Redemption

The Series 2012B Senior Bonds maturing on May 15, 2035 (the “Series 2012B – 2035 Term Bonds”) are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Series 2012B – 2035 Term Bonds

Redemption Date (May 15)	Principal Amount
2033	\$ 12,520,000
2034	13,145,000
2035 [†]	13,805,000

[†] Final Maturity

The Series 2012B Senior Bonds maturing on May 15, 2037 (the “Series 2012B – 2037 Term Bonds”) and together with the Series 2012B – 2035 Term Bonds, the “Series 2012B Term Bonds”) are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Series 2012B – 2037 Term Bonds

Redemption Date (May 15)	Principal Amount
2036	\$ 14,490,000
2037 [†]	14,805,000

[†] Final Maturity

At the option of the Department, to be exercised by delivery of a written certificate to the Senior Trustee, on or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2012B Term Bonds as applicable, it may (a) deliver to the Senior Trustee for cancellation the applicable Series 2012B Term Bonds or portions thereof (in Authorized Denominations) purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of such applicable Series 2012B Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been optionally redeemed and previously cancelled by the Senior Trustee, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such applicable Series 2012B Term Bond or portion thereof so purchased, acquired or optionally redeemed and delivered to the Senior Trustee, for cancellation will be credited by the Senior Trustee, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of such applicable Series 2012B Term Bond, on such mandatory sinking fund redemption date.

Notices of Redemption

The Senior Trustee is required to give notice of redemption, in the name of the Board, to Bondholders affected by redemption (or DTC, so long as the book-entry system with DTC is in effect) at least 30 days but not more than 60 days before each redemption date and send such notice of redemption by first class mail (or with respect to Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, held by DTC by an express delivery service for delivery on the next following Business Day) to each Holder of a Series 2012A Senior Bond or a Series 2012B Senior Bond, as applicable, to be redeemed; each such notice will be sent to the Holder's registered address.

Each notice of redemption will specify the date of issue, the applicable Series, the maturity date, the interest rate and the CUSIP number of the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, to be redeemed, if less than all of the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, of a maturity date and interest rate are called for redemption, the numbers assigned to the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, to be redeemed, the principal amount to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, that payment will be made upon presentation and surrender of the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, to be redeemed, that interest, if any, accrued to the date fixed for redemption and not paid, will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue.

Failure to give any required notice of redemption as to any particular Series 2012A Senior Bond or Series 2012B Senior Bond, as applicable, will not affect the validity of the call for redemption of any Series 2012A Senior Bond or Series 2012B Senior Bond, as applicable, in respect of which no failure occurs. Any notice sent as provided in the Thirteenth Supplemental Senior Indenture will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, called for redemption become due and payable on the date fixed for redemption at the applicable redemption price except as otherwise provided in the Senior Indenture. In the event that funds are deposited with the Senior Trustee, sufficient for redemption, interest on the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2012A Senior Bonds or a Series 2012B Senior Bond, as applicable, to be redeemed in part only, the Senior Trustee will authenticate for the holder a new Series 2012A Senior Bond or Series 2012B Senior Bond, as applicable, of the same Series, maturity date and interest rate equal in principal amount to the unredeemed portion of the Series 2012A Senior Bond or the Series 2012B Senior Bond, as applicable, surrendered.

The Department may provide that if at the time of mailing of notice of an optional redemption there has not been deposited with the Senior Trustee moneys sufficient to redeem all the Series 2012A Senior Bonds or a Series 2012B Senior Bonds, as applicable, called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Senior Trustee not later than the opening of business one Business Day prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit by the opening of business one Business Day prior to the scheduled redemption date, then the redemption will be cancelled and on such cancellation date notice of such cancellation will be mailed to the holders of such Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable.

Effect of Redemption

On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Thirteenth Supplemental Senior Indenture and sufficient moneys for payment of the redemption price being held in trust by the Senior Trustee to pay the redemption price, interest on such Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, will cease to accrue from and after such redemption date, such Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, will cease to be entitled to any lien, benefit or security under the Senior Indenture and the owners of such Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, will have no rights in respect thereof except to receive payment of the redemption price. Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, which have been duly called for redemption and for the payment of the redemption price of which moneys will be held in trust for the holders of the respective Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, to be redeemed,

all as provided in the Thirteenth Supplemental Senior Indenture, will not be deemed to be Outstanding under the provisions of the Senior Indenture.

Selection of the Series 2012A Senior Bonds or the Series 2012B Senior Bonds for Redemption; Series 2012A Senior Bonds or Series 2012B Senior Bonds Redeemed in Part

Redemption of the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, will only be in Authorized Denominations. The Series 2012A Senior Bonds and the Series 2012B Senior Bonds are subject to redemption in such order of maturity and interest rate within a Series (except mandatory sinking fund payments on the Series 2012B Term Bonds) as the Department may direct and by lot, within such Series, maturity and interest rate selected in such manner as the Senior Trustee (or DTC, as long as DTC is the securities depository for the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable.), deems appropriate.

Except as otherwise provided under the procedures of DTC, on or before the 45th day prior to any mandatory sinking fund redemption date, the Senior Trustee will proceed to select for redemption (by lot in such manner as the Senior Trustee may determine), from the Series 2012B Term Bonds an aggregate principal amount of the Series 2012B Term Bonds equal to the amount for such year as set forth in the table under “Mandatory Sinking Fund Redemption” above and will call the Series 2012B Term Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS

Flow of Funds

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

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

The Senior Bonds (including the Series 2012 Senior Bonds) are limited obligations of the Department payable solely from and secured solely by (a) a pledge of Net Pledged Revenues, and (b) certain funds and accounts held by the Senior Trustee.

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

The Master Senior Indenture generally defines “Pledged Revenues” to mean, except to the extent specifically excluded in the Master Senior Indenture or under the terms of any supplemental indenture (only with respect to the series of bonds issued pursuant to such supplemental indenture), “LAX Revenues.” Pledged Revenues also include any additional revenues designated as Pledged Revenues pursuant to a Supplemental Senior Indenture.

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

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

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

SECOND, to the payment of amounts required to be deposited in the Senior Debt Service Funds for the Senior Bonds (including the Series 2012 Senior Bonds) pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;

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

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

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

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

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

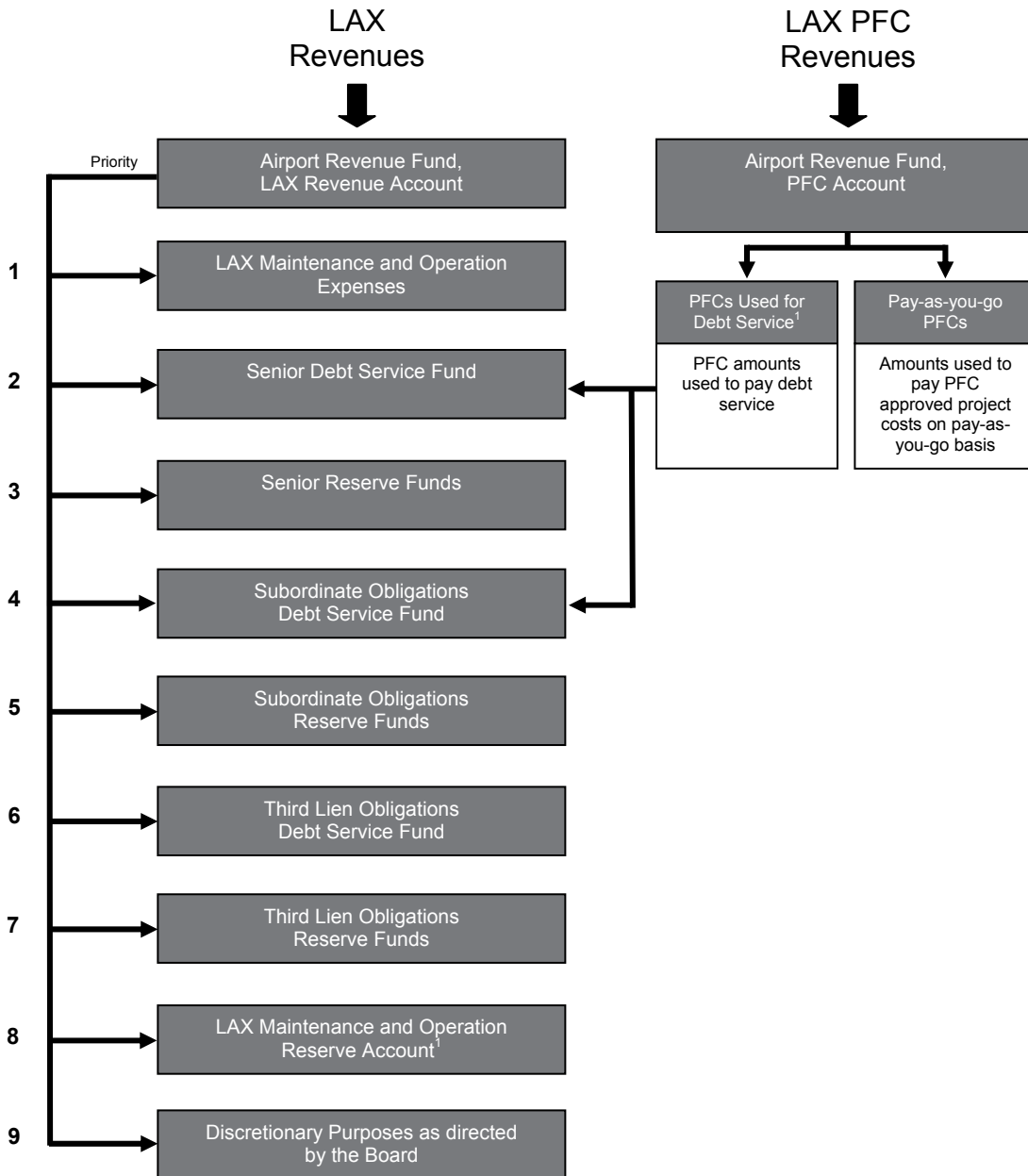
EIGHTH, to the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department. The Department has covenanted to fund the Maintenance and Operation Reserve Account each Fiscal Year in an amount which,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

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

Department and for any other lawful purpose of the Department, but only to the extent any such purposes relate to LAX.

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

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



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

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

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

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

Pledge of Net Pledged Revenues

The Series 2012 Senior Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Net Pledged Revenues. The Series 2012 Senior Bonds are also secured by a pledge of and first lien on amounts held in certain funds and accounts pursuant to the Senior Indenture, as further described herein.

THE SERIES 2012 SENIOR BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE NET PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2012 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2012 SENIOR BONDS SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2012 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2012 SENIOR BONDS EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE.

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

The Series 2012 Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues on a parity with the Existing Senior Bonds and any Additional Senior Bonds. See “—Additional Senior Bonds” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.” The Series 2012 Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture.

Senior Rate Covenant

Under the Master Senior Indenture, the Department has covenanted that, while any of the Senior Bonds remain Outstanding (but subject to all prior existing contracts and legal obligations of the Department), the Department will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that Pledged Revenues in each Fiscal Year will be at least equal to the payments required in such Fiscal Year to be made pursuant to the paragraphs FIRST through EIGHTH set forth in “—Flow of Funds” above. The Department has further agreed that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Net Pledged Revenues, together with any Transfer, will be equal to at least 125% of Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds for that Fiscal Year. Any amount of Transfer taken into account as described in the previous sentence cannot exceed 25% of Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds for such Fiscal Year. “Transfer” means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of

such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH as described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Flow of Funds,” have been made as of the last day of the immediately preceding Fiscal Year).

The Master Senior Indenture provides that if the Department violates the above-described covenants, such violation will not be a default under the Senior Indenture and will not give rise to a declaration of a Senior Event of Default if, within 180 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce Pledged Revenues to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent Fiscal Year succeeding the date such violation is discovered, a Senior Event of Default may be declared under the Senior Indenture. The Department may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Department into compliance with such covenants. See “CERTAIN INVESTMENT CONSIDERATIONS – Rate Covenant Limitations.”

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

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

Senior Debt Service Deposits

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

Senior Reserve Fund

The Master Senior Indenture established the “Senior Reserve Fund” for all of the Senior Bonds the Department elects to have participate in the Senior Reserve Fund. The Department has elected to have the Existing Senior Bonds participate in the Senior Reserve Fund and pursuant to the Thirteenth Supplemental Senior Indenture, the Department intends to elect to have the Series 2012 Senior Bonds participate in the Senior Reserve Fund.

Pursuant to the Master Senior Indenture, the Senior Reserve Fund is required to be funded at all times in an amount equal to the Senior Reserve Requirement. The Senior Reserve Requirement equals the least of (i) Senior Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2012 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, (ii) 10% of the principal amount of the Series 2012 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, less the amount of original issue discount with respect to the Series 2012 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund if such original issue discount exceeded 2% on such Senior Bonds at the time of original sale, and (iii) 125% of the average Senior Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2012 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund. In the event the Department issues any Additional Senior Bonds pursuant to a Supplemental Senior Indenture under which the Department elects to have such Additional Senior Bonds participate in the Senior Reserve Fund, the Department will be required to deposit an amount in the Senior Reserve Fund sufficient to cause the amount on deposit in the Senior Reserve Fund to equal the Senior Reserve Requirement for the Senior Bonds and such future Series of Additional Senior Bonds participating in the Reserve Fund. At the time of issuance of the Series 2012 Senior Bonds, the Senior Reserve Requirement will equal \$202,569,662.52 and will be fully funded with cash and securities.

Moneys or investments held in the Senior Reserve Fund may be used only to pay the principal of and interest on the Series 2012 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund. Moneys and investments held in the Senior Reserve Fund are not available to pay debt service on the Subordinate Obligations. The Senior Reserve Fund may be drawn upon if the amounts in the respective Senior Debt Service Funds for the Series 2012 Senior Bonds, the Existing Senior Bonds or any Additional Senior Bonds participating in the Senior Reserve Fund are insufficient to pay in full any principal or interest then due on such Senior Bonds. In the event any amounts are required to be withdrawn from the Senior Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Senior Debt Service Funds for the Senior Bonds secured by the Senior Reserve Fund.

The Department may fund all or a portion of the Senior Reserve Requirement with a Senior Reserve Fund Surety Policy. A Senior Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Senior Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Senior Reserve Fund Surety Policy must either extend to the final maturity of the Series of Senior Bonds for which the Senior Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Senior Indenture, that the Department will replace such Senior Reserve Fund Surety Policy prior to its expiration with another Senior Reserve Fund Surety Policy, which will have no adverse effect on ratings, if any, then in effect, on the Senior Bonds, or with cash, and the face amount of the Senior Reserve Fund Surety Policy, together with amounts on deposit in the Senior Reserve Fund, including the face amount of any other Senior Reserve Fund Surety Policy, are at least equal to the Senior Reserve Requirement. As of the date of this Official Statement and at the time of the issuance of the Series 2012 Senior Bonds, there are no and there will be no Senior Reserve Fund Surety Policies on deposit in the Senior Reserve Fund.

Additional Senior Bonds

The Master Senior Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Senior Bonds hereafter issued with a lien and charge on Net Pledged Revenues on parity with the Series 2012 Senior Bonds and the Existing Senior Bonds.

Additional Senior Bonds may be issued under the Master Senior Indenture on a parity with the Series 2012 Senior Bonds and the Existing Senior Bonds, provided, among other things, there is delivered to the Senior Trustee either:

(a) a certificate, dated as of a date between the date of pricing of the proposed Additional Senior Bonds being issued and the date of delivery of such proposed Additional Senior Bonds (both dates inclusive), prepared by an Authorized Representative showing that the Net Pledged Revenues, together with any Transfer, for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds, Unissued Senior Program Bonds and the proposed Series of Additional Senior Bonds, calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or

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

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

(ii) for the period from and including the first full Fiscal Year following the issuance of such proposed Series of Senior Bonds during which no interest on such Series of Senior Bonds is expected to be paid from the proceeds thereof through and including the later of (A) the fifth full Fiscal Year following the issuance of such Series of Senior Bonds, or (B) the

third full Fiscal Year during which no interest on such Series of Senior Bonds is expected to be paid from the proceeds thereof, the estimated Net Pledged Revenues, together with any estimated Transfer, for each such Fiscal Year, will be at least equal to 125% of the Senior Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Senior Bonds, Unissued Senior Program Bonds and the proposed Series of Senior Bonds (calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding).

The certificate as described in (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2012 Senior Bonds.

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

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

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

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

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

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

(3) if the Senior Bonds being issued are to pay costs of completing a Specified LAX Project for which Senior Bonds have previously been issued and the principal amount of such Senior Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Senior Bonds originally issued for such Specified LAX Project and reasonably allocable to the Specified

LAX Project to be completed as shown in a written certificate of an Authorized Representative and there is delivered to the Senior Trustee (1) a Consultant's certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (2) a certificate of an Authorized Representative to the effect that (x) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Specified LAX Project) of the original Senior Bonds issued to finance such Specified LAX Project have been or will be used to pay Costs of the Specified LAX Project, (y) the then estimated Costs of the Specified LAX Project exceed the sum of the Costs of the Specified LAX Project already paid plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Senior Bonds previously issued for such purpose), and (z) the proceeds to be received from the issuance of such Senior Bonds plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Senior Bonds previously issued for such purpose) will be sufficient to pay the remaining estimated Costs of the Specified LAX Project.

The Department has covenanted in the Master Senior Indenture that so long as any Senior Bonds are Outstanding, it will not, except as specifically provided in Master Senior Indenture, grant any prior or parity pledge of or any security interest in the Net Pledged Revenues or any of the other security which is pledged pursuant to the Master Senior Indenture, or create or permit to be created any charge or lien thereon or any security interest therein ranking prior to or on a parity with the charge or lien of the Senior Bonds (including Additional Senior Bonds) from time to time Outstanding under the Master Senior Indenture. The Department may, as provided in the Master Senior Indenture, grant a lien on or security interest in the Net Pledged Revenues to secure Subordinate Obligations and Third Lien Obligations. The Department may issue bonds for capital improvements at its other airports pursuant to separate indentures, which bonds will not be secured by a pledge of LAX Revenues. In addition, the Department may issue LAX Special Facility Obligations. See "SPECIAL FACILITY FINANCINGS – LAX Special Facility Obligations."

Passenger Facility Charges

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. The Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues. The Department has not pledged PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations, and the Department has no current plans to pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. Although PFC revenues are not included in Pledged Revenues and have not been pledged to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations, the Department expects to (to the extent approved by the FAA) use PFC revenues to pay a portion of the debt service on certain Senior Bonds and/or certain Subordinate Obligations which are PFC Eligible Bonds (as defined herein). Pursuant to a resolution adopted by the Board on July 7, 2008 (the "PFC Resolution"), the Department elected to irrevocably commit to use \$19 million of PFC revenues in each year between 2011 and 2014 to the payment of debt service on certain Senior Bonds and/or certain Subordinate Obligations which are PFC Eligible Bonds. See "CAPITAL PLANNING – Capital Financing – Passenger Facility Charges," "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for additional information about the Department's expected use of PFC revenues.

Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Master Senior Indenture. Debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds test set forth in the Master Senior Indenture.

Permitted Investments

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

All moneys held in the Airport Revenue Fund are currently invested by the City Treasurer in investments authorized by State law. Pursuant to State law, the City Treasurer must present an annual investment policy to the City Council for confirmation. The City has provided to the Department its "City of Los Angeles Investment

Policy” for the current fiscal year which authorizes the City Treasurer to invest the City’s funds in a manner which maximizes safety, liquidity, yield and diversity. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Investment Practices of the City Treasurer.”

Events of Default and Remedies; No Acceleration

Senior Events of Default under the Senior Indenture and related remedies are described in APPENDIX C – “CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SENIOR INDENTURE AND THE THIRTEENTH SUPPLEMENTAL SENIOR INDENTURE – Senior Events of Default and Remedies.” The occurrence of a Senior Event of Default does not grant any right to accelerate payment of the Senior Bonds to either the Senior Trustee, the Subordinate Trustee, or the Holders of the Series 2012 Senior Bonds, the Existing Senior Bonds, the Subordinate Bonds or the Subordinate Commercial Paper Notes. The Senior Trustee is authorized to take certain actions upon the occurrence of a Senior Event of Default, including proceedings to enforce the obligations of the Department under the Senior Indenture.

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and, as of November 1, 2012 there were outstanding \$2,660,600,000 aggregate principal amount of Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Flow of Funds.” The following table sets forth information about the Existing Senior Bonds that were outstanding as of November 1, 2012.

**TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SENIOR BONDS
AS OF NOVEMBER 1, 2012**

Series	Original Principal Amount	Principal Amount Outstanding	Final Maturity (May 15)
Series 2008A	\$ 602,075,000	\$ 551,545,000	2038
Series 2008B	7,875,000	3,905,000	2015
Series 2009A	310,410,000	303,260,000	2039
Series 2010A	930,155,000	930,155,000	2040
Series 2010D	875,805,000	871,735,000	2040
Total	\$2,726,320,000	\$2,660,600,000	

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

Subordinate Bonds and Subordinate Commercial Paper Notes

Pursuant to the Subordinate Indenture, the Department has previously issued and, as of November 1, 2012, there were outstanding \$782,550,000 aggregate principal amount of its Existing Subordinate Bonds. Additionally, pursuant to the Subordinate Indenture, the Department is authorized to issue and to have outstanding, from time to time, up to \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. However, as of the date of this Official Statement, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support that is provided by the CP Banks through their related CP Letters of Credit, which is currently \$350,000,000 aggregate principal amount outstanding at any one time. As of November 1, 2012, there were Subordinate Commercial Paper Notes outstanding with a maturity value of approximately \$272.1 million (including approximately \$244.7 million of certain Subordinate Commercial Paper Notes to be refunded with a portion of the proceeds of the Series 2012 Senior Bonds, as described in the “PLAN OF FINANCE”). The Subordinate Bonds and the Subordinate Commercial Paper Notes are and will be secured by a pledge and lien on Subordinate Pledged Revenues. The following table sets forth the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes that were outstanding as of November 1, 2012.

TABLE 2
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING BONDS AND SUBORDINATE COMMERCIAL PAPER NOTES
AS OF NOVEMBER 1, 2012

Subordinate Obligations	Original Principal Amount⁽¹⁾	Principal Amount Outstanding	Final Maturity Date
Existing Subordinate Bonds			
- Series 2008C	\$ 243,350,000	\$ 227,080,000	5/15/2038
- Series 2009C	307,350,000	307,350,000	5/15/2039
- Series 2009D	31,815,000	22,755,000	5/15/2015
- Series 2009E	39,750,000	31,325,000	5/15/2020
- Series 2010B	134,680,000	134,680,000	5/15/2040
- Series 2010C	59,360,000	59,360,000	5/15/2040
Total Existing Subordinate Bonds	\$ 816,305,000	\$ 782,550,000	
Subordinate Commercial Paper Notes ⁽¹⁾			
- Series A ⁽²⁾	Varies ⁽⁶⁾	\$ 32,512,000 ⁽⁷⁾	Various ⁽¹⁰⁾
- Series B ⁽³⁾	Varies ⁽⁶⁾	97,199,000 ⁽⁸⁾	Various ⁽¹⁰⁾
- Series C ⁽⁴⁾	Varies ⁽⁶⁾	27,435,000	Various ⁽¹⁰⁾
- Series D ⁽⁵⁾	Varies ⁽⁶⁾	115,000,000 ⁽⁹⁾	Various ⁽¹⁰⁾
Total Subordinate Commercial Paper Notes		\$ 272,146,000	
Total outstanding Existing Subordinate Bonds and Subordinate Commercial Paper Notes		\$ 1,054,696,000	

⁽¹⁾ Pursuant to the Subordinate Indenture, the Department is authorized to issue and have outstanding, from time to time, a maximum of \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. As of the date of this Official Statement, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support that is being provided by the CP Banks through their related CP Letters of Credit, which is equal to \$350,000,000 aggregate principal amount outstanding at any one time.

⁽²⁾ The Subordinate Commercial Paper Notes Series A (Governmental – Non-AMT) may be issued in various Subseries designated Subseries A-1 through A-4.

⁽³⁾ The Subordinate Commercial Paper Notes Series B (Private Activity – AMT) may be issued in various Subseries designated Subseries B-1 through B-4.

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

⁽⁵⁾ The Subordinate Commercial Paper Notes Series D (Private Activity – Non-AMT) may be issued in various Subseries designated Subseries D-1 through D-4.

⁽⁶⁾ Original Principal Amount of Subordinate Commercial Paper Notes varies.

⁽⁷⁾ To be refunded with a portion of the proceeds of the Series 2012C Senior Bonds, as described in “PLAN OF FINANCE.”

⁽⁸⁾ To be refunded with a portion of the proceeds of the Series 2012A Senior Bonds and a portion of the Series 2012B Senior Bonds, as described in “PLAN OF FINANCE.”

⁽⁹⁾ To be refunded with a portion of the proceeds of the Series 2012B Senior Bonds, as described in “PLAN OF FINANCE.”

⁽¹⁰⁾ The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.

Source: Department of Airports of the City of Los Angeles

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

To provide credit support for the Subordinate Commercial Paper Notes, the Department entered into four separate reimbursement agreements dated as of March 1, 2012 (collectively, the “CP Reimbursement Agreements”) with Bank of America, N.A., Barclays Bank PLC, Citibank, N.A. and Wells Fargo Bank, National Association, respectively (collectively, the “CP Banks”), pursuant to which the CP Banks each issued a separate irrevocable transferable direct-pay letter of credit (collectively, the “CP Letters of Credit”). Each CP Letter of Credit provides

credit support for the timely payment of the principal of and interest on certain specified Subseries of the Subordinate Commercial Paper Notes as described in more detail in the following table.

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

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

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

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

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

Debt Service Requirements

The following table sets forth debt service requirements on the Existing Senior Bonds, the Series 2012 Senior Bonds and the Existing Subordinate Bonds:

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

Fiscal Year	Total Debt Service on Existing Senior Bonds ⁽²⁾	Principal Requirements on Series 2012A Senior Bonds	Interest Requirements on Series 2012A Senior Bonds	Total Debt Service on Series 2012A Senior Bonds	Principal Requirements on Series 2012B Senior Bonds	Interest Requirements on Series 2012B Senior Bonds	Total Debt Service on Series 2012B Senior Bonds	Principal Requirements on Series 2012C Senior Bonds	Interest Requirements on Series 2012C Senior Bonds	Total Debt Service on Series 2012C Senior Bonds	Total Debt Service on Existing Subordinate Bonds ⁽³⁾	Total Debt Service ⁽²⁾⁽³⁾
2013	\$ 156,804,725	--	\$ 2,031,193	\$ 2,031,193	\$ 1,075,000	\$ 2,627,196	\$ 3,702,196	--	\$ 492,981	\$ 492,981	\$ 163,031,095	\$ 222,688,954
2014	163,633,675	\$ 4,945,000	4,974,350	9,919,350	2,660,000	6,412,450	9,072,450	--	1,207,300	1,207,300	183,832,775	243,487,434
2015	178,872,450	6,285,000	4,826,000	11,111,000	2,715,000	6,359,250	9,074,250	\$ 410,000	1,207,300	1,617,300	200,675,000	260,330,459
2016	174,867,450	7,145,000	4,574,600	11,719,600	2,795,000	6,277,800	9,072,800	5,705,000	1,195,000	6,900,000	202,559,850	262,163,590
2017	175,012,413	7,295,000	4,288,800	11,583,800	2,905,000	6,166,000	9,071,000	5,930,000	966,800	6,896,800	202,564,013	262,025,419
2018	175,165,038	7,430,000	3,997,000	11,427,000	3,025,000	6,049,800	9,074,800	6,165,000	729,600	6,894,600	202,561,438	261,870,299
2019	172,086,063	7,635,000	3,625,500	11,260,500	3,145,000	5,928,800	9,073,800	9,660,000	483,000	10,143,000	202,563,363	261,707,490
2020	183,607,288	6,640,000	3,243,750	9,883,750	3,300,000	5,771,550	9,071,550	--	--	--	202,562,588	261,525,790
2021	186,904,613	3,675,000	2,911,750	6,586,750	3,465,000	5,606,550	9,071,550	--	--	--	202,562,913	258,229,597
2022	186,902,963	3,860,000	2,728,000	6,588,000	3,640,000	5,433,300	9,073,300	--	--	--	202,564,263	258,234,815
2023	186,899,500	4,060,000	2,535,000	6,595,000	3,820,000	5,251,300	9,071,300	--	--	--	202,565,800	258,236,497
2024	186,902,650	4,260,000	2,332,000	6,592,000	4,010,000	5,060,300	9,070,300	--	--	--	202,564,950	258,235,423
2025	186,905,863	4,475,000	2,119,000	6,594,000	4,210,000	4,859,800	9,069,800	--	--	--	202,569,663	258,241,993
2026	186,904,294	9,115,000	1,895,250	11,010,250	--	4,649,300	4,649,300	--	--	--	202,563,844	258,233,309
2027	186,900,913	9,575,000	1,439,500	11,014,500	--	4,649,300	4,649,300	--	--	--	202,564,713	258,236,702
2028	186,898,888	10,055,000	960,750	11,015,750	--	4,649,300	4,649,300	--	--	--	202,563,938	258,235,725
2029	186,900,344	9,160,000	458,000	9,618,000	1,400,000	4,649,300	6,049,300	--	--	--	202,567,644	258,237,357
2030	186,899,713	--	--	--	11,085,000	4,579,300	15,664,300	--	--	--	202,564,013	258,235,305
2031	186,902,594	--	--	--	11,575,000	4,089,900	15,664,900	--	--	--	202,567,494	258,239,479
2032	186,898,688	--	--	--	12,040,000	3,626,900	15,666,900	--	--	--	202,565,588	258,238,007
2033	186,897,931	--	--	--	12,520,000	3,145,300	15,665,300	--	--	--	202,563,231	258,235,648
2034	186,899,963	--	--	--	13,145,000	2,519,300	15,664,300	--	--	--	202,564,263	258,235,888
2035	186,898,738	--	--	--	13,805,000	1,862,050	15,667,050	--	--	--	202,565,788	258,239,680
2036	186,901,644	--	--	--	14,490,000	1,171,800	15,661,800	--	--	--	202,563,444	258,235,128
2037	187,166,269	--	--	--	14,805,000	592,200	15,397,200	--	--	--	202,563,469	257,970,068
2038	187,446,600	--	--	--	--	--	--	--	--	--	187,446,600	242,572,410
2039	187,741,663	--	--	--	--	--	--	--	--	--	187,741,663	242,573,663
2040	193,352,250	--	--	--	--	--	--	--	--	--	193,352,250	242,574,569
Total	\$ 5,126,175,175	\$ 105,610,000	\$ 48,940,443	\$ 154,550,443	\$ 145,630,000	\$ 111,988,046	\$ 257,618,046	\$ 27,870,000	\$ 6,281,981	\$ 34,151,981	\$ 5,572,495,645	\$ 7,153,270,692

⁽¹⁾ Totals may not add due to individual rounding. Debt service on the Subordinate Commercial Paper Notes (which may be outstanding from time to time up to \$500 million aggregate principal amount) and payment obligations under the CP Reimbursement Agreements are not reflected in this table. As of the date of this Official Statement, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support that is being provided by the CP Banks through their related CP Letters of Credit which is currently equal to \$350,000,000 aggregate principal amount outstanding at any one time. Approximately \$27.4 million of Subordinate Commercial Paper Notes will be outstanding following the issuance of the Series 2012 Senior Bonds and the refunding of certain Subordinate Commercial Paper Notes as described in "PLAN OF FINANCE." For additional information on these obligations, see "—Subordinate Bonds and Subordinate Commercial Paper Notes" above and "—Other Obligations – Repayment Obligations."

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

⁽³⁾ Includes capitalized interest on the Series 2010B Subordinate Bonds and the Series 2010C Subordinate Bonds. Interest on the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds does not reflect the application of the cash subsidy payments the Department expects to receive from the United States Treasury, in an amount equal to 35% of the interest payable on the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds.

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

Future Financings

The Department is currently reviewing plans to issue approximately \$577 million of Additional Subordinate Bonds and/or approximately \$1.9 billion of Additional Senior Bonds (exclusive of the Series 2012 Senior Bonds) through Fiscal Year 2018 to, among other things, complete the Series 2012 Senior Bonds Projects and Other Incorporated Projects, as described in the Report of the Airport Consultant. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” and “CAPITAL PLANNING.”

During the Airport Consultant’s projection period (through Fiscal Year 2018), the Department may pursue additional capital projects and acquisitions beyond those described in the preceding paragraph and Additional Senior Bonds and/or Additional Subordinate Bonds may be issued to fund such additional projects or acquisitions. Any such projects and the funding therefor are not included in the projections included in the Report of the Airport Consultant. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.” See also APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for a discussion of certain projects the Department is considering undertaking.

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

Other Obligations

General Obligation Bonds

The City last issued general obligation bonds for Department purposes in 1956, and those bonds were retired in February 1990. The Board has covenanted in the Master Senior Indenture not to (i) adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) issue any additional bonds or other obligations with a lien on or security interest granted in Pledged Revenues which is senior to the Senior Bonds. Notwithstanding the previous sentence, nothing in the Master Senior Indenture prohibits the Department from entering into agreements that provide for the granting of Facilities Construction Credits by the Department. There are currently no outstanding general obligation bonds of the City for Department purposes issued or authorized but unissued.

Other Repayment Obligations

Under certain circumstances the obligation of the Department, pursuant to a written agreement, to reimburse the provider of a Credit Facility or a Liquidity Facility (a “Senior Repayment Obligation”) may be secured by a pledge of and lien on Net Pledged Revenues on a parity with the Senior Bonds. If a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Senior Bonds, all or a portion of the Department’s Senior Repayment Obligation may be afforded the status of a Senior Bond under the Master Senior Indenture. The Department currently does not have any Senior Repayment Obligations outstanding. See APPENDIX C – “CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SENIOR INDENTURE AND THE THIRTEENTH SUPPLEMENTAL SENIOR INDENTURE – Senior Repayment Obligations Afforded Status of Senior Bonds.”

Credits

The Department from time to time has provided credits to its Aeronautical Users (as defined below) that may be applied as an offset against amounts otherwise due to the Department by such Aeronautical Users as charges for use of LAX facilities, including amounts owed pursuant to the Airport Terminal Tariff or landing fees. Because these credits are applied as an offset to amounts owed to the Department by such Aeronautical Users, the Department receives less money from these Aeronautical Users than such Aeronautical User would otherwise provide absent the credit. Thus, although the credits are not secured by any pledge of or lien on the Department’s revenues, the effect of using such credits is the creation of a higher payment priority for such credits than for the Senior Bonds, including the Series 2012 Senior Bonds. Credits are discussed in greater detail under “USE OF AIRPORT FACILITIES – Credits.” See also “SPECIAL FACILITY FINANCINGS – Conduit Financings.”

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2012 Senior Bonds involve investment risk and may not be suitable for all investors. Prospective investors are urged to read this Official Statement, including the appendices hereto, in its entirety. The factors set forth herein, among others, may affect the security for and/or trading value of

the Series 2012 Senior Bonds. The information herein does not purport to be a comprehensive or exhaustive discussion of all risks or other considerations that may be relevant to an investment in the Series 2012 Senior Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other risks or considerations not discussed herein are or will not become material in the future.

Demand for Air Travel

The Senior Bonds (including the Series 2012 Senior Bonds) are payable solely from Net Pledged Revenues and other available funds. The Subordinate Obligations are payable solely from Subordinate Pledged Revenues and other available funds. Net Pledged Revenues, Subordinate Pledged Revenues and PFC revenues depend primarily on the level of aviation activity and enplaned passenger traffic at LAX.

Air travel demand has historically correlated to the national economy, generally, and consumer income and business profits in particular. On August 5, 2011, Standard & Poor's Ratings Services ("S&P") downgraded the credit of the United States to AA+ from AAA. Such rating reflects only the view of S&P and any desired explanation of the significance of such rating, including any outlook thereon, should be obtained from S&P. The nation's unemployment rate has also had a downward effect on consumer spending. Additionally, worldwide economic and political conditions are volatile and unpredictable. Recently, governments, including those in Libya and Egypt, have been overthrown and European nations such as Greece, Spain, Ireland, Portugal and Italy have experienced significant reductions in economic activities. Several countries, including Greece, France, Italy and Spain have had their sovereign credit ratings downgraded. The long term implications of these conditions are unclear, however, a continued lack of sustainable economic growth could pressure, among other things, financial markets, commercial activity and consumer spending. There can be no assurance that such conditions will not adversely affect demand for travel. For a discussion of the effect of the national and international economy on demand for air travel, see APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

The level of aviation activity and enplaned passenger traffic at LAX depend upon a number of factors including those discussed above and other economic and political conditions; international hostilities; world health concerns; aviation security concerns including incidents of terrorism; accidents involving commercial passenger aircraft; airline service and routes; airline fares and competition; airline industry economics, including labor relations, fuel prices, aging aircraft fleets and other factors discussed in more detail under "—Financial Condition of the Airlines" below; capacity of the national air traffic control and airport systems; competition from other airports; reliability of air service; business travel substitutes, including teleconferencing, videoconferencing and web-casting; and the capacity, availability and convenience of service at LAX, among others.

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

Financial Condition of the Airlines

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

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses. Airlines continue to face significant challenges. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the U.S. economy (see the factors discussed in "—Demand for Air Travel" above), other regional and world economies, corporate profitability, security concerns and other factors. Structural changes to the industry also result from the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy

Code. Since the events of September 11, 2001, over twenty airlines filed for bankruptcy protection. See “—Effect of Airline Bankruptcies.”

Faced with the proliferation of competition, other airlines, including lower-cost airlines, and, with evolving business technology, legacy airlines (such as United Airlines, Delta Air Lines, American Airlines and US Airways) have been forced to change their business practices, including reducing or eliminating service on unprofitable routes, reducing their work forces, implementing pay cuts, reducing fares, deferring aircraft deliveries, streamlining operations, merging with other airlines and significantly increasing the use of smaller, regional jets.

Efforts of airlines to stimulate traffic by significantly discounting fares have affected consumer expectations regarding airfares. Airfares have become easier to compare, which has made pricing and marketing among airlines more competitive.

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

The aviation industry is cyclical and subject to intense competition and variable demand. While a number of airlines have indicated that they intend to reduce passenger and/or cargo service generally in conjunction with system-wide cuts, others have added routes and service at LAX. Traffic volumes are responsive to a number of factors described above under “—Demand for Air Travel.” Airline debt levels fluctuate. The airlines are vulnerable to fuel price spikes, labor activity, recession and external shocks (such as terrorism, pandemics, military conflicts and natural disasters). As a result, financial performance can fluctuate dramatically from one reporting period to the next.

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

See also “AIRLINE INDUSTRY INFORMATION.”

Effect of Airline Bankruptcies

A number of airlines that served or are currently serving LAX have filed for bankruptcy since September 11, 2001, including Air Canada, ATA, Delta Air Lines, Frontier Airlines, Hawaiian Airlines, Japan Airlines, Maxjet, CMA Mexicana Airlines, Midway Airlines, Northwest Airlines, United Airlines, US Airways, Vanguard Airlines, Varig Airlines and American Airlines. ATA, Maxjet, Mexicana Airlines, Midway Airlines, Vanguard Airlines and Varig Airlines have ceased operations. None of the airlines that ceased operations was responsible for more than 2.0% of passenger enplanements at LAX. Moreover, certain airline bankruptcies have resulted in reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not possible to predict the impact on LAX of the recent, potential and any future bankruptcies, liquidations or major restructurings of other airlines.

In the event an airline that has executed an agreement with the Department and/or the City seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Department and/or the City (i) within 120 days or later, if ordered by the court, with respect to its use agreements or leases of non-residential real property, but in no event more than 210 days unless additional time is agreed to in writing by the Department or the City or (ii) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and to provide adequate assurance of future performance under the applicable agreement. The Department is unable to predict whether any leases of non-residential real property with any airlines in bankruptcy proceedings may be assigned to third parties in the course of bankruptcy proceedings. Rejection of a use or other agreement or executory contract would give rise to an

unsecured claim of the Department and/or the City for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Except for costs allocated to any such airline for post-petition usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of a use or other agreement in connection with an airline in bankruptcy, such as airfield costs, would be passed on to the remaining airlines under their respective use agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. Additionally, during the pendency of a bankruptcy proceeding, and until assumption or rejection of the affected agreements, a debtor airline may not, absent a court order, make any payments to the City or the Department on account of goods and services provided prior to the bankruptcy. Thus, the Department's stream of payments from a debtor airline might be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

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

With respect to an airline in bankruptcy proceedings in a foreign country, the Department is unable to predict what types of orders and/or relief could be issued by foreign bankruptcy tribunals nor the extent to which any such orders would be enforceable in the United States. See also "AIRLINE INDUSTRY INFORMATION – American Airlines Bankruptcy."

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Department and potentially in delays or reductions in payments on the Series 2012 Senior Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2012 Senior Bonds.

Effect of Concessionaire Bankruptcies

A bankruptcy of any significant concessionaire at LAX could also result in delays or reductions in revenues received by the Department, for reasons similar to those discussed above with respect to airline bankruptcies. A number of rental car companies operating at LAX filed for bankruptcy protection after September 11, 2001 and it is possible that rental car companies or other concessionaires will file for bankruptcy protection in the future. Regardless of any specific adverse determinations in a concessionaire bankruptcy proceeding, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2012 Senior Bonds.

Effect of Airline Industry Consolidation

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

share sales strategies. In 2010, the respective Boards of Directors and shareholders of United Airlines and Continental Airlines approved a merger of the two airlines, with operation under the United Airlines name. On November 30, 2011, the merger was completed and Continental no longer operates as a separate airline. The combination of United Airlines/Continental Airlines represented a market share of approximately 16.3% of enplanements at LAX in Fiscal Year 2012. In addition, in 2010, the respective Boards of Directors of Southwest Airlines and AirTran approved Southwest's acquisition of AirTran, which was completed in 2011. Southwest and AirTran received a single operating certificate from the FAA in 2012, however Southwest and AirTran continue to operate as separate airlines while integrating. Combined, Southwest and AirTran represented a market share of approximately 12.1% of enplanements at LAX in Fiscal Year 2012. In August 2012, American Airlines reported that it had entered into an agreement to provide for the confidential exchange of information with US Airways in order to evaluate a potential combination of American Airlines and US Airways. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

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

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in light of existing international hostilities, potential terrorist attacks and world health concerns. Since the September 11, 2001 terrorist attacks and the hostilities in Afghanistan and Iraq, intensified security precautions have been instituted by government agencies, airlines and airport operators. Current and future security measures may create significantly increased inconvenience and delays at LAX and may adversely affect the Department's operations, expenditures and revenues.

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

Regulations and Restrictions Affecting LAX

The operations of LAX are affected by a variety of contractual, statutory and regulatory restrictions and limitations including extensive federal legislation and regulations, including, without limitation, the provisions of the Airport Terminal Tariff, terminal leases, the Rate Agreement (as defined herein), various grant assurances, the federal acts authorizing the imposition, collection and use of PFC revenues and extensive federal legislation and regulations applicable to all airports in the United States. In the aftermath of the September 11, 2001 terrorist attacks, LAX also was required to implement enhanced security measures mandated by the FAA, the TSA, the Department of Homeland Security and Airport management. LAX and its operations are also subject to a number of environmental and noise restrictions described under "AIRPORT SYSTEM ENVIRONMENTAL MATTERS."

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

Further, federal grants are paid on a reimbursement basis and are subject to audit. Failure to comply with federal statutes and regulations can result in the loss of PFC revenues and federal grants.

The Internal Revenue Service (“IRS”) includes a Tax Exempt and Government Entities Division (the “TE/GE Division”), which has a subdivision that is specifically devoted to tax-exempt bond compliance. The Department can provide no assurance that, if an IRS examination of the Series 2012 Senior Bonds was undertaken, it would not adversely affect the market value of the Series 2012 Senior Bonds.

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

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

FAA Reauthorization and Federal Funding

On February 6, 2012, Congress passed a four-year reauthorization bill for the FAA, the FAA Modernization and Reform Act of 2012, which was signed into law on February 14, 2012 by the President. This is the first long-term FAA authorization since the last such authorization expired in 2007. Since that time, there have been 23 short-term extensions of the FAA’s authority and a two-week partial shutdown of the FAA in the summer of 2011. The final FAA reauthorization retains the federal cap on passenger facility charges at \$4.50 and authorizes \$3.35 billion per year for the Airport Improvement Program (“AIP”) through Fiscal Year 2015, which is \$150 million per year less than the funding level for the past five years. The AIP provides federal capital grants to support airport infrastructure, including entitlement grants (determined by formulas based on passenger, cargo, and general aviation activity levels) and discretionary grants (allocated on the basis of specific set-asides and the national priority ranking system). The President’s budget proposal for federal Fiscal Year 2013, published on February 13, 2012, proposes to reduce AIP funding to \$2.4 billion (from the \$3.35 billion authorized) and eliminate “guaranteed” AIP funding for large hub airports, such as LAX, and medium hub airports. The President’s budget also proposes an increase in the passenger facility charge cap for large and medium hub airports. The Department is unable to predict whether Congress will approve the President’s budget, appropriate funds as proposed in the President’s budget or otherwise predict the level of future AIP funding. If there is a reduction in the amount of AIP grants awarded to the Department for LAX, such reduction could (i) increase by a corresponding amount the capital expenditures that the Department would need to fund from other sources (including operating revenues, Additional Senior Bonds or Additional Subordinate Obligations), (ii) result in decreases to the Department’s Capital Improvement Plan or (iii) extend the timing for completion of certain projects. See “CAPITAL PLANNING – Capital Financing – Grants.”

The Federal Budget Control Act of 2011 (the “Budget Control Act”) requires that the Director of United States Office of Management and Budget (“OMB”) calculate, using a statutory formula, certain cuts to federal programs necessary to reduce spending to levels specified in the Budget Control Act and the President is required to issue an order implementing the reductions in spending. The first such reductions are scheduled to be ordered on January 2, 2013, for federal fiscal year 2013. Reductions may be avoided or mitigated if Congress enacts other cuts of an equal or larger amount or takes other actions to postpone or change the provisions of the Budget Control Act or rescinds or alters the reductions provided for in the Budget Control Act.

In August 2012, Congress required OMB to provide estimates of the reductions to specific programs that would be ordered on January 2, 2013, if sequestration occurs. On September 14, 2012, OMB provided a report containing those estimates. Among the reductions identified by OMB were cuts to the subsidy payments to be made to issuers of “direct-pay” bonds, such as Build America Bonds, and to FAA and Transportation Security Administration (“TSA”) budgets. OMB estimated that payments to issuers of “direct-pay” bonds would be reduced by approximately 7.6 percent and that FAA and TSA’s budgets would each be reduced by approximately 8.2 percent in 2013. The Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds were issued as “direct-pay” Build America Bonds and the subsidy payments in connection therewith may be subject to sequestration reduction as described above. The subsidy payments in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds are approximately \$8.3 million in the aggregate annually during the projection period

(through Fiscal Year 2018). FAA and TSA budget reductions may result in fewer TSA screeners at LAX and fewer FAA flight traffic controllers serving LAX, which may cause flight delays. The Department is unable to predict by what percentage, if any, reductions would be made to Build America Bonds subsidy payments or from FAA or TSA budgets for federal fiscal year 2014 and thereafter.

Considerations Regarding Passenger Facility Charges

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

Debt service to be paid with PFC revenues is not included in the coverage calculations described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Passenger Facility Charges," "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of the Airport Consultant; Projected Debt Service Coverage" and in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

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

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

In the event the FAA or Congress reduced or terminated the Department's ability to collect PFC revenues, or passenger facility charge collections were otherwise less than anticipated, the Department would need to find other funding sources to pay debt service it expects to pay with PFC revenues. In addition, in such a circumstance the Department might need to find other sources of funding, including issuing additional parity securities, to finance the projects currently being paid for, or projected to be paid for, with PFC revenues.

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

Delays and Cost Increases; Future Capital Projects; Additional Indebtedness

The estimated costs of and the projected schedule for the capital projects are described under "CAPITAL PLANNING – Capital Financing" and included in the financial analysis in the Report of the Airport Consultant are subject to a number of uncertainties. The ability of the Department to complete its capital projects may be adversely affected by various factors including: (i) estimating variations, (ii) design and engineering variations, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be made that the existing projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Senior Bonds, Additional Subordinate Bonds and/or Subordinate Commercial Paper Notes and may result in increased costs to the airlines operating at the Airport.

In addition, certain funding sources are assumed to be available for such projects. For example, the Report of the Airport Consultant assumes that the Department will receive AIP grant funding and TSA funding for various

projects referenced under “CAPITAL PLANNING – Capital Financing – Grants” and described in greater detail in the Report of the Airport Consultant. See also “—Considerations Regarding Passenger Facility Charges” above. No assurances can be given that such funding will, in fact, be available. If such funding sources or other funding sources incorporated in the Report of the Airport Consultant are not available, the Department will have to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, Additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. Such changes could result in actual results differing materially from the projections in the Report of the Airport Consultant.

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

The Department may ultimately decide not to proceed with certain capital projects or may proceed with them on a different schedule, resulting in different results than those included in the projections.

Seismic Risks

The City is located in a seismically active region of the State. During the past 150 years, the Los Angeles area has experienced several major and minor earthquakes. On January 17, 1994, the Los Angeles area experienced an earthquake that measured 6.7 on the Richter Scale. LAX experienced no disruption of service following that incident. Damage in excess of \$11 million was sustained at VNY and LAX. The Department received funds from the Federal Emergency Management Agency (“FEMA”) and from its insurance carrier as a result of the earthquake damage at VNY. A forecast prepared by U.S. Geological Survey, Southern California Earthquake Center, and California Geological Survey and released in April 2008 indicates that there is a 67% chance that an earthquake measuring 6.7 or larger on the Richter Scale will occur in the greater Los Angeles area, and a 97% chance that such an earthquake will occur in Southern California, by 2037. LAX’s facilities could sustain extensive damage in a major seismic event, ranging from total destruction of LAX to destabilization or liquefaction of the soils, to little or no damage at all. Any damage to facilities or other properties could adversely affect the Department’s revenues or require substantial new capital spending to replace or improve facilities. The Department carries only limited earthquake insurance as described under “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Risk Management and Insurance.” The Department is unable to predict when another earthquake may occur and what impact, if any, it may have on the Department’s operations or finances or whether the Department will have sufficient resources to rebuild or repair damaged facilities following a major earthquake.

Enforceability of Remedies; Limitation on Remedies

As discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Events of Default and Remedies; No Acceleration,” there is no right to acceleration of payments to bondholders and bondholders may be required to make a separate claim for each semiannual payment not paid. Further, as discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS,” the CP Reimbursement Agreements permit the CP Banks to accelerate the payments due the CP Banks in certain circumstances. Further, the remedies available to the owners of the Series 2012 Senior Bonds upon a Senior Event of Default are in many respects dependent upon regulatory and judicial actions that are subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Senior Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2012 Senior Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2012 Senior Bonds may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, as well as limitations on legal remedies against cities in the State of California.

Rate Covenant Limitations

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Senior Bonds – Senior Rate Covenant,” the Senior Indenture includes covenants with respect to the establishment of rates and charges. However, the Senior Indenture provides that so long as the Department is taking specified steps to meet the applicable rate covenant, an event of default will not be triggered until the end of the second subsequent Fiscal Year. The ability of the Department to increase rates and charges and to reduce expenses is limited by, among other things, federal law (including the provisions thereof described under “—Regulations and Restrictions Affecting LAX”) and certain agreements with airlines and other users of LAX facilities. See “USE OF AIRPORT FACILITIES.”

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant included as APPENDIX A incorporates numerous assumptions regarding the utilization of LAX and other matters and states that the report is subject to uncertainties. The Report of the Airport Consultant should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that the assumptions on which the forecasts in the Report of the Airport Consultant is based will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances will occur. Therefore, actual results achieved during the projection period will vary from those set forth in APPENDIX A and the variations may be material. Further, the Report of the Airport Consultant does not cover the entire period through maturity of the Series 2012 Senior Bonds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.”

City Financial Challenges

The City’s Fiscal Year 2012-13 adopted budget (the “Adopted 2012-13 Budget”), includes City General Fund and certain special funds revenues (exclusive of amounts attributable to the departments of airports, harbor and water and power) of approximately \$7.2 billion. The City has had to address a number of expenditure pressures, including increased costs due to labor agreements, rising unfunded retirement liabilities resulting from investment losses and benefit enhancements in prior years, rising health care costs for current employees and increased projected health care costs for retirees.

As a result, the City has reduced budgeted appropriations as part of its last six adopted budgets (including the Adopted 2012-13 Budget) and through various interim actions. The City has eliminated positions through early retirement, transfers of previously general-funded positions to special funds, hiring freezes and layoffs. In addition, the City has negotiated deferrals of salary increases and increases in employee contributions for health care and retirement for some employees and obtained voter approval of a new tier of retirement benefits for sworn employees hired after July 1, 2011. Nonetheless, the City anticipates facing significant financial pressure in the future from labor and associated benefit and retirement costs.

The City’s most recent update to its budget outlook projects that, based on then current assumptions, including additional elimination of employee positions, the City would face a budget gap of \$216 million in Fiscal Year 2013-14, which could grow even larger in subsequent years if not addressed. The City is required by law to maintain a balanced budget.

The City’s staff reductions do not directly apply to Department personnel and other proposed City General Fund budget mitigation measures do not directly affect the Department. However, auxiliary services provided to the Department from other City departments, including services provided by the City’s Department of Building and Safety and the City Attorney, may be impacted. While the Department, under the Charter, is a proprietary department vested with the management and control of the Department’s assets, the City’s budget deficits could have an adverse effect on the liquidity and trading value in the secondary market of the Series 2012 Senior Bonds.

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

For additional information regarding City’s financial condition, see the information in Appendix G - “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES,” which has been reproduced from relevant portions of Appendix A to the Official Statement of the City dated June 27, 2012, as supplemented on July 6, 2012, in connection with the City’s 2012 Tax and Revenue Anticipation Notes, which is available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. The Department is relying

upon, and has not independently confirmed or verified, the accuracy or completeness of Appendix G or other information incorporated by reference therein.

Retirement Plan Funding

As described under “THE DEPARTMENT OF AIRPORTS – Retirement Plan,” Department employees, including Airport Police, participate in the Los Angeles City Employees’ Retirement System (“LACERS”). Since June 30, 2008, LACERS has experienced significant investment losses and based on the “Los Angeles City Employees’ Retirement System, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2011” and the LACERS Valuation Report (together, the “LACERS Reports”) has reported an unfunded actuarial accrued liability (“UAAL”) for retirement benefits of approximately \$3.70 billion and approximately \$3.04 billion, and for health subsidy benefits, of approximately \$421 million and approximately \$808 million as of June 30, 2011 and June 30, 2010, respectively. For Fiscal Year 2013 the Department has budgeted approximately \$350.1 million for salaries, benefits and other payroll expenses for the Department’s employees at LAX, which amount accounts for approximately 55.8% of budgeted Fiscal Year 2013 LAX Operating Expenses. LACERS UAALs and sustained increases in the costs of providing retirement and health subsidy benefits may require the Department to make substantial contributions to LACERS in the future and may adversely affect the Department’s financial condition. Factors beyond the Department’s control, including but not limited to, the interest rate environment and returns on LACERS plan assets, may affect the Department’s retirement and health subsidy benefit expenses and may increase the Department’s related funding obligations. The Department expects to be required to make substantial contributions to LACERS in the future to fund LACERS UAALs attributable to LAX. See “THE DEPARTMENT OF AIRPORTS – Retirement Plan” and APPENDIX G – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES.”

AIRLINE INDUSTRY INFORMATION

General

Many of the major scheduled domestic airlines serving LAX, or their respective parent corporations, and many of the foreign airlines serving LAX with American Depositary Receipts (“ADRs”) registered on a national exchange, are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Securities and Exchange Commission (the “SEC”). Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial aid and operating statistics with the United States Department of Transportation (“U.S. DOT”). Such reports can be inspected at the U.S. DOT’s Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from U.S. DOT at prescribed rates.

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

The Department undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or U.S. DOT as described in this section or (ii) any material contained on the SEC’s website as described in this section, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC’s website. Any such information is not part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in deciding whether to invest in the Series 2012 Senior Bonds.

American Airlines Bankruptcy

The information in the following three paragraphs is derived principally from, and is qualified by the information contained in Orders entered by the Bankruptcy Court in the AMR Debtors' bankruptcy cases, pleadings filed on behalf of the AMR Debtors in their bankruptcy cases, and AMR's Form 10-K for the year ended December 31, 2010, Form 10-K for the year ended December 31, 2011 and Form 10-Q for the quarter ended September 30, 2012 filed with the SEC. More complete information is contained in such filings.

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

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

The AMR Debtors have not yet prepared or filed with the Bankruptcy Court a plan of reorganization. The AMR Debtors have the exclusive right to file a plan of reorganization through and including December 28, 2012, subject to the ability of third parties to file motions to terminate the AMR Debtors' exclusivity period. If the AMR Debtors file a plan of reorganization on or prior to such date, the AMR Debtors will have an exclusive period to solicit and obtain acceptances for such plan through and including February 28, 2013. On October 16, 2012, the AMR Debtors filed a joint motion with the creditors' committee seeking to further extend such exclusivity periods to January 28, 2013 and March 28, 2013, respectively. There can be no assurance that the Bankruptcy Court will approve the AMR Debtors' motion. The AMR Debtors have the right to seek further extensions of such exclusivity periods, subject to a statutory limit of 18 months from the petition date in the case of filing a plan of reorganization, and 20 months from the petition date in the case of soliciting and obtaining acceptances.

See also "USE OF AIRPORT FACILITIES – Terminal Leases."

SPECIAL FACILITY FINANCINGS

LAX Special Facility Obligations

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

See APPENDIX C – “CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SENIOR INDENTURE AND THE THIRTEENTH SUPPLEMENTAL SENIOR INDENTURE – LAX Special Facilities and LAX Special Facility Obligations.” The Department does not currently have any outstanding LAX Special Facility Obligations.

Conduit Financings

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

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

LITIGATION REGARDING THE SERIES 2012 SENIOR BONDS

There is no litigation now pending or, to the best of the Department’s knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2012 Senior Bonds or in any way contests the validity of the Series 2012 Senior Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2012 Senior Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2012 Senior Bonds.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2012 Senior Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2012A Senior Bond or Series 2012B Senior Bond for any period during which such Series 2012A Senior Bond or Series 2012B Senior Bond, as applicable, is held by a “substantial user” of the facilities financed or refinanced by the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is further of the opinion that (a) interest on the Series 2012A Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2012B Senior Bonds and the Series 2012C Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the Department with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2012 Senior Bonds. Failure to comply with such requirements could cause interest on the Series 2012 Senior Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2012 Senior Bonds. The Department will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2012 Senior Bonds.

Notwithstanding Bond Counsel’s opinion that interest on the Series 2012C Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations’ adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Bond Counsel is further of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Series 2012 Senior Bonds is exempt from State of California personal income taxes.

The accrual or receipt of interest on the Series 2012 Senior Bonds may otherwise affect the federal income tax liability of the owners of the Series 2012 Senior Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2012 Senior Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2012 Senior Bonds.

Backup Withholding

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2012 Senior Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2012 Senior Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Changes in Federal and State Tax Law

From time to time, there are legislative proposals in the Congress and in the various state legislatures that, if enacted, could alter or amend federal and state tax matters referred to above or adversely affect the market value of the Series 2012 Senior Bonds. An example is the American Jobs Act of 2011, proposed by President Obama on September 12, 2011 and introduced in the United States Senate on September 13, 2011. If enacted as introduced, a provision of the American Jobs Act of 2011 would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers for taxable years after 2012, and as a result could affect the market price or marketability of the Series 2012 Senior Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment.

In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2012 Senior Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2012 Senior Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2012 Senior Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2012 Senior Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2012 Senior Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Series 2012 Senior Bond over its stated redemption price at maturity constitutes premium on such Series 2012 Senior Bond. An initial purchaser of a Series 2012 Senior Bond must amortize any premium over such Series 2012 Senior Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Series 2012 Senior Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Series 2012 Senior Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2012 Senior Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series 2012 Senior Bonds should consult with their tax advisors with respect to the determination

and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series 2012 Senior Bond.

RATINGS

S&P, Moody's and Fitch, have assigned ratings of AA, Aa3 and AA, respectively, to the Series 2012 Senior Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, New York, New York 10041; Moody's, 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Department furnished the rating agencies with certain information and materials concerning the Series 2012 Senior Bonds and the Department, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012 Senior Bonds.

LEGAL MATTERS

The validity of the Series 2012 Senior Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel to the Department. A complete copy of the proposed form of Bond Counsel's opinion is contained in APPENDIX D hereto. Polsinelli Shughart LLP serves as Disclosure Counsel to the Department. Bond Counsel and Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain matters will be passed upon for the Department and the City by Carmen Trutanich, Esq., City Attorney. Certain matters will be passed upon for the Underwriters by their counsel, Sidley Austin LLP.

FINANCIAL ADVISORS

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California, and Public Financial Management, Inc. of San Francisco, California, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2012 Senior Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Both of the Co-Financial Advisors perform other services for the Department.

AIRPORT CONSULTANT

The Report of the Airport Consultant prepared by Ricondo & Associates, Inc. has been included as APPENDIX A to this Official Statement with the consent of such consultants. The Report of the Airport Consultant was prepared in conjunction with the issuance of the Series 2012 Senior Bonds. The Department has relied upon the analyses and conclusions contained in the Report of the Airport Consultant, as of its date, in preparing this Official Statement. The financial projections in the Report of the Airport Consultant are based upon certain information and assumptions that were provided by, or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the financial projections set forth in the Report of the Airport Consultant. Ricondo & Associates, Inc. performs other services for the Department, including with respect to the calculation of rates and charges.

FINANCIAL STATEMENTS

The audited financial statements of the Department for Fiscal Years 2012 and 2011 are included as part of APPENDIX B attached hereto. The financial statements referred to in the preceding sentence have been audited by Macias, Gini & O'Connell LLP, independent auditors, as stated in its Independent Auditor's Report included in APPENDIX B. Macias, Gini & O'Connell LLP was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement (including the Report of the Airport Consultant), and no opinion is expressed by Macias, Gini and O'Connell LLP with respect to any event subsequent to the date of its report.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2012 Senior Bonds, the Department will covenant to provide, or cause to be provided, to the MSRB certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain listed events for purposes of Rule 15c2-12 adopted by the SEC. Within the past five years, the Department has not failed to comply, in all material respects, with any continuing disclosure undertaking to provide annual financial and operating information or notices of certain enumerated events. See APPENDIX F – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The Department has agreed to provide the foregoing information to MSRB through the Electronic Municipal Market Access (EMMA) website.

UNDERWRITING

The Series 2012 Senior Bonds are being purchased from the Department by Citigroup Global Markets Inc. (“Citigroup”), on its own behalf and on behalf of Siebert Brandford Shank & Co., L.L.C., Wells Fargo Bank, National Association (“WFBNA”), and Cabrera Capital Markets, LLC, the underwriters of the Series 2012 Senior Bonds (the “Series 2012 Underwriters”), at a price of \$324,997,520.47 (consisting of the aggregate principal amount of \$279,110,000.00, plus an original issue premium of \$46,881,973.05 and less an underwriters’ discount of \$994,452.58) all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2012 Underwriters (the “Series 2012 Purchase Agreement”).

The Series 2012 Purchase Agreement provides that the Series 2012 Underwriters shall purchase all of the Series 2012 Senior Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Series 2012 Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The Series 2012 Underwriters may change the initial public offering yields set forth on the inside front cover hereof. The Series 2012 Underwriters may offer and sell the Series 2012 Senior Bonds to certain dealers (including dealers depositing the applicable Series 2012 Senior Bonds into investment trusts) at prices lower than the public offering prices or at yields higher than the yields stated on the inside front cover hereof.

The following two paragraphs have been provided by the Series 2012 Underwriters for inclusion in this Official Statement and the Department does not make any representation as to their accuracy or completeness.

Certain of the Series 2012 Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Series 2012 Underwriters may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Series 2012 Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Department, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Series 2012 Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Department. The market activities of the Series 2012 Underwriters and other market participants may impact the value of the Series 2012 Senior Bonds.

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

Citigroup Inc., parent company of Citigroup Global Markets Inc., one of the Series 2012 Underwriters, has entered into a retail brokerage joint venture with Morgan Stanley. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2012 Senior Bonds.

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

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including WFBNA.

WFBNA, one of the Series 2012 Underwriters, has entered into an agreement (the “Distribution Agreement”) with Wells Fargo Advisors, LLC (“WFA”) for the retail distribution of certain municipal securities offerings, including the Series 2012 Senior Bonds. Pursuant to the Distribution Agreement, WFBNA will share a portion of its underwriting compensation with respect to the Series 2012 Senior Bonds with WFA. WFBNA and WFA are both subsidiaries of Wells Fargo & Company.

MISCELLANEOUS

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

All references to the Charter, the Senior Indenture, the Subordinate Indenture, agreements with any other parties and laws and regulations herein and in the Appendices hereto are made subject to the detailed provisions of such documents, and reference is made to such documents and agreements for full and complete statements of the contents thereof. Copies of such documents are available for review at the offices of the Department which are located at One World Way, Los Angeles, California. This Official Statement is not to be construed as a contract or agreement between the City or the Department and the owners of any of the Series 2012 Senior Bonds.

PART II

THE DEPARTMENT OF AIRPORTS

General Description

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

LAX is the major facility in the Airport System and accounted for approximately 93.5% of the total passenger traffic, approximately 81.1% of the air cargo volume and 89.2% of the air carrier operations for the Airport System for Fiscal Year 2012. LAX served approximately 62.9 million enplaned and deplaned passengers in Fiscal Year 2012, up approximately 3.8% from approximately 60.6 million in Fiscal Year 2011. As of August 1, 2012, LAX was served by 62 scheduled passenger carriers, seven unscheduled passenger carriers and 22 air cargo carriers. See "LOS ANGELES INTERNATIONAL AIRPORT – Aviation Activity."

LA/ONT is a medium-hub, full-service airport with commercial jet service to many major cities in the United States and connecting service to many international destinations. LA/ONT is located approximately 35 miles east of downtown Los Angeles and approximately 50 miles east of LAX and occupies approximately 1,463 acres. LA/ONT served approximately 4.4 million enplaned and deplaned passengers in Fiscal Year 2012, representing approximately 6.5% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2012. As of October 1, 2012, LA/ONT was served by 9 scheduled passenger carriers and cargo carriers and approximately 11 unscheduled passenger and cargo carriers. The Department operates LA/ONT pursuant to a Joint Powers Agreement with the City of Ontario.

VNY is a general aviation airport located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is one of the busiest general aviation airports in the United States with over 300,000 operating movements in Fiscal Year 2012 as reported by the FAA. More than 100 businesses are located at the airport, including five fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs.

LA/PMD is located in the Antelope Valley approximately 60 miles north of LAX. Currently, there is no scheduled service at LA/PMD. The LA/PMD passenger terminal is located on United States Air Force Plant 42 ("Plant 42") property. The Department owns approximately 17,000 acres of land south and east of Plant 42. The Plant 42 property is leased from the United States Air Force (the "Air Force") pursuant to a lease (the "Plant 42 Lease") between the Air Force, as lessor, and the City of Palmdale, as lessee. The rights under the Plant 42 Lease were assigned to the City. After scheduled service was discontinued and the Department returned the LA/PMD certificate to the FAA, the City Council of the City of Palmdale adopted a resolution to rescind, revoke and terminate the assignment of the Plant 42 Lease. The effectiveness of the Plant 42 Lease remains the subject of a dispute.

Airports in Airport System Comparison

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

TABLE 4
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
OPERATING RESULTS FOR AIRPORT SYSTEM
FISCAL YEAR 2012⁽¹⁾

Airport	Net Operating Revenues (000)⁽²⁾	Enplanements and Deplanements	Aircraft Arrivals and Departures	Total Landed Weight (000)⁽³⁾	Enplaned/Deplaned Cargo (Tons)
LAX	\$ 241,930	62,924,676	578,842	50,012,882	1,923,396
LA/ONT	40	4,405,872	68,743	5,090,624	447,230
VNY	3,318	--	1,334	37,051	2
LA/PMD ⁽⁴⁾	(847)	--	--	--	--
Total⁽⁵⁾	\$ 244,441	67,330,548	648,919	55,140,557	2,370,628

(1) Derived from unaudited financial statements. Due to its date of publication, certain information contained in this table is more current than certain information contained in the audited financial statements of the Department for Fiscal Year 2012.

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

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

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

(5) Numbers may not add due to rounding.

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

Subsidization within the Airport System

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

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

In Fiscal Year 2012, LAX provided a subsidy to VNY of approximately \$3.7 million. Since VNY serves as a reliever airport for LAX, the VNY subsidy was recovered by the Department through an increase in landing fees at LAX. Landing fees at LAX are calculated based on LAX's operating costs and amortization of debt as well as certain costs associated with VNY. The Department expects to provide subsidies to VNY in the future, and no assurance can be given that such subsidies will not be substantially higher than they have been in the past.

In Fiscal Year 2012, LAX provided a subsidy of approximately \$1.8 million to LA/PMD. The subsidy for LA/PMD is not incorporated in LAX landing fees but rather is paid from discretionary funds and may increase or decrease in the future. See "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Hazardous Substances." No assurance can be given that major catastrophic liabilities or other unanticipated events will not occur within the Airport System which would require substantial unanticipated transfers of LAX revenues.

On December 14, 2011, the City of Ontario, California submitted a proposal to the Department for the acquisition of LA/ONT. On September 21, 2012, the City Administrative Officer issued his report regarding the decline in passenger traffic at LA/ONT and the proposed transfer of LA/ONT. The report recommended, among other things, that the Mayor and the City Council (i) decline the City of Ontario's proposal, (ii) explore a potential acquisition of LA/ONT by the City of Ontario and/or a joint powers authority consisting of the City of Ontario and the County of San Bernardino, (iii) the City Council should review and endorse a set of principles that would be developed by the Board to provide guidance in negotiations and (iv) establish a negotiating team. On October 10, 2012, the City Council took action to (i) decline the City of Ontario's proposal, (ii) instruct the City Administrative Officer to facilitate negotiations among the Department, City of Ontario, County of San Bernardino, Ontario International Airport Authority, and other primary stakeholders to determine the most effective and appropriate ownership and management alternative, and the assigned value of such alternative, for LA/ONT and (iii) request the Department and direct the City Administrative Officer to report to the City Council periodically with respect to

progress. Notwithstanding the City Administrative Officer’s report and the City Council’s action, any transaction involving the disposition of LA/ONT requires the approval of the Board. As of the date of this Official Statement, the Board has not endorsed negotiation guidance nor approved any transaction involving the disposition of LA/ONT.

Board of Airport Commissioners

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

Member	Occupation	Date of Appointment	Current Term Expires
Michael A. Lawson, President	Retired Attorney	September 2005	June 30, 2016
Valeria C. Velasco, Vice President	Attorney	September 2005	June 30, 2017
Joseph A. Aredas	Labor Executive	September 2005	June 30, 2015
Robert D. Beyer	Investment Banker	February 2011	June 30, 2014
Fernando Torres-Gil	University Dean	September 2005	June 30, 2013
Ann M. Hollister	Community Activist	December 2011	June 30, 2015
Boyd Hight	Retired Attorney	November 2010	June 30, 2014

The Charter provides that, in the event a Board member has reason to believe that such Board member might have a conflict of interest disqualifying such Board member from acting on a matter and the City Attorney decides that it is probable that a court would hold that a disqualification exists, the matter will be referred to the Board of Referred Powers. The Board of Referred Powers consists of five members of the City Council, two of whom are designated by the President of the City Council and three of whom consist of the Chairman of the Budget and Finance Committee, the Chairman of the Land Use Management Committee and the Chairman of the Commerce, Energy and Natural Resources Committee. The Board of Referred Powers recently approved certain concession contracts. See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.”

Oversight by City Council

The Charter allows the City Council to review all Board actions. The Charter states that actions of the Board become final at the expiration of five meeting days of the City Council unless the City Council acts within that time, by a two-thirds vote, to bring an action of the Board before the City Council for review or to waive review of the action. If the City Council chooses to assert jurisdiction over the action, the City Council may, by a two-thirds vote, veto the action of the Board within 21 calendar days of voting to bring the matter before it, or the action of the Board is final. An action vetoed by the City Council shall be remanded to the Board which will have the authority it originally held to take action on the matter. In addition, the Charter provides that certain actions of the Board, including the issuance of debt, must also be approved by the City Council. The City Council approved the issuance of the Series 2012 Senior Bonds on October 30, 2012.

Department Management

Responsibility for the implementation of the policies formulated by the Board and for the day-to-day operations of the Airport System rests with the senior management of the Department. The Executive Director is appointed by the Board, subject to confirmation by the Mayor and the City Council. Subject to civil service rules and regulations, she is empowered to appoint and remove the senior managers. Within each of the 44 divisions in the Department, there are various sections that are assigned certain responsibilities for the efficient operation and development of the Airport System. As of June 30, 2012 there were 3,543 authorized positions for the Airport System. The current principal administrative officers and their positions are named below:

Gina Marie Lindsey, Executive Director. Gina Marie Lindsey was appointed as Executive Director effective June 4, 2007. Before joining the Department, Ms. Lindsey was Executive Vice President of McBee Strategic Consulting, LLC, a government relations and aviation consulting firm in Washington, D.C. Prior to holding that post, she was Managing Director for the Seattle-Tacoma International Airport (SEA) (“Sea-Tac”) where

she was responsible for the operations, maintenance, planning and construction of the airport. Under her guidance, Sea-Tac embarked on a \$3-billion, 7-year capital improvement program, including the construction of a new runway, demolition and reconstruction of a concourse, and major refurbishments. She also served as Director of Aviation for Anchorage International Airport (ANC) where she managed the airport's transition from an international passenger refueling stop to an international cargo hub for Federal Express and United Parcel Service. Prior to managing airports, she worked for the Alaska Department of Transportation on surface transportation issues. She was appointed by the U.S. Secretary of Transportation to the Airport Cooperative Research Board, and also has served on the World Board of Directors for ACI and chaired ACI-North America in 2003. Ms. Lindsey has a degree in communications media and business from Walla Walla College.

Stephen C. Martin, Chief Operating Officer. Mr. Martin was appointed Chief Operating Officer in January 2008. Mr. Martin has over 30 years of experience in airports and transportation development and finance. Prior to joining the Department, Mr. Martin served as Executive Vice President and Chief Financial Officer of ACI-North America. Previously, he was a consultant for 10 years with Leigh Fisher Associates in San Francisco where he specialized in finance, project development and privatization. Mr. Martin also held the position of Director of Financial Development in the Office of the Secretary at the U.S. DOT from 1993 to 1996. Earlier in his career, Mr. Martin was with the Massachusetts Port Authority ("Massport") for twelve years. For six of those years he was the Director of Finance and Business Development for all of Massport's lines of business. Initially at Massport, Mr. Martin worked at Logan International Airport (BOS) as an Assistant Director of Aviation. Mr. Martin has a Master's degree in economics from Northeastern University and a Bachelor's degree in economics from the University of Massachusetts.

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

Michael D. Feldman, Deputy Executive Director, LAWA Facilities Management. Mr. Feldman was appointed as Deputy Executive Director, Facilities Management in May 2009. He is responsible for providing technical ownership and maintaining the functional integrity and reliability of the Department's physical assets, environmental regulatory compliance, sustainability, strategic and current planning required to guide investment in new facilities and renewal of existing assets. Mr. Feldman has 32 years of experience in airport planning, environmental management, facilities management, and maintenance. Prior to joining the Department, he served as the Deputy Managing Director at the Port of Seattle's Aviation Division. He was recently appointed to a third term on the International Facilities Management Association ("IFMA") Board of Directors and previously served two terms as the President of Airport Facilities Council of IFMA. Mr. Feldman has completed IFMA's Facilities Management Professional credential and is a Certified Member of the American Association of Airport Executives. He holds a Bachelor of Science degree in Resource Planning and Interpretation from the Humboldt State University and is currently an Executive MBA candidate at the University of Washington, Foster School of Business.

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

Samson Mengistu, Deputy Executive Director, Administration. Mr. Mengistu is the Deputy Executive Director for Administration at LAWA. In this position he oversees the functions of the Comptroller, the Board Office, Human Resources, Risk Management and Contract Services. Mr. Mengistu joined the City in 1989 after working extensively in the property management field. Mr. Mengistu established and managed the Department's soundproofing program. Immediately prior to his current position, he served as Deputy Executive Director for Finance and Administration and as the Department's Acting Executive Director from February to June 2007. Mr. Mengistu was appointed Deputy Executive Director of Board Relations and Special Programs in 2003, serving as the Board liaison. In addition, he was in charge of the Department's \$500 million Property Acquisition Program and the Risk Management and Procurement Divisions. As Chief Assistant to the Executive Director from 1999 to 2003, he assisted in managing and directing professional, technical and support personnel. Mr. Mengistu earned a Bachelor of Arts degree in Economics and a Master of Science in Public Administration from California State University, Los Angeles.

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

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

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

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

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

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

Ryan Yakubik, Director of Capital Development and Budget. Mr. Yakubik was appointed Manager of the Finance and Budget Division in October of 2007. He is responsible for overseeing the Department's rates and charges, grants administration, operating budget, capital budget and all debt-related functions at LAX and LA/ONT. Mr. Yakubik came to the Department after more than eight years in the financial services industry where he most recently served as a fixed income portfolio manager for institutional clients. Mr. Yakubik holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles and is a Chartered Financial Analyst.

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

Employees and Labor Relations

The Department is a civil service organization, which as of June 30, 2012 had 3,543 authorized positions, of which 3,239 were authorized at LAX, 248 were authorized at LA/ONT and 56 were authorized at VNY and LA/PMO combined. Department employees are employed in more than 282 different civil service classifications. This wide range of job classifications is grouped into eight job categories, including Officials and Administrators, Professionals, Technicians, Protective Service, Paraprofessionals, Administrative Support, Skilled Craft and Service Maintenance.

As a municipal organization, the Department's employee and labor relations are governed by applicable State and City civil service rules and regulations as well as 23 separate labor agreements between management and

unions (“Memoranda of Understanding”). Most of the Department’s employees are covered by the Memoranda of Understanding. The following table lists all Memoranda of Understanding between the Department and labor and management unions as of October 1, 2012.

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

Bargaining Unit	Expires
Service Employees International Union, Local 347	
Equipment Operation and Labor Employees Representation Unit No. 4	June 30, 2014
Professional Engineering and Scientific Unit No. 8	June 30, 2014
Service and Craft Representation Unit No. 14	June 30, 2014
Service Employees Representation Unit No. 15	June 30, 2014
Supervisory Professional Engineering and Scientific Unit No. 17	June 30, 2014
Safety/Security Representation Unit No. 18	June 30, 2014
Municipal Construction Inspectors Association, Inc.	
Inspectors Unit No. 5	June 30, 2014
Los Angeles Professional Managers Association	
Management Employees Unit No. 36	June 30, 2014
American Federation of State, County and Municipal Employees	
Clerical and Support Services Unit No. 3	June 30, 2014
Executive Administrative Assistants Unit No. 37	June 30, 2014
Engineers and Architects Association	
Administrative Unit No. 1	July 1, 2013
Supervisory Technical Unit No. 19	July 1, 2013
Supervisory Administrative Unit No. 20	July 1, 2013
Technical Rank and File Unit No. 21	July 1, 2013
Local No. 501, International Union of Operating Engineers	
Plant Equipment Operation and Repair Representation Unit No. 9	June 30, 2013
Los Angeles City Supervisors and Superintendents Association,	
Laborer’s International Union of North America, Local 777	
Supervisory Blue Collar Unit No. 12	June 30, 2014
Los Angeles/Orange Counties Building and Construction Trades Council	
Building Trades Rank and File Representation Unit No. 2	June 30, 2014
Supervisory Building Trades and Related Employees Representation Unit No. 13	June 30, 2014
Use of Union Hiring Halls for Temporary Use of Craft Workers No. 35	On-going
All City Employees Association, Local 2006, American Federation of State, county and Municipal Employees Council 36, AFL-CIO	
Professional Medical Services Unit No. 10	June 30, 2012*
Los Angeles Airport Peace Officers Association	
Peace Officers Representation Unit No. 30	June 30, 2010*
Airport Supervisory Police Officers’ Association of Los Angeles	
Supervisory Peace Officers’ Unit No. 39	June 30, 2009*
Airport Police Command Officers Association of Los Angeles	
Management Peace Officers’ Unit No. 40	June 30, 2009*

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

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

The Human Resources Division of the Department is responsible for counseling employees and managers regarding proper personnel and civil service procedures and rules; representing management in contract negotiations with unions; maintaining a comprehensive strike plan for the Department’s 44 divisions; acting as hearing officer in disciplinary meetings; representing management in grievance arbitration hearings; providing recommendations to management on staffing needs; and providing training to employees and supervisors.

Retirement Plan

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

The City is currently projecting significant increases to the amount it will contribute to LACERS in Fiscal Years 2014, 2015, 2016 and 2017. See APPENDIX G – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – FINANCIAL OPERATIONS – Retirement System.” The Department’s pension cost varies from year to year depending on, among other things, the annual contribution rate determined by LACERS and its actuaries, the number of the Department’s employees covered and the retirement benefits accruing to those employees. On September 25, 2012, the City Council considered and approved a draft ordinance designed, among other things, to provide a second tier of benefits for employees who become members of LACERS on or after July 1, 2013. The new tier is designed to reduce pension costs to the City by (i) increasing the retirement age from 55 to 65, (ii) lowering the maximum retirement factor from 2.16% to 2.00%, (iii) lowering the final average compensation cap used to calculate benefits from 100% to 75%, (iv) increasing the period used to calculate average final compensation from one year to three years, (v) modifying certain disability benefits, (vi) eliminating certain survivor benefits, (vii) establishing a two percent maximum annual cost of living adjustment and providing employees the opportunity to purchase an additional one percent, and (viii) requiring employees to pay the full costs of purchasing service credit. The City Administrative Officer has estimated that the implementation of the new tier will result in a five-year savings to the City of approximately \$30 million to \$70 million, a ten-year savings to the City of approximately \$169 million to approximately \$309 million and a thirty-year savings to the City of approximately \$3.9 billion to approximately \$4.3 billion. On October 26, 2012 the City Council adopted the ordinance after further public hearing.

Department contributed approximately \$52.2 million, \$52.6 million, \$49.3 million, \$40.4 million and \$37.9 million to LACERS with respect to LAX in Fiscal Years 2013, 2012, 2011, 2010 and 2009, respectively. For each of these Fiscal Years, the contribution made by the Department equaled 100% of annual required contribution as calculated by LACERS and its actuaries. The Department’s Fiscal Year 2013 contribution was calculated by LACERS and its actuaries to be approximately \$54.7 million, but included a credit of approximately \$2.6 million due to the recalculation by LACERS and its actuaries of the Fiscal Year 2012 annual required contribution. The Department expects that its contributions to LACERS will continue to increase, in amounts that may be significant.

The information in this paragraph is derived from the December 7, 2011 LACERS’ Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2011 (the “LACERS Valuation Report”). LACERS had an unfunded actuarial accrued liability (“UAAL”) of approximately \$3.70 billion with respect to retirement benefits and approximately \$422 million with respect to health subsidy benefits as of June 30, 2011 and an UAAL of approximately \$3.04 billion with respect to retirement benefits and approximately \$808 million with respect to health subsidy benefits as of June 30, 2010. The actuarial value of LACERS total system assets was approximately \$11.3 billion as of June 30, 2011 and approximately \$11.0 billion as of June 30, 2010. The market value of LACERS total system assets was approximately \$10.7 billion as of June 30, 2011 and approximately \$9.0 billion as of June 30, 2010. The valuation value of LACERS retirement system assets was approximately \$9.7 billion as of June 30, 2011 and approximately \$9.6 billion as of June 30, 2010. The valuation value of LACERS retiree health assets was approximately \$1.5 billion as of June 30, 2011 and approximately \$1.4 billion as of June 30, 2010. Based on the valuation value of LACERS assets, the LACERS total funded ratio was approximately 73.2% (comprised of 72.4% for retirement benefits and 78.6% for health subsidy benefits) as of June 30, 2011 and approximately 74.0% (comprised of 75.9% for retirement benefits and 63.8% for health subsidy benefits) as of June 30, 2010. Based on the market value of LACERS assets, the LACERS total funded ratio was approximately 69.4% (comprised of 68.6% for retirement benefits and 74.5% for health subsidy benefits) as of June 30, 2011 and approximately 60.5% (comprised of 62.0% for retirement benefits and 52.1% for health subsidy benefits) as of June 30, 2010.

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

REGARDING THE CITY OF LOS ANGELES” requiring LACERS’ and the City’s projections of contribution rates and required annual contributions.

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

For additional information regarding LACERS, see the information in APPENDIX G – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES,” which has been reproduced from relevant portions of Appendix A to the Official Statement of the City dated June 27, 2012, as supplemented on July 6, 2012, in connection with the City’s 2012 Tax and Revenue Anticipation Notes, which is available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. Additional information regarding LACERS assumptions, plan details and investment of plan assets can be found in the LACERS Reports, both of which are available on LACERS’ website. The Department is relying upon, and has not independently confirmed or verified, the accuracy or completeness of Appendix G or the LACERS Reports, or other information incorporated by reference therein. See “CERTAIN INVESTMENT CONSIDERATIONS – Retirement Plan Funding.”

LOS ANGELES INTERNATIONAL AIRPORT

Introduction

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the City. LAX occupies approximately 3,673 acres in an area generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the south by the Imperial Highway and on the west by the Pacific Ocean. The LAX site, originally known as Mines Field, has been in use as an aviation field since 1928. During World War II it was used for military flights. Commercial airline service started in December 1946, and the present terminal complex was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX offers commercial air service to every major city in the United States and to virtually every major international destination, and is classified by the FAA as a large hub airport.

LAX is the major facility in the Airport System and for Fiscal Year 2012 accounted for approximately 93.5% of the total passenger traffic, approximately 81.1% of the air cargo volume and approximately 89.2% of the air carrier operations for the Airport System.

No airline dominates in shares of enplaned passengers or provides formal “hubbing” activity at LAX. Approximately 30% of LAX’s domestic passenger traffic (and approximately 25% of LAX’s total passenger traffic) is connecting, and no air carrier accounted for more than approximately 23% of LAX’s domestic enplanements between Fiscal Year 2008 and Fiscal Year 2012. In calendar year 2011, 75% of passengers at LAX represented originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining approximately 25% of passengers represented connections to or from regional markets as well as domestic connections to or from international markets. The level of connecting passengers at LAX is due primarily to: (i) LAX’s role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets along the west coast of the United States; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the alliances among airlines serving LAX.

Facilities

The central terminal complex features a decentralized design concept with nine individual terminals constructed on two levels lining a U-shaped two-level roadway (the “Central Terminal Area”). The total terminal area is approximately 4.7 million square feet. Although many of the terminals are physically connected, they function as independent terminals with separate ticketing, baggage, security checkpoints and passenger processing systems. The terminals share a common aircraft gate access system.

Passenger terminal facilities include ticketing and baggage check-in on the upper departure level and baggage claim on the ground level, fronting on the lower-level roadway. Passenger terminal facilities provide access to upper-level concourses to field arrival/departure areas. LAX currently has a total of 108 contact gates in the Central Terminal Area and a number of remote gate positions. Several of the jet gates accommodate commuter airplanes.

The existing airfield consists of four parallel east-west runways configured in two pairs. The north airfield complex includes Runway 6L-24R (8,925 feet) and Runway 6R-24R (10,285 feet). The south airfield complex includes Runway 7R-25L (11,095 feet) and Runway 7L-25R (12,091 feet). All runways are 150 feet wide, except for Runway 7R-25L, which is 200 feet wide. For approaches during Instrument Flight Rules conditions, instrument landing systems are installed on all four runways.

Approximately 19,000 public parking spaces are available at LAX, including approximately (i) 8,700 parking spaces in eight parking garages in the Central Terminal Area, (ii) 7,300 public parking spaces in parking Lot C, (iii) 2,700 public parking spaces in the Park One surface parking lot located adjacent to Terminal 1 and (iv) a 77 public parking spaces in cell phone waiting lot. See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.” The Park One surface parking lot is operated by PNF-LAX, Inc. pursuant to the PNF Lease (as defined below) and the Central Terminal Area and Lot C parking lots are managed by New South (as defined below). See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.”

Cargo facilities at LAX provide approximately 1.9 million square feet of building space in 25 buildings on 175 acres of land devoted exclusively to cargo. Rental car company facilities, major commercial airline maintenance hangars and office buildings, a 12-story administration building, a control tower, a central utility plant, two flight kitchens, a fuel farm, and FAA, TSA and U.S. Coast Guard facilities are also located at LAX.

The Department maintains facilities occupying approximately 30 acres at LAX, consisting of maintenance yard, warehouse, inspection office, administration offices, a telecommunication center and executive offices in the former control tower. The Department also leases offices at an office building in the vicinity of LAX. The Department has an option to purchase the office building and its parking lots for an option price in excess of \$125 million, which option may be exercised by the Department during calendar year 2013.

Air Carriers Serving LAX

The following table sets forth the air carriers serving LAX as of August 1, 2012. See “AIRLINE INDUSTRY INFORMATION.”

TABLE 6
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR CARRIERS SERVING LAX
AS OF AUGUST 1, 2012

<u>Scheduled U.S. Carriers (20)</u>	<u>Foreign Flag Carriers (42)</u>	<u>Nonscheduled Carriers (7)</u>	<u>All-Cargo Carriers (22)</u>
AirTran Airways ¹	Aeroflot	ArkeFly	Aerotransporte De Carga Union
Alaska Airlines	AeroMexico	Clay Lacy Aviation	Aerotransportes Mas De Carga
Allegiant Air	Aerolitoral (Aeromexico Connect)	Miami Air	Air Transport International
American Airlines	Air Berlin	North American	Asiana Cargo
American Eagle	Air Canada	Pace	Astar
Delta Air Lines	Air China	USA Jet	Atlas Air Cargo
ExpressJet	Air France	World Airways	Cargolux
Frontier Airlines	Air New Zealand		Cathay Pacific Cargo
Great Lakes Aviation	Air Pacific		China Cargo
Hawaiian Airlines	Air Tahiti Nui		China Southern Cargo
Horizon Airlines	Alitalia		DHL/Airborne
JetBlue Airways	All Nippon		Eva Airways Cargo
Republic Airlines	Asiana		FedEx
SkyWest Airlines	British Airways		Florida West
Southwest Airlines ¹	Cathay Pacific		Kalitta Air
Spirit Airlines	China		Korean Cargo
Sun Country Airlines	China Eastern		Nippon Cargo
United Airlines ²	China Southern		Polar Air
US Airways	Copa		Singapore Airlines Cargo
Virgin America	El Al Israel		United Parcel Service
	Emirates		World Airways Cargo
	Eva Airways		Yangtze River Express
	Iberia		
	Japan Airlines		
	KLM Royal Dutch		
	Korean Air		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa German		
	Malaysia		
	Qantas		
	Singapore		
	SWISS		
	TACA		
	Thai Airways		
	Transaero		
	Turkish Airlines		
	Virgin Atlantic Airways		
	Virgin Australia		
	Volaris		
	Westjet		

¹ In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran, which was completed in 2011. Southwest and AirTran received a single operating certificate from the FAA in 2012, however Southwest and AirTran continue to operate as separate airlines while integrating.

² As a result of a merger, data presented for United Airlines includes data for Continental Airlines.
Source: Department of Airports of the City of Los Angeles.

Aviation Activity

For calendar year 2011, LAX ranked as the 6th busiest airport in the world and the 3rd busiest in the United States in terms of total number of enplaned and deplaned passengers (totaling approximately 61.9 million) according to ACI. For calendar year 2011, ACI statistics ranked LAX as the 13th busiest airport in the world and the 5th busiest in the United States in terms of total cargo with approximately 1.7 million enplaned and deplaned metric tons. The following table shows the air passenger activity, total movements and cargo volume at LAX relative to the world's busiest airports.

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

Rank	Airport	Total Passengers	Airport	Total Movements	Airport	Total Cargo (metric tons) ¹
1	Atlanta (ATL)	92,389,023	Atlanta (ATL)	923,996	Hong Kong (HKG)	3,976,768
2	Beijing (PEK)	78,675,058	Chicago (ORD)	878,798	Memphis (MEM)	3,916,410
3	London (LHR)	69,433,565	Los Angeles (LAX)	702,895	Shanghai (PVG)	3,085,268
4	Chicago (ORD)	66,701,241	Dallas (DFW)	646,803	Anchorage (ANC)	2,543,105
5	Tokyo (HND)	62,584,826	Denver (DEN)	628,796	Incheon (ICN)	2,539,222
6	Los Angeles (LAX)	61,862,052	Charlotte (CLT)	539,842	Paris (CDG)	2,300,063
7	Paris (CDG)	60,970,551	Beijing(PEK)	533,257	Dubai (DXB)	2,269,768
8	Dallas (DFW)	57,803,439	Las Vegas (LAS)	531,538	Frankfurt (FRA)	2,214,939
9	Frankfurt (FRA)	56,436,255	Houston (IAH)	517,262	Louisville (SDF)	2,188,422
10	Hong Kong (HKG)	53,328,613	Paris (CDG)	514,059	Tokyo (NRT)	1,945,351
11	Denver (DEN)	52,849,132	Frankfurt (FRA)	487,162	Singapore (SIN)	1,898,850
12	Jakarta (CGK)	51,178,188	London (LHR)	480,931	Miami (MIA)	1,841,929
13	Dubai (DXB)	50,977,960	Phoenix (PHX)	461,989	Los Angeles (LAX)	1,681,611
14	Amsterdam (AMS)	49,755,252	Philadelphia (PHL)	448,129	Beijing (PEK)	1,640,247
15	Madrid (MAD)	49,644,680	Detroit (DTW)	443,028	Taipei (TPE)	1,627,463

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

Source: *2011 World Traffic Report*, September 2012, Airports Council International.

As seen in Table 8 which follows, from Fiscal Year 2003 through Fiscal Year 2007, total enplaned and deplaned passengers at LAX increased at a compound annual growth rate of 2.7%. Several factors contributed to slow passenger enplanement growth at LAX including decreased demand levels along the West Coast of the United States and systemwide changes in the airlines' routes and structures and seat capacities. Due to the global economic environment and capacity reductions by U.S. and foreign flag carriers, total enplanements and deplanements decreased 9.2% in Fiscal Year 2009 from Fiscal Year 2008. From Fiscal Year 2009 through Fiscal Year 2012, total enplaned and deplaned passengers at LAX increased at a compounded annual growth rate of 2.7%. For further discussion of historical passenger activity and factors affecting aviation demand and the airline industry, see APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." The fiscal year used for national comparisons is different from the Department's fiscal year. See also "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines."

The following table presents historical total revenue operations (landings and takeoffs) and total domestic and international enplanements and deplanements at LAX for Fiscal Years 2003 through 2012.

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

Fiscal Year⁽²⁾	Revenue Operations		Enplanements and Deplanements			Passenger Growth
	Total Operations	Operations Growth	Domestic⁽³⁾	International⁽³⁾	Total⁽³⁾	
2003	605,516	(3.2)%	40,761,700	14,571,467	55,333,167	(1.4)%
2004	596,921	(1.4)	42,335,711	15,705,459	58,041,170	4.9
2005	616,482	3.3	44,240,522	17,024,908	61,265,430	5.6
2006	606,269	(1.7)	44,058,954	17,376,983	61,435,937	0.3
2007	615,612	1.5	44,721,685	16,856,505	61,578,190	0.2
2008	629,724	2.3	44,834,824	17,427,929	62,262,753	1.1
2009	539,849	(14.3)	41,245,318	15,301,832	56,547,150	(9.2)
2010	537,626	(0.4)	42,145,783	15,752,062	57,897,845	2.4
2011	555,319	3.3	44,352,913	16,253,725	60,606,638	4.8
2012	578,842	4.2	45,957,785	16,966,891	62,924,676	3.8

⁽¹⁾ Due to its date of publication, certain information contained in this table is more current than certain information contained in the audited financial statements of the Department for Fiscal Year 2012.

⁽²⁾ Fiscal Year ended June 30.

⁽³⁾ Enplaned and deplaned passengers.

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

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

TABLE 9
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE⁽¹⁾
(RANKED BY FISCAL YEAR 2012 RESULTS)

Airline	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010		Fiscal Year 2011		Fiscal Year 2012	
	Enplanements	Share ⁽²⁾	Enplanements	Share ⁽²⁾	Enplanements	Share ⁽²⁾	Enplanements	Share ⁽²⁾	Enplanements	Share ⁽²⁾
1 United Airlines	5,503,939	17.7%	4,976,125	17.6%	5,047,872	17.4%	5,076,770	16.8%	5,126,122	16.3%
2 American Airlines	4,611,217	14.8	4,277,478	15.1	4,257,396	14.7	4,304,325	14.2	4,598,923	14.6
3 Southwest Airlines	3,851,867	12.4	3,556,203	12.6	3,389,180	11.7	3,512,432	11.6	3,516,770	11.2
4 Delta Air Lines	3,491,693	11.2	3,237,145	11.4	3,325,636	11.5	3,441,646	11.4	3,231,000	10.3
5 Skywest Airlines	1,383,225	4.4	1,289,602	4.6	1,441,834	5.0	1,777,359	5.9	1,887,638	6.0
6 Alaska Airlines	1,409,966	4.5	1,360,046	4.8	1,300,025	4.5	1,384,992	4.6	1,522,926	4.8
7 Virgin America	343,589	1.1	733,879	2.6	893,623	3.1	1,085,506	3.6	1,387,310	4.4
8 US Airways	1,110,117	3.6	1,060,803	3.7	958,824	3.3	981,885	3.2	964,577	3.1
9 American Eagle	485,023	1.6	406,422	1.4	437,705	1.5	536,346	1.8	814,306	2.6
10 Qantas Airways	614,211	2.0	590,960	2.1	606,970	2.1	571,004	1.9	603,170	1.9
11 Air Canada	477,779	1.5	424,024	1.5	416,345	1.4	438,868	1.4	468,793	1.5
12 JetBlue Airways	150	0.0	7,746	0.0	151,538	0.5	264,531	0.9	358,326	1.1
13 Korean Air	335,803	1.1	334,256	1.2	352,470	1.2	332,593	1.1	335,310	1.1
14 Air New Zealand	386,452	1.2	334,028	1.2	339,760	1.2	340,567	1.1	304,228	1.0
15 Frontier Airlines	278,881	0.9	212,323	0.7	236,783	0.8	299,477	1.0	284,804	0.9
16 Aeromexico	241,626	0.8	208,536	0.7	204,679	0.7	269,479	0.9	282,415	0.9
17 AirTran Airways	240,455	0.8	240,493	0.8	301,610	1.0	298,698	1.0	275,881	0.9
18 British Airways	296,390	1.0	284,737	1.0	269,204	0.9	274,372	0.9	274,882	0.9
19 Spirit Airlines	120,584	0.4	73,567	0.3	69,098	0.2	139,504	0.5	265,973	0.8
20 Cathay Pacific	326,263	1.0	244,372	0.9	220,936	0.8	254,191	0.8	262,793	0.8
Other	5,633,109	18.1	4,476,274	15.8	4,781,654	16.5	4,696,026	15.5	4,752,977	15.1
Airport Total ⁽²⁾	31,142,339	100.0%	28,329,019	100.0%	29,003,142	100.0%	30,280,571	100.0%	31,519,124	100.0%

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

⁽²⁾ Totals may not add due to rounding.

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

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

TABLE 10
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT⁽¹⁾
(RANKED ON FISCAL YEAR 2012 RESULTS)
(000 LBS.)

Airline	Fiscal Year Ended June 30									
	2008	Share ⁽²⁾	2009	Share ⁽²⁾	2010	Share ⁽²⁾	2011	Share ⁽²⁾	2012	Share ⁽²⁾
1 United Airlines	7,945,946	15.3%	7,052,298	15.1%	6,907,635	14.6%	6,986,999	14.4%	6,932,412	13.9%
2 American Airlines	6,203,061	11.9	5,667,801	12.1	5,616,948	11.9	5,589,632	11.5	5,900,084	11.8
3 Delta Air Lines	4,606,761	8.8	4,007,883	8.6	4,331,409	9.1	4,487,225	9.3	4,641,153	9.3
4 Southwest Airlines	5,092,746	9.8	5,068,050	10.8	4,744,526	10.0	4,737,254	9.8	4,601,662	9.2
5 Skywest Airlines	1,787,682	3.4	1,634,395	3.5	1,865,047	3.9	2,187,953	4.5	2,295,517	4.6
6 Virgin America	520,530	1.0	923,066	2.0	1,079,918	2.3	1,331,658	2.7	1,634,820	3.3
7 FedEx	1,775,030	3.4	1,642,089	3.5	1,523,405	3.2	1,605,640	3.3	1,628,897	3.3
8 Alaska Airlines	1,684,252	3.2	1,530,621	3.3	1,365,625	2.9	1,433,511	3.0	1,518,762	3.0
9 Qantas Airways	1,442,048	2.8	1,434,230	3.1	1,426,256	3.0	1,243,114	2.6	1,331,893	2.7
10 Korean Air	1,138,390	2.2	1,138,866	2.4	1,249,739	2.6	1,219,303	2.5	1,200,835	2.4
11 American Eagle	613,349	1.2	544,559	1.2	600,609	1.3	681,853	1.4	1,037,949	2.1
12 US Airways	1,315,542	2.5	1,231,410	2.6	987,948	2.1	1,023,668	2.1	1,003,778	2.0
13 Cathay Pacific	930,340	1.8	747,759	1.6	699,675	1.5	764,462	1.6	778,532	1.6
14 China	738,316	1.4	650,588	1.4	830,542	1.8	769,780	1.6	726,682	1.5
15 Eva Airways	769,663	1.5	666,451	1.4	704,432	1.5	643,079	1.3	607,128	1.2
16 Air New Zealand	740,537	1.4	628,380	1.3	650,340	1.4	643,814	1.3	589,878	1.2
17 British Airways	679,770	1.3	634,410	1.4	612,360	1.3	621,180	1.3	588,948	1.2
18 Air Canada	617,503	1.2	532,474	1.1	520,123	1.1	561,953	1.2	583,479	1.2
19 Asiana	570,672	1.1	620,966	1.3	649,826	1.4	656,330	1.4	524,490	1.0
20 Lufthansa	605,150	1.2	547,259	1.2	548,024	1.2	505,985	1.0	522,132	1.0
Other	12,321,657	23.7	9,815,253	21.0	10,456,902	22.1	10,753,417	22.2	11,385,728	22.8
Airport Total	52,098,945	100.0%	46,718,808	100.0%	47,371,289	100.0%	48,447,810	100.0%	50,034,759	100.0%

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

⁽²⁾ Totals may not add due to rounding.

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

In Fiscal Year 2012, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 1.92 million tons. According to ACI, LAX ranked 13th in the world in air cargo volume in calendar year 2011. The following chart provides information concerning cargo traffic at LAX over the last ten Fiscal Years.

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

Fiscal Year⁽²⁾	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
2003	1,015,712	6.6%	1,001,045	7.7%	2,016,757	7.1%
2004	1,032,947	1.7	1,028,893	2.8	2,061,840	2.2
2005	1,051,046	1.8	1,085,327	5.5	2,136,373	3.6
2006	994,637	(5.4)	1,122,527	3.4	2,117,164	(0.9)
2007	975,734	(1.9)	1,105,899	(1.5)	2,081,633	(1.7)
2008	877,455	(10.1)	1,095,273	(1.0)	1,972,728	(5.2)
2009	728,705	(17.0)	886,594	(19.1)	1,615,299	(18.1)
2010	792,005	8.7	1,067,249	20.4	1,859,254	15.1
2011	791,414	(0.1)	1,101,270	3.2	1,892,684	1.8
2012	811,728	2.6	1,111,668	0.9	1,923,396	1.6

⁽¹⁾ Due to its date of publication, certain information contained in this table is more current than certain information contained in the audited financial statements of the Department for Fiscal Year 2012.

⁽²⁾ Fiscal Year ended June 30.

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

Cargo volumes at LAX declined from Fiscal Year 2006 through Fiscal Year 2009, but increased in Fiscal Year 2010, 2011 and 2012 as shown in the table above. Similar to the passenger airlines, the air cargo industry has been impacted in recent years by the global economy, increasing fuel costs, exchange rates, uncertainties in the Middle East and new security regulations. The worldwide gross domestic product remains the primary driver for air cargo industry growth. As a leading economic indicator, air cargo traffic growth has slowed or even decreased in certain markets (including LAX) in recent years because of the increased prices of jet fuel since 2006 (particularly since late 2007) and the more recent U.S. economic recession. See “CERTAIN INVESTMENT CONSIDERATIONS” for discussion of some factors that may impact future aviation activity at LAX. See “USE OF AIRPORT FACILITIES” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for a discussion of the impact of aviation activity on revenues generated at LAX.

Competition

LAX’s “Air Trade Area” refers to the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA) as designated by the United States Bureau of the Census and includes the five-county area of Los Angeles, Orange, Riverside, San Bernardino and Ventura counties. There are five air carrier airports within the LAX Air Trade Area. According to statistics collected from individual airports and by ACI, LAX is the primary airport in the LAX Air Trade Area, with approximately 75% of the total enplaned passengers and approximately 77% of the cargo in calendar year 2011, down from and equal to approximately 76% and 77%, respectively, in 2001. Three secondary airports, LA/ONT (which is a part of the Airport System), Bob Hope Airport (BUR) in Burbank and John Wayne Airport (SNA) in Orange County, provide air service to major domestic markets and together accounted for approximately 21% of the air service in the LAX Air Trade Area for calendar year 2011. One other secondary airport, Long Beach Airport (LGB), provides limited air service to destinations outside of the LAX Air Trade Area and accounted for approximately 4% of the air service in the LAX Air Trade Area in calendar year 2011.

Emergency Management

The Department has four core groups that are responsible for emergency management: Fire, Law Enforcement, Airport Operations and Emergency Management Division. These core groups are responsible for the emergency planning for mitigation, preparedness, response and recovery. Roles and responsibilities of each entity within these four groups are defined under emergency support functions in the National Incident Management

System (“NIMS”), California Standardized Emergency Management System (“SEMS”), the federal government National Response Framework, FAA Regulation Part 139 (“FAR 139”), the Charter, the Airport Rules and Regulations and other statutes. The “Airport Rules and Regulations” are established pursuant to the Charter in order to, among other things, comply with FAA and TSA regulations which require the Department to establish operational and safety procedures and institute certain secondary measures for airport certification. Emergency management responsibilities for the core groups include: (1) drafting and maintenance of Department emergency plans, (2) integration with the City’s Emergency Operations Board and the emergency processes of other City departments if needed, (3) training and exercises, (4) planning for continuity of operations/continuity of government for the Airport System, (5) oversight of new emergency guidelines, mandates, technology, emergency response and preparedness systems at local, state, federal and international levels concerning airport emergency operations and (6) Department Operations Center, City Emergency Operations Center and Department representation for emergency activations.

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

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

CERTAIN FUNDING SOURCES

Passenger Facility Charges

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

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

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

The Department has received approval from the FAA to impose and use \$2,538,462,810 of PFC revenues (including investment income). Such PFC revenues are expected to be collected in full by June 1, 2019. The following table sets forth a summary of the Department’s approved passenger facility charge applications relating to LAX.

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

Passenger Facility Charge Application	Initial Approval Date	Approval Amount as Amended
1	1993	\$ 0 ⁽¹⁾
2	1996	116,370,846 ⁽²⁾
3	1996	50,222,938 ⁽³⁾
4	1997	700,000,000 ⁽⁴⁾
5	2005	697,779,968 ⁽⁵⁾
6	2007	85,000,000
7	2010	855,000,000
8	2011	34,089,058
Total		\$ 2,538,462,810
Total collected as of June 30, 2012:		\$ 1,718,770,151

⁽¹⁾ Initial approved amount \$100,000,000.

⁽²⁾ Initial approved amount \$167,109,000.

⁽³⁾ Initial approved amount \$52,027,000.

⁽⁴⁾ Initial approved amount \$150,000,000.

⁽⁵⁾ Initial approved amount \$267,249,968.

Source: Department of Airports of the City of Los Angeles

The Department expects to submit additional applications to impose and use passenger facility charges for eligible expenditures, including, but not limited to, those expenditures funded with proceeds of the Series 2012 Senior Bonds and other PFC Eligible Bonds (as defined below).

PFC revenues may also be used for the payment of debt service on certain portions of bonds issued to finance all or a portion of Approved PFC Projects (“PFC Eligible Bonds”). Pursuant to the PFC Resolution, the Department elected to irrevocably commit to use \$19 million of PFC revenues in each year between 2011 and 2014 to the payment of debt service on PFC Eligible Bonds. The Department expects to pay a portion of the debt service on the PFC Eligible Bonds with PFC revenues. However, the Department is prohibited from using PFC revenues to pay debt service on PFC Eligible Bonds in excess of the amounts of passenger facility charges approved by the FAA for the Approved PFC Projects. If the actual cost of an Approved PFC Projects is less than the amount approved by the FAA, the Department may be required to submit an amendment to the FAA application to reduce the approved amount for applicable projects. The Series 2008A Senior Bonds, the Series 2009A Senior Bonds, the Series 2010A Senior Bonds and the Series 2010D Senior Bonds fund Approved PFC Projects and are PFC Eligible Bonds.

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

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. To date, the Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues nor otherwise pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. However, the Department expects to use PFC revenues to pay a portion of the debt service on PFC Eligible Bonds. Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Master Senior Indenture. Debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds test set forth in the Master Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Senior Rate Covenant” and “—Passenger Facility Charges.”

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

Grants

Under the AIP the FAA awards grant moneys to airports around the country for capital improvement projects and airport operating costs. AIP grants include entitlement funds, which are apportioned annually based upon the number of enplaned passengers and cargo traffic, as well as discretionary funds, which are awarded by the FAA based on a national priority system. Generally, federal grants are paid to the Department on a reimbursement basis when the grant agreement is approved and after eligible expenditures are made. The following is a table of AIP grants authorized for acceptance by the Board from June 30, 2005 through June 30, 2012:

**TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
FEDERAL AIRPORT IMPROVEMENT PROGRAM GRANTS
AUTHORIZED FOR ACCEPTANCE BY THE BOARD
FROM JUNE 30, 2005 THROUGH JUNE 30, 2012**

Date	Grant Amount ⁽¹⁾	Project Funded
August 2005	\$ 38.8	Runway 7R/25L project
March 2006	29.5	Runway 7R/25L project
April 2007	29.6	Taxiway improvement projects
June 2008	7.1	Taxiway improvement projects
June 2008	2.0	Taxilane C-10 reconstruction project
February 2009	3.2	Taxiway improvement projects
June 2009	13.5	Crossfield Taxiway improvement project
March 2010	48.5	Taxilane S improvement project
March 2011	17.8	Taxilane T and enabling projects
November 2011	<u>19.9</u>	Taxilane T and enabling projects
Total	\$ 209.9	

⁽¹⁾ Dollars in millions.

Source: Department of Airports of the City of Los Angeles

Pursuant to the Aviation and Transportation Security Act, the Department has been awarded approximately \$256 million of reimbursements from the Department of Homeland Security for the installation of in-line baggage screening systems at LAX and LA/ONT; as of August 2012, the Department had received approximately \$220.8 million for LAX and approximately \$21.4 million for LA/ONT from this in-line baggage screening systems grant. In June 2011, the Board approved the award of approximately \$13.4 million from the TSA for the Department's Closed Circuit Television Security System at LAX. During Fiscal Year 2012, the Department received approximately \$4.2 million for security-related reimbursements at LAX.

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

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

USE OF AIRPORT FACILITIES

General

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

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

Operating Permits – Landing and Apron Facilities and Landing Fees

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

Airport Terminal Tariff

Airlines and businesses involved in aeronautical activities other than governmental activities or concessions (each, an “Aeronautical User”) use terminal space at LAX under the terms of the LAX Passenger Terminal Tariff (the “Airport Terminal Tariff”) unless the Aeronautical User is party to a lease (see “—Terminal Leases”). The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. After consultation with airline representatives regarding the Department’s rates and charges, on September 17, 2012, the Board approved certain changes to the Airport Terminal Tariff, as described below, which will become effective on January 1, 2013, in all terminals at LAX; provided, however, the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space used by Aeronautical Users. All references herein to the Airport Terminal Tariff are to the Airport Terminal Tariff as it will become effective on January 1, 2013. Under the Airport Terminal Tariff, Aeronautical Users are required to pay to the Department:

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

through the rates and charges described above, such as, in certain terminals custodial services, outbound baggage system maintenance, terminal airline support systems and loading bridge capital and maintenance.

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

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

Rate Agreement

In connection with the negotiation of the terms of the Airport Terminal Tariff, to resolve certain pending and potential future litigation regarding the Department’s rate setting methodology, and to provide phase-in of the new rates and charges for airlines, the Department offered the airlines (including certain consortiums that have been formed to manage specified Terminal facilities at LAX) a Rate Agreement. The Department expects that most airlines serving LAX, will execute Rate Agreements. Airlines that do not enter into a Rate Agreement will not participate in the discounts, fixed charges and credits for concession revenues described below.

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

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

Beginning in calendar year 2014, the Department will provide Signatory Airlines a credit for a portion of the concession revenues generated in the terminals at LAX. The credit may be applied by the Signatory Airlines to reduce amounts owed in connection with the Terminal Building Rate (and all rates derived from it) or the FIS rate, as applicable.

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

Under the Rate Agreement, beginning in calendar year 2014, 50% of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above are required to be deposited in a Revenue Sharing Fund. The remaining excess funds may be used by the Department for any lawful purpose. Amounts deposited in the Revenue Sharing Fund are required to be distributed to the Signatory Airlines as a credit against amounts due under the Airport Terminal Tariff.

Generally, the Rate Agreements extends through December 31, 2022. However, with respect to any approved airline consortium, the applicable Rate Agreements will terminate on December 31, 2013 if all of the individual member airlines of an applicable consortium have not executed and delivered a Rate Agreement by December 31, 2013.

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

Historical Disputes Regarding Rates and Charges

In connection with the Department's implementation of rates and charges in 2006, the Department was subject to a variety of litigation and U.S. DOT complaints. These complaints challenged such rates and charges as unreasonable and discriminatory based on, among other things, the Department's methodology for rate setting and alleged monopoly powers over provision of airport services. In connection with the Airport Terminal Tariff, airlines that enter into a Rate Agreement will acknowledge the mootness of relevant remaining issues in the litigation and U.S. DOT complaints, and consent to the dismissal of these actions with prejudice. Additionally, such airlines will agree not to contest or challenge the reasonableness or validity of the Airport Terminal Tariff or the Department's rate methodology approved by the Board in September 2012. However, there can be no assurance regarding when or under what circumstances the pending litigation and U.S. DOT complaints will be dismissed or otherwise resolved and when or whether the U.S. DOT may further consider historically contested issues, even if such issues have been resolved as among the airlines and the Department. See "CERTAIN INVESTMENT CONSIDERATIONS – Regulations and Restrictions Affecting LAX."

Terminal Leases

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

Tariff Terminal Leases

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

Non-Tariff Terminal Leases

The Department has entered into leases for the use of terminal space at LAX with Continental Airlines (now merged with United Airlines) and Delta Air Lines with cost recovery of operation and maintenance charges similar the rates and charges under the Airport Terminal Tariff, but with other cost recovery terms on a base rate with negotiated increases. These leases expire in December 2017.

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

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

Facilities Use Terms and Conditions

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

Credits

From time to time the Department grants credits to its Aeronautical Users for various purposes. Credits have ranged from as low as approximately \$25 million to as high as approximately \$81 million in the last five Fiscal Years. In Fiscal Year 2012 credits equaled approximately \$25 million.

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

Concession and Parking Agreements

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

Terminal Commercial Manager Concessions

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

Duty Free Concessions

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

For Fiscal Year 2012, revenues to the Department from duty free sales at LAX were approximately \$45.4 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2012.”

Food and Beverage Concessions

The Department has entered into concession agreements with a number of food and beverage concessionaires for concessions at Terminals 4, 5, 7, 8 and the commuter facilities at LAX (the “Food and Beverage Concession Agreements”). The Food and Beverage Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Food and Beverage Concession Agreements is approximately \$12.9 million. Under the Food and Beverage Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire’s premises, aggregating approximately \$36.3 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately \$7.5 million. Each food and beverage concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Food and Beverage Concession Agreements are scheduled to terminate in June 2021 and 2023.

For Fiscal Year 2012, revenues to the Department for food and beverage concessions were approximately \$33.0 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2012.”

Retail Concessions

The Department has entered into concession agreements with a number of retail concessionaires for concessions at Terminals 4, 5, 7 and 8 at LAX (the “Retail Concession Agreements”). The Retail Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Retail Concession Agreements is approximately \$7.5 million. Under the Retail Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire’s premises, aggregating approximately \$10.4 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately \$2.1 million. Each concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Retail Concession Agreements are scheduled to terminate in June 2021.

For Fiscal Year 2012, revenues to the Department from Retail Concession Agreements were approximately \$17.3 million. See “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2012.”

Rental Cars and Customer Facility Charges

Approximately 40 rental car companies operate at LAX, with vehicle rental sites located off-airport. Ten rental car companies (the “Approved Rental Car Companies”) operating at LAX provide free shuttle services between LAX and their respective locations and are permitted to pick up and drop off their customers directly from the airline terminals. Customers of the other rental car companies use the free LAX Shuttle Bus to reach the off-airport rental car terminal to meet their rental car courtesy shuttle. The Approved Rental Car Companies are each required to pay annually to the Department 90% of 10% of such Approved Rental Car Company’s gross receipts derived by such Approved Rental Car Company from the operation of its automobile rental business under the Approved Rental Car Company’s agreement with the Department. For Fiscal Year 2012, the Approved Rental Car Companies paid \$64.4 million in concession fees to the Department, although their total minimum annual guaranties were only slightly above \$51.4 million. The agreements with the Approved Rental Car Companies expire January 31, 2015. The Department also collects a rental car customer facility charge to finance the planning of and ultimately the design and development of a proposed remote consolidated rental car facility. The Department collected rental car customer facility charges for Fiscal Year 2012 of approximately \$26.0 million. Pledged Revenues do not include customer facility charge revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS – Senior Rate Covenant.”

Advertising Concessions

The exclusive contract with advertising concessionaire JCDecaux Airport, Inc. (“JCDecaux”) expires in April 2014 and may be extended by the Department for three additional one-year periods. This agreement permits the Department to take back certain advertising locations from JCDecaux in TBIT. This agreement also requires revenues from sold advertising to be evenly distributed throughout the term of such contracts to facilitate assignment of such contracts to a potential Terminal Media Operator. This agreement provides for an annual concession fee equal to the greater of a minimum annual guaranty of \$14.0 million or 75% of gross sales. In the event that the Department takes back certain advertising locations, as described above, the minimum annual guaranty will be reduced proportionately but will not be reduced below approximately \$10.8 million. Fiscal Year 2012 advertising revenues to the Department were approximately \$17.4 million.

The Department has also commenced a competitive process to identify and select a Terminal Media Operator for LAX. The scope of the Terminal Media Operator concession has not been determined by the Department but may include, among other things, traditional airport advertising, sponsorship, electronic media management and maintenance in the Terminals, digital activation sales and promotions, enhanced Wi-Fi services and digital passenger information and navigation services.

Parking

The Department has entered into an operating agreement with New South Parking-California, a partnership between Central Parking System, Inc. and Global Parking Systems, LA, LLC (“New South”), for the management of certain parking facilities at LAX and VNY. The agreement is scheduled to expire in May 2014. This agreement may be terminated by the Department and converted to a month-to-month contract on, among other occurrences, the Department’s option to take back the Central Terminal Area parking garages or other parking lots upon 30 days’ notice. The agreement requires New South to remit the gross revenues from the parking facilities it operates, on a daily basis, to the Department. The Department compensates New South for certain personnel expenses incurred in the management and operation of the parking facilities. For Fiscal Year 2012, parking revenues to the Department were approximately \$69.9 million.

In July 2009, the Department purchased the property adjacent to Terminal 1, which is operated as the Park One parking lot (the “Park One Property”). In connection with the purchase, the Department assumed an operating lease with PNF-LAX, Inc. (the “PNF Lease”) which, subject to the terms thereof, may be extended at the option of PNF-LAX, Inc. on a periodic basis through December 2028. Under the PNF Lease, the Department receives escalating annual revenues. In Fiscal Year 2012, the Department received approximately \$8.2 million, inclusive of base rent and percentage rent on gross revenues after certain thresholds are met. The Department is currently negotiating with PNF-LAX, Inc. regarding the terms of an extension of the PNF Lease. There can be no assurance that the PNF Lease will be extended beyond December 2012, nor, in the event that the PNF Lease is not extended, that the revenues to the Department from the Park One Property will not be adversely affected.

See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.”

FINANCIAL AND OPERATING INFORMATION CONCERNING LAX

Summary of Operating Statements

The following table summarizes the financial results from operations for LAX for the Fiscal Years 2008 through 2012. 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, 2012 AND 2011.”

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

	Fiscal Year Ended June 30				
	2008 ⁽²⁾	2009 ⁽²⁾	2010 ⁽²⁾	2011 ⁽²⁾	2012
Operating revenues:					
Aviation revenue					
Landing fees	\$ 171,822	\$ 164,489	\$ 169,683	\$ 191,307	\$ 205,568
Building rentals	146,206	185,457	185,138	204,525	229,160
Other aviation revenue ⁽³⁾	57,981	53,634	61,013	105,404	105,181
Concession revenue ⁽⁴⁾	250,695	243,096	236,911	263,195	278,767
Airport sales and services	2,577	2,229	1,820	1,916	2,190
Other operating revenue	2,030	2,366	1,136	1,497	1,224
Total operating revenue	<u>\$ 631,311</u>	<u>\$ 651,271</u>	<u>\$ 655,701</u>	<u>\$ 767,844</u>	<u>\$ 822,090</u>
Operating expenses:					
Salaries and benefits	\$ 291,015	\$ 298,612	\$ 317,000	\$ 323,522	\$ 339,551
Contractual services	151,155	148,627	141,253	143,684	162,071
Administrative expense	1,665	1,951	2,392	3,197	5,895
Materials and supplies	37,870	38,738	32,661	32,699	35,986
Utilities	27,674	29,018	28,832	29,606	30,664
Advertising and public relations	8,286	7,967	6,937	6,219	3,186
Other operating expenses	67	(2,002)	477	2,301	2,807
Total operating expenses before depreciation and amortization	<u>\$ 517,732</u>	<u>\$ 522,911</u>	<u>\$ 529,552</u>	<u>\$ 541,228</u>	<u>\$ 580,160</u>
Income from operations before depreciation and amortization	\$ 113,579	\$ 128,360	\$ 126,149	\$ 226,616	\$ 241,930
Depreciation and amortization	(83,908)	(86,927)	(86,976)	(103,300)	(123,941)
Operating Income	<u>\$ 29,671</u>	<u>\$ 41,433</u>	<u>\$ 39,173</u>	<u>\$ 123,316</u>	<u>\$ 117,989</u>
Non-Operating revenues (expenses):					
Passenger facility charges	\$ 116,705	\$ 103,982	\$ 110,961	\$ 117,821	\$ 121,443
Customer facility charges ⁽⁴⁾	24,964	22,086	22,270	24,250	26,002
Interest income	49,477	56,325	44,005	29,896	27,553
Change in fair value of investments	22,207	--	--	(832)	5,249
Gain (loss) on sale of securities	--	--	--	--	--
Other non-operating revenue	5,522	8,200	22,898	13,380	13,910
Interest expense	(18,278)	(20,483)	(35,416)	(78,740)	(83,068)
Bond expense	(428)	(455)	(922)	(902)	(993)
Other non-operating expenses	(181)	(26,967)	--	(981)	(252)
Net non-operating revenue (expenses)	<u>\$ 199,988</u>	<u>\$ 142,688</u>	<u>\$ 163,796</u>	<u>\$ 103,892</u>	<u>\$ 109,844</u>
Income before capital grant contributions	\$ 229,659	\$ 184,121	\$ 202,969	\$ 227,208	\$ 227,833
Federal Grants	86,885	88,241	80,955	67,939	59,854
Inter-agency transfers	(7,188)	(470)	7,224	804	3,466
Change in net assets	<u>309,356</u>	<u>271,892</u>	<u>291,148</u>	<u>295,951</u>	<u>291,153</u>
Residual equity transfers (to) from other funds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Net assets, beginning of period	\$2,368,880	\$2,678,236	\$2,950,128	\$3,241,276	\$3,537,227
Net assets, end of period	<u>\$2,678,236</u>	<u>\$2,950,128</u>	<u>\$3,241,276</u>	<u>\$3,537,227</u>	<u>\$3,828,380</u>

(1) Totals may not add due to rounding.

(2) Restated. Certain reclassifications have been made to conform to Fiscal Year 2012 presentation.

(3) Includes reimbursement of security-related expenses.

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

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

See also APPENDIX B – “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, 2012 AND 2011.”

Management Discussion of Fiscal Year 2012

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

Landing fees, net of the reliever fee, at LAX for Fiscal Year 2012 were approximately \$205.6 million, an increase of approximately \$14.3 million, or 7.5%, from Fiscal Year 2011. The increases in landing fee revenue resulted from higher levels of airfield operating and capital costs recovered through the Department’s landing fee.

Building rental revenue at LAX for Fiscal Year 2012 increased approximately \$24.6 million from Fiscal Year 2011 as new leases and renegotiated leases were signed with the airlines and other tenants and generally higher levels of terminal building costs were recovered by the Department. Land rentals at LAX for Fiscal Year 2012 decreased approximately \$6.6 million from Fiscal Year 2011 as a result of offsetting the net retroactive payments in Fiscal Year 2011 of approximately \$14.7 million. Excluding the retroactive revenues in Fiscal Year 2011, the year-to-year increase in land rentals was approximately \$8.1 million.

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

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

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

Management Discussion of Fiscal Year 2011

Total operating revenue at LAX for Fiscal Year 2011 was approximately \$767.8 million, an increase of approximately \$112.1 million, or 17.1%, from Fiscal Year 2010. Factors contributing to this the increase include an increase in aviation related revenue of approximately \$85.4 million from Fiscal Year 2010 and an increase in non-aviation revenue of approximately \$26.7 million from Fiscal Year 2010. The increase in non-aviation revenue was mostly from concessions revenue.

Landing fees, net of the reliever fee, and building rentals at LAX for Fiscal Year 2011 increased by approximately 12.7% and 10.5%, respectively, from Fiscal Year 2010. Landing fees increased based on recovery of higher airfield operating expenses and increased debt service associated with airfield improvements. Building rentals increased as a result of renegotiated leases allowing for higher levels of cost recovery in several terminals. Land rental revenue at LAX for Fiscal Year 2011 was approximately \$87.2 million, an increase of approximately \$34.6

million from Fiscal Year 2010, as certain long term leases expired and the properties were leased at higher rental rates.

Total concession revenue at LAX for Fiscal Year 2011 was approximately \$263.2 million, an increase of approximately \$26.3 million, or 11.1%, from Fiscal Year 2010. Increases in passenger traffic had a favorable impact on businesses based at LAX terminals. In-terminal concession revenue at LAX for Fiscal Year 2011 increased by approximately \$21.2 million, or 20.9%, from Fiscal Year 2010, with duty free concessions posting the largest increase of approximately \$10.4 million from Fiscal Year 2010. Off-terminal concession revenue at LAX for Fiscal Year 2011 was approximately \$140.7 million, in increase of approximately \$5.1 million from Fiscal Year 2010. Auto parking and rent-a-car at LAX for Fiscal Year 2011 each increased approximately \$1.9 million from Fiscal Year 2010.

Operating expenses before depreciation and amortization at LAX for Fiscal Year 2011 were approximately \$541.2 million, an increase of approximately \$11.7 million, or 2.2%, from Fiscal Year 2011. Salaries and benefits expenses experienced the most significant increase at LAX for Fiscal Year 2011 with an increase of approximately \$6.5 million from Fiscal Year 2010. The primary sources of these increases were cost of living adjustments and increases in health care benefits and workers' compensations costs, retirement contributions and overtime charges. Contractual services expenses at LAX for Fiscal Year 2011 increased by approximately \$2.4 million from Fiscal Year 2010. For contractual services expenses, increases in operations contracts were offset by decreases in the cost of City services.

Top Revenue Providers and Sources

The following table sets forth the top ten revenue providers at LAX for Fiscal Year 2012.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FISCAL YEAR 2012
(DOLLARS IN THOUSANDS)⁽¹⁾

1. United Airlines ⁽²⁾	\$ 95,596
2. American Airlines	88,337
3. Delta Air Lines ⁽³⁾	62,489
4. Southwest Airlines ⁽⁴⁾	52,323
5. DFS Group	44,979
6. Alaska Airlines	28,831
7. The Hertz Corporation	23,583
8. Avis Rent A Car	21,853
9. Host International	21,368
10. Federal Express	19,038

⁽¹⁾ Excludes revenue from the federal government. The amounts in this table reflect amounts billed by the Department to the applicable revenue provider as of June 30, 2012.

⁽²⁾ As a result of a merger, data presented for United Airlines includes data for Continental Airlines.

⁽³⁾ As the result of a merger, the revenue presented for Delta Air Lines includes revenue for Northwest Airlines.

⁽⁴⁾ In 2010, the respective Boards of Directors of Southwest and AirTran approved Southwest's acquisition of AirTran, which was completed in 2011. Southwest and AirTran received a single operating certificate from the FAA in 2012, however Southwest and AirTran continue to operate as separate airlines while integrating.

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

The following table sets forth top ten revenue sources at LAX for Fiscal Year 2012.

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FISCAL YEAR 2012⁽¹⁾⁽²⁾
(DOLLARS IN THOUSANDS)

1.	Building Rentals	\$ 229,160
2.	Landing Fees	205,568
3.	Land Rentals	80,629
4.	Auto Parking	69,945
5.	Rental Cars	64,361
6.	Duty Free Sales	45,434
7.	Food and Beverage	32,956
8.	Terminal Use Fee	18,774
9.	Advertising	17,433
10.	Gifts and News	17,282

⁽¹⁾ The amounts in this table reflect the amounts received by the Department from the applicable revenue sources as of June 30, 2012.

⁽²⁾ Customer Facility Charges for Fiscal Year 2012 were approximately \$26.0 million; however, Customer Facility Charges are not included in Pledged Revenues.

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

Budgeting Process

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

Fiscal Year 2013 Budget

Department management developed the Fiscal Year 2013 LAX Operating Budget after considering a number of factors including recent years’ operating revenue and expense trends, LAX passenger traffic projections, the Department’s capital projects, including the issuance of additional debt to finance the Department’s capital projects, and other Departmental goals. Staff from each of LAX’s divisions prepared and submitted their preliminary budgets within the constraints defined by budget staff and submitted additional requests for review in December 2011. Budget hearings were conducted in February and March 2012 with Operating Budget staff and the Department’s deputy executive directors to discuss past trends and changes in future needs. The Department’s executive management reviewed the resulting budget and additional requests and made adjustments based on expenditure priority and operational need. The Board formally adopted the Fiscal Year 2013 Operating Budget in June 2012.

The Fiscal Year 2013 LAX Operating Budget projects operating revenues of approximately \$867.8 million, approximately 12.0% higher than budgeted in the Fiscal Year 2012 LAX Operating Budget. The Department has projected that LAX aviation revenues will increase due to increased cost recovery from airline passenger terminal tenants at LAX. The Fiscal Year 2013 LAX Operating Budget projects that non-aviation revenues of approximately \$290.7 million, approximately 10.3% higher than budgeted in the Fiscal Year 2012 LAX Operating Budget, as increased levels of passenger traffic contribute to greater terminal concessions and ground transportation revenues. The Fiscal Year 2013 LAX Operating Budget projects operating expenses of approximately \$627.4 million, approximately 5.1% higher than the Fiscal Year 2012 LAX Operating Budget. The Fiscal Year 2013 LAX Operating Budget does not include appropriations for the Series 2012A Senior Bonds Projects or other capital improvement projects. See “CAPITAL PLANNING.” Under the Fiscal Year 2013 LAX Operating Budget, the Department has budgeted approximately \$350.1 million for salaries, benefits and other payroll expenses for the Department’s employees at LAX (representing an increase of approximately 3.6% from the Fiscal Year 2012 LAX Operating Budget) and approximately \$51.8 million for payments to the City for fire service, supplemental police assistance and other support services and personnel costs at LAX. Amounts budgeted for these expenses represent

approximately 64.1% of the Department’s operating budget at LAX. Contractual services, including payments for services provided by the City, as discussed above, are budgeted in the Fiscal Year 2013 LAX Operating Budget at approximately \$179.0 million (representing an increase of approximately 0.8% from the Fiscal Year 2012 LAX Operating Budget). See also “THE DEPARTMENT OF AIRPORTS – Employees and Labor Relations” and “— Retirement Plan.”

The following table sets forth a summary of the operating budget at LAX for Fiscal Year 2013.

TABLE 17
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
SUMMARY OF OPERATING BUDGET
FISCAL YEAR 2013⁽¹⁾
(DOLLARS IN MILLIONS)

	Fiscal Year Ended June 30
Operating revenues:	
Aviation revenue	
Landing fees	\$ 226.6
Building rentals	260.5
Land rentals	81.9
Other aviation revenue	8.0
Concession revenue	286.9
Airport sales and services	2.5
Miscellaneous revenue	1.4
Total operating revenue	\$ 867.8
Operating expenses:	
Salaries and benefits	\$ 350.1
Contractual services	179.0
Administrative expense	3.9
Materials and supplies	50.1
Utilities	34.3
Advertising and public relations	4.6
Other operating expenses	5.4
Total operating expenses	\$ 627.4
Income from operations before depreciation and amortization	\$ 240.5

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

Historical Debt Service Coverage

The following table shows historical debt service coverage on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes for Fiscal Years 2008 through 2012.

TABLE 18
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2008-2012⁽¹⁾
(DOLLARS IN THOUSANDS)

	2008	2009	2010	2011	2012
Pledged Revenues ⁽²⁾					
Total Operating Revenues ⁽³⁾	\$ 628,417	\$ 649,082	\$ 655,414	\$ 767,834	\$ 822,090
Interest Income	31,409	35,268	18,086	16,296	20,042
Build America Bonds Subsidy ⁽⁴⁾	--	--	3,088	7,640	8,328
Non- Operating TSA Revenue ⁽³⁾	3,951	5,894	3,206	4,037	4,876
Total Pledged Revenues	<u>\$ 663,777</u>	<u>\$ 690,244</u>	<u>\$ 679,794</u>	<u>\$ 795,807</u>	<u>\$ 855,336</u>
LAX Maintenance and Operations Expenses ⁽⁵⁾	(515,025)	(519,495)	(527,803)	(539,534)	(578,099)
Net Pledged Revenues ⁽⁶⁾	<u>\$ 148,752</u>	<u>\$ 170,749</u>	<u>\$ 151,991</u>	<u>\$ 256,273</u>	<u>\$ 277,237</u>
Senior Bond Aggregate Annual Debt Service	\$ 19,300	\$ 18,433	\$ 24,710	\$ 60,095 ⁽⁷⁾	\$ 60,577 ⁽⁷⁾
Senior Bond Debt Service Coverage Ratio	7.71x	9.26x	6.15x	4.26x	4.58x
Subordinate Bond Debt Service ⁽⁸⁾	\$ 10,640	\$ 15,777	\$ 23,879 ⁽⁹⁾	\$ 40,649	\$ 45,508
Total Debt Service Coverage Ratio	4.97x	4.99x	3.13x	2.54x	2.61x

⁽¹⁾ Derived from unaudited financial statements.

⁽²⁾ As defined in the Senior Indenture.

⁽³⁾ TSA Revenue – Law Enforcement Online and Canine reclassified in Fiscal Year 2012 from Operating Revenue to Non-Operating Revenue.

⁽⁴⁾ Represents cash subsidy payments from the United States Treasury received in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds. See “CERTAIN INVESTMENT CONSIDERATIONS – FAA Reauthorization and Federal Funding.”

⁽⁵⁾ As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.

⁽⁶⁾ As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

⁽⁷⁾ Net of \$19 million and \$25.2 million passenger facility charge reimbursements of Fiscal Year 2011 and Fiscal Year 2012 debt service payments, respectively, for the Series 2008A Senior Revenue Bonds.

⁽⁸⁾ Also includes actual debt service with respect to the Subordinate Commercial Paper Notes.

⁽⁹⁾ Excludes approximately \$43.7 million in Department funds used to redeem the Los Angeles International Airport, Subordinate Revenue Bonds, 2002 Subseries C2 and Los Angeles International Airport, Subordinate Revenue Bonds, 2003 Series A in March 2010.

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

Report of Airport Consultant; Projected Debt Service Coverage

The following table sets forth the calculations of revenues, expenses, debt service and debt service coverage on the Senior Bonds, the Subordinate Bonds and combined coverage for Fiscal Years 2013 through 2018 as projected by the Airport Consultant.

TABLE 19
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PROJECTED DEBT SERVICE COVERAGE
FISCAL YEARS 2013-2018⁽¹⁾
(DOLLARS IN THOUSANDS)

	2013	2014	2015	2016	2017	2018
Pledged Revenues ⁽²⁾	\$ 902,551	\$1,054,854	\$1,177,993	\$1,287,637	\$1,368,148	\$1,499,675
LAX Maintenance and Operations Expenses ⁽³⁾	605,739	669,921	703,417	745,517	782,793	836,779
Net Pledged Revenues ⁽⁴⁾	\$ 296,812	\$ 384,933	\$ 447,576	\$ 542,121	\$ 585,355	\$ 662,895
Senior Bond Aggregate Annual Debt Service ⁽⁵⁾	\$ 52,312	\$ 60,534	\$ 126,353	\$ 130,446	\$ 117,226	\$ 137,481
Senior Bond Debt Service Coverage Ratio ⁽⁶⁾	5.67x	6.36x	3.76x	4.16x	4.99x	4.82x
Subordinate Pledged Revenues	\$ 244,501	\$ 324,399	\$ 348,223	\$ 411,665	\$ 468,129	\$ 525,414
Subordinate Bonds Aggregate Annual Debt Service ⁽⁷⁾	61,075	71,445	62,987	83,420	88,037	99,793
Subordinate Bonds Debt Service Coverage Ratio ⁽⁶⁾	4.00x	4.54x	5.53x	4.93x	5.32x	5.27x
Total Debt Service Coverage	2.62x	2.92x	2.51x	2.53x	2.85x	2.79x

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

⁽²⁾ As defined in the Senior Indenture.

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

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

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

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

⁽⁷⁾ Net of capitalized interest. For the purposes of these projections, the Airport Consultant has assumed that approximately \$27.4 million of Subordinate Commercial Paper Notes will be outstanding. The Airport Consultant has also assumed that the Subordinate Commercial Paper Notes outstanding after the issuance of the Series 2012 Senior Bonds will be repaid with future Senior Bonds or Subordinate Bonds. Otherwise, debt service associated with the Subordinate Commercial Paper Notes is not reflected in these projections. Assumes the issuance of Additional Subordinate Bonds. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE - Future Financings."

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

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

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

Investment Practices of the City Treasurer

All moneys held in the Airport Revenue Fund are currently invested by the City Treasurer in investments authorized by State law. The City Treasurer invests temporarily idle cash for the City, including that of the Department, as part of a pooled investment program (the “Pool”) which combines general receipts with special funds for investment purposes and allocates interest earnings on a pro rata basis when the interest is earned and distributes interest receipts based on the previously established allocations. Table 20, reported by the City Treasurer’s Office from unaudited financial statements, summarizes assets of the Pool as of June 30, 2012.

TABLE 20
CITY OF LOS ANGELES POOLED INVESTMENT FUND⁽¹⁾
ASSETS AS OF JUNE 30, 2012
(Dollars in Millions)

Description	Par Value ⁽²⁾	Market Value ⁽²⁾	% of Total	Department Par Value ⁽³⁾	Department Market Value ⁽³⁾	LAX Par Value ⁽⁴⁾	LAX Market Value ⁽⁴⁾
Bank Deposits	\$ 162	\$ 162	2.3%	\$ 42	\$ 42	\$ 39	\$ 39
CDARS	6	6	0.1	2	2	1	1
Commercial Paper	673	673	9.6	175	175	162	162
Corporate Notes	206	210	3.0	54	54	49	50
U.S. Federal Agencies	226	229	3.2	59	59	54	55
U.S. Treasuries	88	89	1.3	23	23	21	21
Total Short-Term Core Portfolio:	\$ 1,360	\$ 1,368	19.5%	\$ 359	\$ 356	\$ 326	\$ 328
Corporate Notes	1,082	1,109	15.5	281	288	260	266
U.S. Federal Agencies	971	1,009	13.9	252	262	233	242
U.S. Treasuries	3,561	3,687	51.1	926	956	855	885
Total Long-Term Reserve Portfolio	\$ 5,613	\$ 5,806	80.5%	\$ 1,459	\$ 1,510	\$ 1,347	\$ 1,393
Total Cash & Pooled Investments	\$ 6,973	\$ 7,173	100.0%	\$ 1,813	\$ 1,865	\$ 1,626	\$ 1,722

⁽¹⁾ Derived from unaudited financial statements. Based on General Pool 9218 – Combined, Portfolio Management Report provided by City Treasurer’s Office. Totals may not add due to rounding.

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

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

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

Source: 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, 2012 was approximately 2.3 years.

The City’s treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The City Treasurer indicates that the City does not invest in structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments and mortgage-derived interest or principal-only strips. See also Note 3 – APPENDIX B – “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, 2012 AND 2011.”

Risk Management and Insurance

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

The Department carries commercial aviation liability insurance with coverage limits of \$1.3 billion for losses arising out of liability for airport operations. The deductible on the commercial aviation liability coverage is \$10,000 per occurrence with an annual \$400,000 aggregate deductible. This aviation liability coverage incorporates a foundation of comprehensive in-house claims management program, incremental claims analysts and adjusters and both outside and inside defense counsel. The liability coverage has endorsements of coverage for all third-party claims and suits, on premises automobile coverage, employment personal injury coverage, errors and omissions coverage and hangar and aircraft owners liability coverage.

The Department carries general all-risk property insurance with coverage limits of \$2.0 billion for all Department properties. The deductible on this coverage is \$100,000 per occurrence, no aggregate. The Department's insurance also incorporates a property insurance special endorsement that provides coverage for property losses resulting from acts of terrorism (both domestic and foreign). Coverage under this endorsement parallels the general all-risk limits of \$2.0 billion. The Department's insurance coverage also incorporates a property insurance special endorsement that provides for coverage for "boiler and machinery" losses up to a covered limit of \$250 million and property insurance special endorsement that provides coverage for "business interruption" losses to the Airport System resulting from a covered property peril. Coverage for business interruption is equal to the full policy limits of \$2.0 billion and the deductible is 6 hours from initial declared interruption.

The Department has also purchased a war and allied perils (also referred to as terrorism insurance) endorsement with coverage of up to \$1.0 billion with a deductible of \$10,000 per occurrence and an annual \$400,000 aggregate deductible. War and allied perils coverage extends to both foreign acts of terrorism and domestic acts of terrorism. Coverage under the War and Allied Perils endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force.

The Department maintains an insurance reserve fund, pursuant to Board policy. This fund has been established to fund uninsured or under-insured losses or where insurance capacity is unavailable or excessive in cost relative to coverage. This reserve fund would provide primary funding for catastrophic losses with respect to all four airports in the Airport System. As of June 1, 2012, there was approximately \$102.0 million in this fund.

Pursuant to the State Labor Code, the State Department of Industrial Relations has provided the City a Certificate of Consent to Self-Insure in connection with its workers' compensation liability. See Note 10 "AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011." Additionally, the Department employs an active loss prevention program.

CAPITAL PLANNING

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

Capital Development

The five-year capital development program of the Department (the "Capital Program") is a group of projects and facilities at LAX strategically selected to enhance LAX's position as a premier international gateway airport while maintaining a reasonable cost structure for the airlines operating at LAX. Capital Program projects include, among other things, the Bradley West Project and several significant airfield, terminal and other supporting facilities. On a formal basis the Department reviews and assesses the Capital Program annually, and continuously on an informal basis, taking into account improved information regarding the condition and/or requirements of new and existing facilities, improved cost estimates for contemplated projects, new opportunities for investments or acquisitions that arise from time to time, current and forecasted traffic levels and changes within the industry that may influence the cost of the Capital Program. The Department's analysis of these factors and other information may result in changes to timing of or scope of contemplated projects and the addition to or removal of projects from the Capital Program.

The Department is in the process of updating its Capital Program for Fiscal Years 2013 through 2017.

The current Capital Program is organized as follows:

- The Series 2012 Senior Bonds Projects includes projects to be funded, in part, with Series 2012 Senior Bond proceeds.
- “Other Incorporated Projects” includes future projects other than the Series 2012 Senior Bonds Projects that the Department expects to be completed during the projection period (through Fiscal Year 2018). These projects include certain (i) terminal projects such as, renovation and modernization of certain terminal facilities, (ii) airfield and apron projects such as noise mitigation, sound proofing, runway safety improvements, airplane parking improvements and infrastructure projects, and (iii) landside projects such as parking and roadway improvements.
- “Ongoing Projects” includes projects underway at LAX that have already been funded, provided, however, that certain TSA grants have not yet been realized. These projects include certain terminal projects such as the Bradley West Terminal Project, and airfield and apron projects such as the Taxilane S and T projects.

“Future Projects,” are not part of the current Capital Program and include projects at LAX that the Department may consider but are not reflected in the cost estimates for the Capital Program because (i) the scope, timing, cost, or approval of these projects are uncertain, (ii) all environmental review is not yet complete or is not expected to be completed within the projection period (through Fiscal Year 2018) or (iii) these projects are not expected to be undertaken within the projection period. Some of these projects are discussed in “AIRPORT PLANNING” below.

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

Capital Financing

Capital Program Costs

The total projects under consideration for inclusion in the Capital Program for Fiscal Years 2013 through 2017 are expected to cost approximately \$6.9 billion, comprised of approximately:

- \$519 million for the Series 2012 Senior Bonds Projects;
- \$3.8 billion for the Other Incorporated Projects; and
- \$2.6 billion for the Ongoing Projects.

Cost estimates include design, engineering, construction, escalation for inflation (as appropriate) and contingency amounts. The Capital Program for Fiscal Years 2013 through 2017 is expected to be financed with a combination of grants, passenger facility charges, Department and other funds, the proceeds of the Series 2012 Senior Bonds, Existing Senior Bonds and Existing Subordinate Obligations and Additional Senior Bonds and/or additional Subordinate Obligations.

Funding sources for the Ongoing Projects have already been secured, provided, however, that certain TSA grants have not yet been realized. The Department does not expect to issue Additional Senior Bonds or additional Subordinate Bonds to finance the Ongoing Projects. These projects, including their capital and operating costs, financing and estimated revenue impacts, have been included in the financial analysis included in the Report of the Airport Consultant. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

The estimated costs of, and the projected schedule for, the Capital Program are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the Capital Program. The Department may ultimately decide not to proceed with the projects described above, including portions of the Series 2012 Senior Bonds Projects not financed with the proceeds of the Senior 2012 Series Bonds, or may proceed with them on a different schedule, resulting in different results than those included in the projections. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital

Projects; Additional Indebtedness” and “PLAN OF FINANCE.” See also “USE OF AIRPORT FACILITIES – Airport Terminal Tariff.”

Grants

A portion of the Capital Program for Fiscal Years 2013 through 2017 is expected to be financed with federal and other grants. The total projects under consideration for inclusion in the Capital Program for Fiscal Years 2013 through 2017 are expected to be financed from AIP and TSA grants in the amount of approximately \$390 million, comprised of approximately:

- \$47 million for the Series 2012 Senior Bonds Projects;
- \$189 million for the Other Incorporated Projects; and
- \$153 million for the Ongoing Projects.

See “CERTAIN FUNDING SOURCES – Grants.”

Passenger Facility Charges

A portion of the Capital Program for Fiscal Years 2013 through 2017 is expected to be financed with passenger facility charges. The total projects under consideration for inclusion in the Capital Program for Fiscal Years 2013 through 2017 are expected to be financed from PFC revenues on a pay-as-you-go basis in the approximate amount of \$641 million, comprised of approximately:

- \$161 million for the Other Incorporated Projects and;
- \$480 million for the Ongoing Projects.

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

Department and Other Funds

A portion of the Capital Program for Fiscal Years 2013 through 2017 is expected to be financed with Department Funds including funds deposited in the TRIF pursuant to the Rate Agreements with the airlines and certain other funds including grants other than AIP and TSA grants. The total projects under consideration for inclusion in the Capital Program for Fiscal Years 2013 through 2017 are expected to be financed from Department funds and other funds including grants other than AIP and TSA grants in the amount of approximately \$1.6 billion, comprised of approximately:

- \$180 million for the Series 2012 Senior Bonds Projects;
- \$1.2 billion for the Other Incorporated Projects; and
- \$218 million for the Ongoing Projects.

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

Debt Financing

A portion of the Capital Program for Fiscal Years 2013 through 2017 is expected to be financed with the proceeds of Senior Bonds and Subordinate Obligations. The total projects under consideration for inclusion in the Capital Program for Fiscal Years 2013 through 2017 are expected to be financed from the proceeds of Senior Bonds and Subordinate Obligations funds in the amount of approximately \$4.3 billion, comprised of:

- For the Series 2012 Senior Bonds Projects, approximately:
 - \$292 million of Series 2012 Senior Bonds and Additional Senior Bonds.
- For the Other Incorporated Projects, approximately:
 - \$1.7 billion of Additional Senior Bonds and
 - \$521 million of Additional Subordinate Obligations.

- For the Ongoing Projects, approximately:
 - \$1.8 billion of previously issued Senior Bonds and Subordinate Obligations.

See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings” regarding the Department’s future financing plans.

Charter and Administrative Code Requirements

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

Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, the City Council and the City Controller every two years in conjunction with submittal of its annual budget. The most recent capital improvement plan and debt accountability report were submitted by the Department pursuant to the Charter on September 26, 2012.

AIRPORT PLANNING

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

LAX Master Plan

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

The LAX Master Plan separates the commercial and private vehicle landside components of LAX from the passenger processing facilities and gates. It includes concepts for a new landside Ground Transportation Center; a new Intermodal Transportation Center with connection to the Los Angeles County Metropolitan Transportation Authority’s light rail line known as the Metro Green Line; new on-airport roadways to support the Ground Transportation Center and Intermodal Transportation Center, redevelopment of the Central Terminal Area to support a variety of enhanced security measures; and construction of an automated “people mover” system to connect the Ground Transportation Center, Intermodal Transportation Center and a proposed new consolidated rental car facility to the Central Terminal Area.

LAX Plan

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

LAX Specific Plan

In 2004, the City Council adopted the LAX Specific Plan. Whereas the LAX Plan establishes land use policy framework, the LAX Specific Plan is an ordinance that establishes zoning and development regulations consistent with the LAX Plan. It is a principal mechanism by which goals and objectives of the LAX Plan are achieved and the policies and programs are implemented. The LAX Specific Plan establishes procedures for processing future specific projects and activities that are anticipated under the LAX Master Plan. The LAX Specific Plan requires the Department to initiate a specific plan amendment study (“SPAS”) to address, among other things,

security, traffic, aviation activity and corresponding environmental analysis consistent with the California Environmental Quality Act (“CEQA”) in certain circumstances, including prior to seeking a determination of consistency with the LAX Plan for certain projects referred to as the “Yellow Light Projects:”

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

LAX Specific Plan Amendment Study

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

The Department commenced a SPAS process in February 2006 in accordance with the Stipulated Settlement which focused on (i) alternative designs, technologies and configurations for the LAX Master Plan program that would provide solutions to the problems that the Yellow Light Projects were designed to address consistent with a practical capacity of LAX at 78.9 million annual passengers (the “Alternative Projects”), (ii) security, traffic and aviation activity of such alternative designs, technologies and configurations for the Alternative Projects, (iii) potential environmental impacts that could result from replacement of the Yellow Light Projects with Alternative Projects and potential mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan Program EIR.

SPAS Draft EIR and Preliminary SPAS Report

In July 2012, the Department released a draft environmental impact report (“SPAS Draft EIR”) and a Preliminary LAX Specific Plan Amendment Study Report (“SPAS Report”), copies of which are available on the Department’s website. The SPAS Draft EIR identified and evaluated nine alternatives for the Yellow Light Projects, the environmental impacts of each and mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan Program EIR along with other required components of an environmental impact report pursuant to CEQA.

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

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

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

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

At the conclusion of the applicable public review and comment period, the Board and the City Council may certify the final SPAS EIR and approve a SPAS alternative or may take no further action with respect to the SPAS alternatives. On December 3, 2012, the Department’s management recommended to the Board a preferred SPAS alternative consisting of a combination of two proposed SPAS alternatives that, if approved by the Board and City Council, would amend certain provisions in the City’s general plan and specific plan for projects including: (i) moving Runway 6R-24R 260 feet to the north, (ii) constructing a center taxiway between the two north airfield runways, (iii) addressing runway safety areas and certain taxiway/taxilane issues, (iv) improvements to the northern terminals, including the addition of a Terminal 0, northern extensions of TBIT and a Midfield Satellite Concourse, (v) development of an Intermodal Transportation Facility, (vi) development of a Consolidated Rental Car Facility, (vii) development of an automated “people mover”, and (viii) potential development of light rail connections. Prior to any Board or City Council action with respect to any SPAS alternative, members of the public and/or others may endorse the Department’s management recommendation or other preferred SPAS alternatives. However, neither the Department’s management recommendation nor any other endorsement shall be binding on the Board or the City Council. There can be no assurance that any such preferred SPAS alternatives will be approved by the Board or the City Council. In the event that the Board and the City Council certify the final SPAS EIR and approve a SPAS alternative, individual projects to implement the approved SPAS alternative may be subject to additional environmental and other reviews and approvals prior to commencement of construction.

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

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

LAX Master Plan Litigation Settlements

The Stipulated Settlement also requires, in certain limited circumstances, gate reductions at LAX. However, if LAX does not have 75 million passengers annually or if the LAX Master Plan is substantially revised pursuant to a LAX Specific Plan Amendment process such that the total number of gates at LAX is reduced to 153

gates or less, then no reduction in gates is necessary. The Stipulated Settlement is discussed in more detail above. See “—LAX Specific Plan Amendment Study.”

The Department reached agreement with the Lennox and Inglewood school districts to provide noise abatement improvements at specific schools within the two school districts. Under the school settlement agreements, the Department agreed to fund, among other things, certain noise abatement and other pollution mitigation measures not to exceed \$111 million for the Lennox school district and not to exceed \$118.5 million for the Inglewood school district. Each of these school settlement agreements is conditioned upon FAA approval of expenditures and use of airport revenues for the specified purposes, which approval the FAA did not provide. The school districts sought a legislative approval from Congress which subsequently passed a law allowing the FAA to approve the collection of passenger facility charge revenues for some school settlement expenditures. The approval of such passenger facility charge collections is subject to a determination by the Secretary of Transportation that the schools are adversely affected by airport noise and the proposed improvements meet certain criteria. In 2011, the FAA authorized the Department to collect approximately \$34.1 million in passenger facility charges for reimbursement of eligible expenditures related to the Lennox Schools’ sound mitigation program. During Fiscal Year 2012 the Department has delivered payments to Lennox Schools in the amount of approximately \$10 million.

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

Several significant environmental matters have direct and indirect impacts on the Department and LAX, some of which are described below. These include mitigation of aircraft noise impacts and wildlife hazards, hazardous substance cleanup and clean air requirements.

In accordance with Department policy, generally the Department’s tenant leases and/or applicable laws provide that tenants are responsible for the costs of remediation of hazardous or other regulated material from Department property and for compliance with applicable laws. However, if a tenant does not comply with these lease requirements and/or applicable laws, and under certain circumstances, the Department could ultimately become responsible for the costs of compliance and/or required environmental cleanup. The timing and aggregate costs of such cleanups cannot be determined at this time, but could be material.

Aircraft Noise Impacts

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

Compliance measures include sound insulation of incompatible structures to reduce the interior noise levels to acceptable levels, acquisition of incompatible properties located within the noise impact areas and the purchase of noise easements from affected property owners. LAX currently operates under a variance that was granted on February 13, 2011.

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

The FAA has approved the collection and use of PFC revenues in the amount of \$785 million for the residential Noise Mitigation Program and in the amount of \$34.1 million for reimbursement of eligible expenditures related to the Lennox Schools’ sound mitigation program. See “AIRPORT PLANNING – LAX Master Plan Litigation Settlements.” As of June 30, 2012, the Department has expended approximately \$646.2 million of PFC revenues in connection with the residential Noise Mitigation Program and for reimbursement of eligible expenditures related to the Lennox Schools’ sound mitigation program. See “CERTAIN FUNDING SOURCES – Passenger Facility Charges” and “CAPITAL PLANNING – Capital Financing.”

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

Hazardous Substances

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

The Board has adopted a Hazardous Materials Management policy which includes a program relating to underground tanks and hazardous substances. The Department has an Environmental Management Division tasked with performing soil and groundwater investigations, site remediation monitoring, storm water pollution prevention, Endangered Species Act compliance, wildlife hazard mitigation programs, air quality compliance and managing other environmental compliance programs and projects. The Environmental Management Division also monitors underground storage tanks and hazardous substances, and performs the mandated regulatory reporting on these programs.

The Department conducts annual inspections of tenant and Department operations, regarding compliance with the Department's National Pollutant Discharge Elimination System Stormwater Permit for Industrial Facilities (the "Stormwater Discharge Permit"), issued by the State Water Resources Control Board ("SWRCB"). These inspections seek to confirm compliance with the Stormwater Discharge Permit and are inclusive of hazardous material storage and handling practices for all operations at LAX. The Department maintains records of all known areas where hazardous materials have been accidentally discharged. The Department works cooperatively with the relevant regulatory agencies to confirm that the responsible tenants are remediating contamination caused by their operations. There is, currently, one major remediation programs in place at LAX. This program involves the release of jet fuel to ground water underlying LAX. The tenant, Continental (now merged with United Airlines), has accepted responsibility for the remediation and active remediation systems are in place.

The Department is in a dispute with the Los Angeles County Sanitation District No. 20 ("LACSD 20") regarding a nitrate plume in the groundwater underlying the Department's and LACSD 20's property in Palmdale, which contamination allegedly was caused by the discharge of effluent from the LACSD 20's Palmdale Water Reclamation Plant. The Lahontan Regional Water Quality Control Board had issued a Cleanup and Abatement Order and has proposed a Revised Cleanup and Abatement Order under which the Department and LACSD 20 would be required to take certain remediation actions with respect to the groundwater, the cost of which is currently estimated at approximately \$15 million. The full extent of the remediation actions that the Department may have to take with respect to the groundwater and the costs that may be incurred or contributions that will have to be made in connection therewith, however, cannot be determined at this time. No assurance can be given that such costs will not be material.

The Park One Property is also environmentally impacted. From approximately 1941 to 1988, the Park One Property was used for aerospace manufacturing, and included the use of chlorinated solvents. As a result, the soil and groundwater were impacted, including with volatile organic compounds and 1,4-dioxane. The Los Angeles Regional Water Quality Control Board is currently providing regulatory oversight of investigation and remediation of this contamination. In or about 1991, soil remediation activities were conducted on most of the Park One Property. In 1993, the Regional Water Quality Control Board issued a letter stating that contaminated soils in all areas covered by site investigations except the northwest quadrant had been adequately addressed. Currently, the remaining portion, approximately the northwest quadrant, is under remediation using soil vapor extraction. As part of the acquisition transaction for the Park One Property, the Department became the assignee under an Indemnity Agreement entered into by Allied-Signal, Inc. (now known as Honeywell International, Inc. ("Honeywell")) which covers, among other things, certain indemnification for soil and groundwater contamination. Since 1991 and through the present, Honeywell has been investigating the groundwater contamination at the Park One Property. The Department expects Honeywell to continue its remediation of the soil contamination and investigation of the groundwater contamination and to design and implement requisite groundwater clean-up work.

On December 14, 2011, the SWRCB issued the Department a Notice of Violation (“Notice”), generally alleging violations of underground storage tank construction, monitoring and testing laws and regulations at facilities where the Department owns and/or operates underground storage tanks. The SWRCB and the Department have entered into a tolling agreement which expires pursuant to its terms in January 2013, but may be extended by agreement of the parties. During the pendency of the tolling agreement, the Department is investigating this matter and is cooperating with the SWRCB’s investigation. The Notice does not identify any specific violations, and it is not possible to predict the amount of damages or fines that may be payable. There can be no assurance that such amounts will not be material.

Emission Standards

Air emissions associated with airport activities are governed by a number of federal, State and local regulations. Most notable of these are federal Clean Air Act (the “CAA”) and the California Clean Air Act (the “CCAA”), the California Global Warming Solutions Act (“AB32”), and various South Coast Air Quality Management District (“SCAQMD”) rules and regulations. LAX-owned stationary equipment that produces or controls emissions currently operate under a Title V operating permit issued by the SCAQMD.

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

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

AB32 specifically regulates the release of certain “Greenhouse Gas” (“GHG”) emissions from stationary sources within the State. The Mandatory Reporting requirement under AB32 requires facilities that generate greater than 25,000 MTCO₂e per year to report their GHG emissions. The Department owns and operates a cogeneration plant at LAX along with other stationary sources in the facility (e.g., natural gas boilers and heaters). This facility complies in all material respects with all requirements under AB32. In addition to the AB32 Mandatory Reporting requirement, the Department must also report its GHG emissions to the United States Environmental Protection Agency. Since 2009, the Department has reported its GHG emissions from these sources in substantial compliance with applicable requirements. The State Attorney General’s Office has been using CEQA aggressively to apply the provisions of AB32 to local and regional plans as well as to projects. As a result, project level CEQA analysis prepared for LAX Master Plan-related projects must include an analysis of the project’s potential GHG emissions and impacts. Beginning in January 2013, facilities such as LAX that are subject to the Mandatory Reporting requirement under AB32 will be required to comply with the California Cap and Trade Program applicable to certain sources of GHG emissions in the State such as refineries, power plants, industrial facilities and transportation fuels. The California Cap and Trade Program includes an enforceable GHG cap that will decline over time. Under the California Cap and Trade Program, the California Air Resources Board (“CARB”) will distribute GHG allowances, which are tradable permits, equal to the emission allowed under the cap. The Department will be required to obtain emission allowances for annual emissions at LAX. These emission allowances can be obtained by way of free allocation from CARB, through purchase from the secondary market and CARB auction, and reserve sale. The cost to the Department of obtaining required emissions allowances will be dependent on the price fluctuations through the course of the program. Various industries throughout the State may seek to purchase emission allowances in order to comply with the Cap and Trade Program, which may cause the price of allowances to increase. The emission allowance price is \$15 per metric ton (MTCO₂e). LAX emits on average approximately 47,000 MTCO₂e annually. The Department’s purchase of allowances may vary and no assurance can be given that such costs will not be material.

The SCAQMD imposes rules and regulations specifically targeted to various air pollutants and types of operations such as hydrant fueling, private vehicle fueling, power generators, boilers and the use of various volatile organic chemical containing materials. The SCAQMD has a full-time inspector assigned to LAX. This inspector

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

See also "LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT."

Environmental Impact Report Process

In certifying the LAX Master Plan Program EIR, a mitigation monitoring and reporting program (the "MMRP") was adopted to mitigate the environmental impacts associated with the LAX Master Plan. All LAX Master Plan Projects are required to incorporate the mitigation measures of the MMRP. See "AIRPORT PLANNING" regarding the LAX Master Plan Program EIR, LAX Specific Plan, the Stipulated Settlement and SPAS.

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

Project level environmental reviews are complete for the south airfield improvement program, the TBIT interior project, the Crossfield Taxiway and associated projects, the TBIT reconfiguration project, also known as Bradley West Terminal Projects and the Central Utility Plant Project.

LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT

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

On July 23, 2008, the City filed a complaint in the Superior Court for the County of Los Angeles, California, Case Number BC394944, which named a number of defendants, including, among others, Citigroup, Inc., Citigroup Global Markets, Inc., and Wachovia Bank, N.A. (now known as Wells Fargo Bank, National Association). The complaint alleges that the defendants manipulated the municipal derivatives market by various means to decrease the returns the City earned on guaranteed investment contracts and municipal derivative instruments. The complaint was removed to federal district court in the Central District of California on August 25, 2008 and subsequently consolidated for pre-trial coordination with other related actions in the Multi-District Litigation proceeding pending in the Southern District of New York, Master Docket Number 08-CV-02516 (VM). The City filed a first amended complaint on September 15, 2009, which added a number of defendants, including, among others, Citibank, N.A., Citigroup Global Markets Holdings, Inc., Citigroup Financial Products Inc., and Wells Fargo & Company. On June 24, 2010 and April 11, 2011 respectively, the City filed second and third amended complaints that added additional parties as defendants.

On December 10, 2009, the Department filed a complaint in the United States District Court, Central District of California, Case Number 09-CV-9069 (GW)(VBKx), which named a number of defendants, including Citibank, N.A., Citigroup Financial Products Inc., Citigroup Global Markets Holdings Inc., Wachovia Bank, N.A. (now known as Wells Fargo Bank, National Association), and Wells Fargo & Company. On January 27, 2010, the Department's action was transferred for pre-trial coordination with the City's action and other related actions in the Multi-District Litigation proceeding pending in the Southern District of New York. The complaint alleges that the defendants manipulated the municipal derivatives market by various means to decrease the returns the Department earned on guaranteed investment contracts and municipal derivative instruments. The Department filed a first amended complaint on May 10, 2010 and a second amended complaint on April 11, 2011.

On December 27, 2011, the court presiding over the Multi-District Litigation proceeding preliminarily approved a class settlement. The City and the Department have opted out of the class and the class settlement does not affect the City's or the Department's claims.

Citigroup Global Markets Inc. and Wells Fargo Bank, National Association, which are defendants or affiliates of certain defendants in the above-referenced lawsuits, are Series 2012 Senior Bond Underwriters. See "UNDERWRITING."

Neither the Department nor the underwriters of the Series 2012 Senior Bonds can predict the outcome of these lawsuits.

AUTHORIZATION

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

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: _____/s/ Gina Marie Lindsey
Executive Director

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APPENDIX A
REPORT OF THE AIRPORT CONSULTANT

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Report of the Airport Consultant

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

PREPARED BY:

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RICONDO
& ASSOCIATES

NOVEMBER 28, 2012

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

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November 28, 2012

Mr. Michael A. Lawson, President
Board of Airport Commissioners
Los Angeles World Airports
1 World Way
Los Angeles, CA 90045-2216

RE: Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2012 Series A and B
Appendix A: Report of the Airport Consultant

Dear Mr. Lawson:

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

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



Mr. Michael A. Lawson
Board of Airport Commissioners
November 28, 2012
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Senior Bonds are secured by a pledge of Net Pledged Revenues (as defined in the Senior Indenture). Proceeds of the Series 2012 Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain terminal improvement projects at the Airport (collectively referred to in the Report as the Series 2012 Projects), as more fully described in Section 3.3 of the Report; (2) refund outstanding commercial paper notes issued previously by the Department to fund a portion of the Series 2012 Projects; (3) fund capitalized interest; (4) fund the required deposit to the senior debt service reserve fund; and (5) pay the costs of issuance of the Series 2012 Bonds.

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

The Report is organized as follows:

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

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



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

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

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

Sincerely,

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

RICONDO & ASSOCIATES, INC.

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Executive Summary

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

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

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

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

Department of Airports of the City of Los Angeles

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

The Airport

The Airport is one of the busiest airports in the world. As reflected in **Table ES-1**, the Airport ranked 1st in the nation in the number of total origin-destination (O&D) passengers for the 12 months ended March 30, 2012. In calendar year (CY) 2011, the Airport ranked 6th worldwide and 3rd nationwide in total passengers; 3rd worldwide and nationwide in total operations; and 13th worldwide and 5th nationwide in total cargo (based on data from the Airports Council International). The Airport is also one of the nation's premier international gateways and the busiest international gateway on the west coast. The Airport is one of five commercial service airports serving the Air Trade Area -- which is comprised of Los Angeles County, Orange County, Riverside County, San Bernardino County, and Ventura County, also known as the Los Angeles-Long Beach-Riverside Combined Statistical Area (CSA). Demand for air travel within this region is predominantly served through the Airport, particularly for international travel and nonstop domestic U.S. travel to major medium- and long-haul markets. In CY 2011, the Airport served approximately 99.6 percent of total Air Trade Area international enplaned passengers and approximately 75.1 percent of total Air Trade Area enplaned passengers. The other four commercial service airports in the Air Trade Area (including Bob Hope Airport--BUR, John Wayne Airport--SNA, Long Beach Airport--LGB, and LA/Ontario International Airport--LA/ONT) primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor (California, Oregon, and Washington). Certain of these airports (SNA, LGB, and BUR) continue to face a number of constraints regarding their future growth. See Section 2.5.7.2 of the Report (Constraints at Other Area Airports) for further information.

Table ES-1 Summary of Key Air Traffic Information

Note: Timeframes Vary By Data Source.

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

Historical and Projected Enplaned Passengers:

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

FAA Forecasts (Federal Fiscal Year Ending Sept 30):

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

NOTES:

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

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

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

The Airport is served by a large number of airlines, including 20 scheduled domestic carriers, 42 scheduled foreign flag airlines, and 22 all-cargo carriers. The Airport's largest carrier, United Airlines, accounted for only 16.3 percent of the Airport's total enplaned passengers in FY 2012. The combined passenger market share for the top three air carriers at the Airport is currently approximately 42.0 percent, indicative of the diverse mix of airlines at the Airport. No airline alliance comprised more than 29.0 percent of passenger market share at the Airport in FY 2012.¹

Nationwide, the Airport's Air Trade Area is ranked second only to the New York CSA in a number of key statistical measurements including population, income, and number of households in higher income categories. It is expected that in the long term the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. Table ES-1 presents the projection of enplaned passengers at the Airport described below under the heading Air Traffic.

The Series 2012 Bonds and the Series 2012 Projects

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

Key Assumptions:

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

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

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

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

NOTES:

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

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

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

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

NOTE:

1/ Includes refunding of Subordinate Commercial Paper Notes.

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, October 2012.

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

Potential Refunding Bonds

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

Capital Program

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

Key Assumptions:

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

Future Bonds

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

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

Key Assumptions:

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

Senior Indenture and Debt per Enplaned Passenger

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

Department will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that Net Pledged Revenues together with any Transfer in each Fiscal Year will be equal to at least 125% of Senior Aggregate Annual Debt Service on the outstanding Senior Bonds for that Fiscal Year. The amount of any Transfer taken into account shall not exceed 25% of Senior Aggregate Annual Debt Service on the outstanding Senior Bonds in such Fiscal Year.

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

Use of PFC Revenues

As discussed in Chapter 4 (Financial Analysis) of the Report, the Department expects to use certain available PFC revenues to pay a portion of the debt service associated with (1) the Tom Bradley International Terminal (TBIT) Interior Improvements Project (funded in part with proceeds of the Series 2008A Senior Bonds and the Series 2009A Senior Bonds); (2) the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and the Series 2010D Senior Bonds); and (3) certain future terminal projects. The use of PFC revenues to pay portions of debt service associated with the TBIT and Bradley West projects has already been approved by the Federal Aviation Administration (FAA), and the Department expects to submit future PFC applications for future terminal projects. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year. Pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant, the principal of and/or interest on Senior Bonds paid with PFC revenues is excluded from the calculation of Senior Aggregate Annual Debt Service. At this time, the Department does not plan to use PFC revenues to pay principal of and/or interest on any Subordinate Bonds or Subordinate Commercial Paper Notes, but may do so in the future. The estimated capital project funding sources, projected airline payments, and other key financial results reflected in the Report are based on the assumption that the current \$4.50 PFC level at the Airport is not increased throughout the Projection Period. If the current \$4.50 maximum PFC level is increased by Congress during the Projection Period, the Department plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in the Report.

Key Assumptions:

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

Economic Base for Air Transportation

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

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

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

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

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

Table ES-4 Summary of Demographic and Economic Characteristics

POPULATION	HISTORICAL 2011	PROJECTED 2018	CAGR ^{1/} 2011-2018
Air Trade Area	18,115,184	19,562,510	1.1%
California	37,711,879	40,431,851	1.0%
United States	312,308,189	334,525,142	1.0%
PER CAPITA GDP/GRP			
(in 2011 dollars)	HISTORICAL 2011	PROJECTED 2018	CAGR 2011-2018
Air Trade Area	\$47,804	\$52,389	1.3%
California	\$50,238	\$55,019	1.3%
United States	\$46,114	\$50,447	1.3%
PER CAPITA PERSONAL INCOME			
(in 2011 dollars)	HISTORICAL 2011	PROJECTED 2018	CAGR 2011-2018
Air Trade Area	\$43,651	\$46,575	0.9%
California	\$46,098	\$48,985	0.9%
United States	\$42,702	\$45,612	0.9%
EMPLOYMENT			
	HISTORICAL 2001	HISTORICAL 2011	CAGR 2001-2011
Air Trade Area	9,090,595	9,286,777	0.2%
California	19,095,280	19,294,055	0.1%
United States	160,379,182	168,907,995	0.5%
UNEMPLOYMENT RATE			
	AIR TRADE AREA	UNITED STATES	VARIANCE
2001	5.3%	4.7%	0.6%
2011	11.8%	8.9%	2.9%
August 2012 ^{2/}	10.7%	8.2%	2.5%
OTHER DEMOGRAPHIC CHARACTERISTICS			
	AIR TRADE AREA	CALIFORNIA	UNITED STATES
2011 Population 35 - 54 years ^{3/}	28.1%	27.8%	27.7%
2011 Households with Income of \$75,000 and Above ^{4/}	37.6%	39.3%	31.9%

NOTES:

- 1/ CAGR = compound annual growth rate.
- 2/ August 2012 unemployment rates are not seasonally adjusted. Seasonally adjusted monthly unemployment data are not available for the Air Trade Area. In August 2012, the seasonally adjusted unemployment rate for the U.S. was 8.1%.
- 3/ Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics indicate that people in this age group account for the largest percentage of airline fares expenditures compared to other age groups.
- 4/ Consumer Expenditure Survey data from the U.S. Bureau of Labor Statistics indicate that people in this income group account for the largest percentage of airline fares expenditures compared to other income groups.

SOURCES: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*,

January 2012 (Population, Per Capita GDP/GRP, Per Capita Personal Income); U.S. Department of Labor, Bureau of Labor Statistics, July 2012 (U.S. Unemployment); State of California Employment Development Department, Labor Market Information, July 2012 (Air Trade Area Unemployment); ESRI Demographic and Income Profile June 2012 (Age, Households with Income of \$75,000 and Above).

PREPARED BY: Partners for Economic Solutions, October 2012.

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

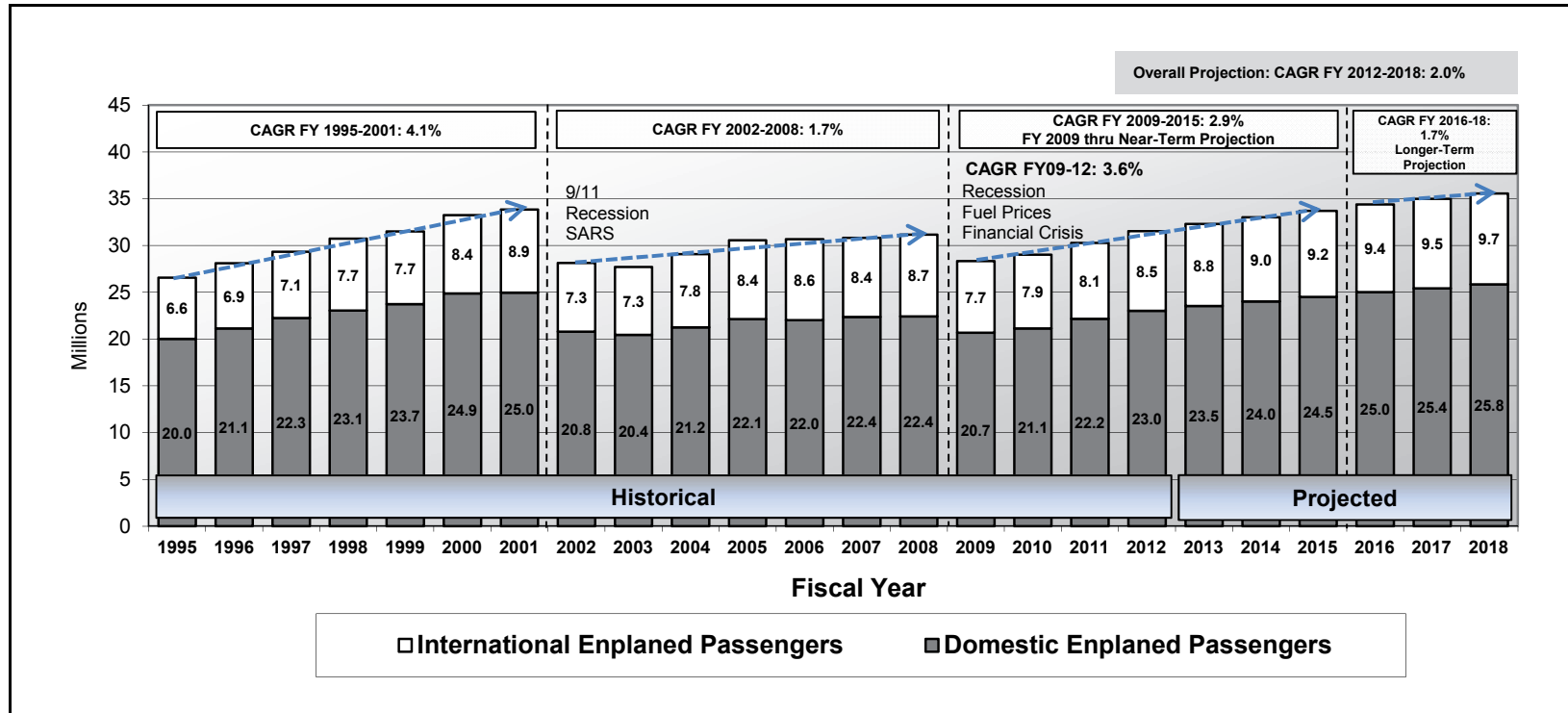
Significant Tourism Stimulates Demand for Leisure Travel. The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. The Air Trade Area hosted a record high 26.9 million overnight visitors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

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

Air Traffic

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

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



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

Exhibit ES-1

Historical and Projected Enplaned Passengers

[A-27]

In FY 2009, as a result of the global economic downturn and capacity reductions by U.S. and foreign flag carriers, domestic enplaned passengers at the Airport decreased 7.9 percent from FY 2008, and international enplaned passengers at the Airport decreased by 12.0 percent from FY 2008.² Total enplaned passengers at the Airport decreased 9.0 percent in FY 2009, to 28.3 million. Following the global recession and the subsequent rebound in traffic starting in FY 2010, the Airport experienced a recovery, recording increasing passenger activity in each year from FY 2010 to FY 2012. Total enplaned passengers at the Airport increased at a CAGR of 3.6 percent between FY 2009 and FY 2012, reaching 31.5 million enplaned passengers in FY 2012--growth during this period was nearly identical for domestic and international activity at the Airport (with CAGRs of 3.7 percent and 3.5 percent, respectively). The overall 3.6 percent growth rate from 2009 to 2012 outpaced overall U.S. enplaned passenger activity, which increased at a CAGR of only 1.0 percent during this same period. International enplaned passengers in FY 2012 (8.5 million) were below the previous peak of 8.9 million at the Airport in FY 2001 (as periods of positive growth since FY 2001 have not offset the 17.2 percent decrease in FY 2002 and the 12.0 percent decrease in FY 2009). See Section 2.5 (Historical Airport Activity) for further information.

Projections of aviation demand at the Airport (discussed in Sections 2.6.1, 2.6.2, and 2.6.3) were developed after analyzing several different projection methodologies for both the Near-Term (FY 2013 through FY 2015) and the Longer-Term (FY 2016 through FY 2018)—including analysis of scheduled departing seats, a market share approach, regression modeling using socioeconomic variables, and trend analysis. The projections of Airport activity ultimately used for purposes of the Report and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific projection methodologies and (2) a number of specific assumptions discussed in Section 2.6 that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A.

Enplaned passengers at the Airport are projected to increase 2.5 percent in FY 2013, relative to FY 2012 enplaned passengers. With expectations of continued recovery from the recent recession, enplaned passengers are projected to increase further in FY 2014 and FY 2015 at annual growth rates of 2.2 percent and 2.0 percent, respectively. In the longer term, it is expected that the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. Given the strength of its economic base and leading socioeconomic indicators, the Air Trade Area will support long-term growth in passenger demand, with regional demand continuing to be predominantly served at the Airport, including international travel and nonstop travel to major medium- and long-haul markets. Longer-term growth in total enplaned passengers is expected through the remainder of the Projection Period at rates generally lower than in the Near-Term. Total enplaned passengers at the Airport are projected to increase at a CAGR of 2.0 percent between FY 2012 and FY 2018. It is expected that certain legacy carriers will continue to re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international enplaned passengers are projected to grow at a CAGR of 2.3 percent between FY 2012 and FY 2018, while domestic enplaned passengers will experience a slower growth at a projected CAGR of 1.9 percent during this same period.

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

Financial Analysis

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

Key Assumptions:

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

Table ES-5 Summary of Key Financial Metrics

Fiscal Years Ending June 30

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

NOTES:

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

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

SOURCES: City of Los Angeles, Department of Airports, October 2012; Ricondo & Associates, Inc., October 2012.

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

1. Economic Base for Air Transportation

The demand for air transportation activity depends, to a large degree, upon the demographic and economic characteristics of an airport's air trade area (i.e., the geographical area primarily served by an airport). The correlation between activity at Los Angeles International Airport (the Airport or LAX) and the economic vitality of the surrounding region is particularly strong as most of the Airport's passenger activity is origin and destination (O&D) activity, meaning that passengers either begin or end their trips at the Airport (whether they reside, work, commute for work or vacation in the Los Angeles region), as opposed to connecting through the Airport to other airports. Based on detailed calculations using actual passenger data, O&D passengers accounted for approximately 75 percent of total passengers at the Airport in CY 2011.

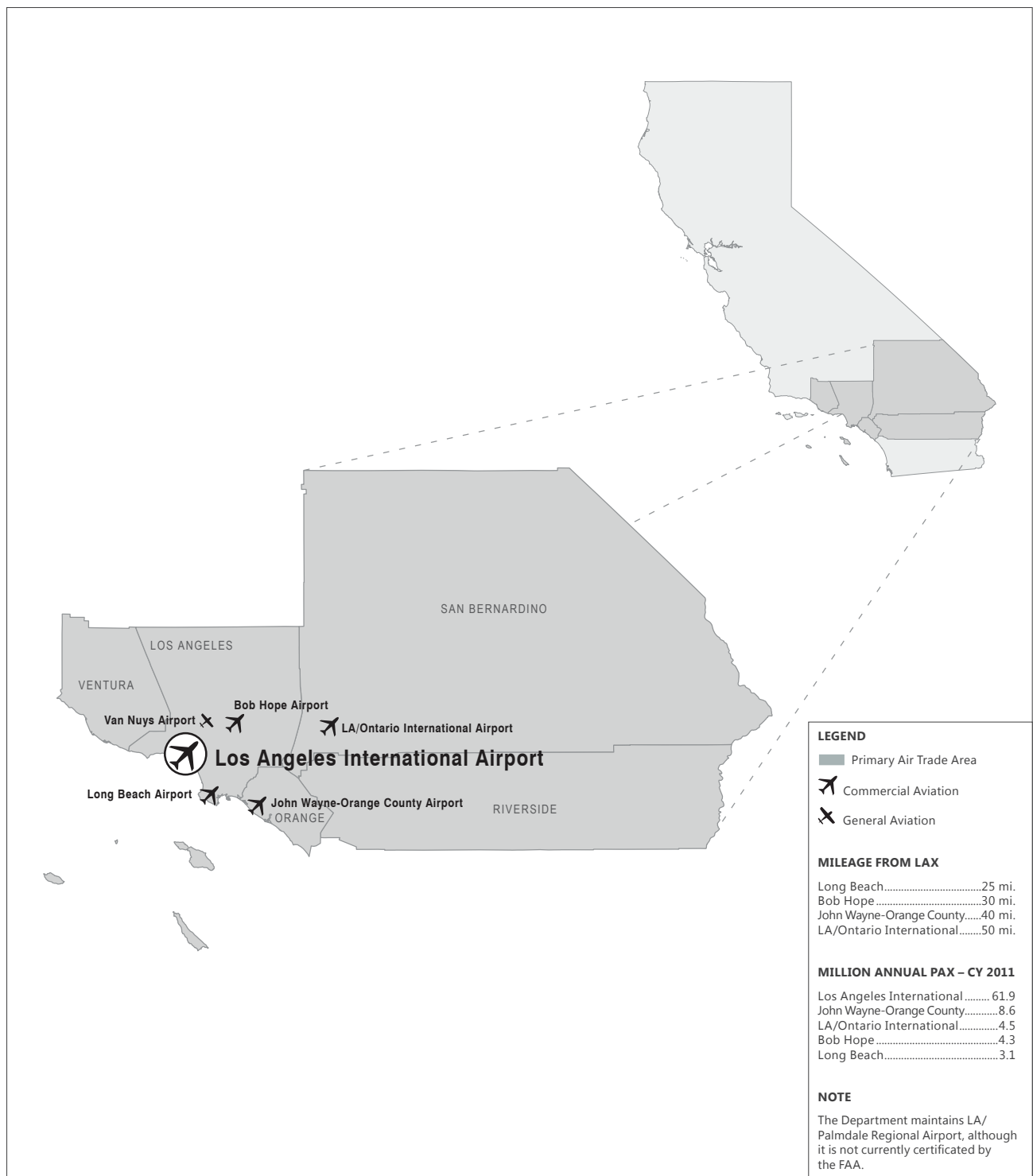
This chapter profiles the Los Angeles regional economy, including current conditions and trends.¹ It presents data that indicate that the Airport's air trade area has an economic base capable of supporting increased demand for air travel and freight services at the Airport during the projection period.

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

1.1 Demographic Analysis

Data for population, age distribution, population diversity, and educational attainment for the Air Trade Area are discussed below and are presented in Tables 1-1 through 1-5. Parallel data for California and the U.S. are also shown to provide a basis of comparison for trends in the Air Trade Area.

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



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

EXHIBIT 1-1



LAX Air Trade Area

Z:\LAWA\Graphics\LAX Air Trade Area Map\LAX Air Trade Area Map.indd

1.1.1 POPULATION

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

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

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

1.1.2 AGE DISTRIBUTION

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

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

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

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

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

Table 1-1 Ten Largest Metropolitan Regions (2011)

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

NOTE:

1/ CSA = Combined Statistical Area

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*,
January 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-2 Historical & Projected Population

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

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-3 Age Distribution (2011)

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

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

PREPARED BY: Partners for Economic Solutions, October 2012.

1.1.3 POPULATION DIVERSITY

The Air Trade Area's diverse population strengthens the competitiveness of the region and also contributes to demand for air travel. In a global economy, cultural diversity within a region's labor force is an advantage since employees with cultural and linguistic ties to international markets can assist businesses in establishing trade and investment opportunities.⁴ A culturally diverse population also engenders business, family, and cultural ties that create demand for air travel services to and from homeland countries. Consumer segmentation data from ESRI⁵ and data from the Consumer Expenditure Survey from the U.S. Bureau of Labor Statistics indicate that membership in ethnically and racially diverse social groups can be correlated with higher than average household spending on air travel compared to total U.S. households.⁶

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

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

1.1.4 EDUCATION

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

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

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

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

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

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

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

NOTE:

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

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

PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-5 Educational Attainment

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

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

PREPARED BY: Partners for Economic Solutions, October 2012.

1.2 Economic Analysis

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

1.2.1 PER CAPITA GROSS DOMESTIC / REGIONAL PRODUCT

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

Table 1-6 presents historical per capita gross regional product data for the Air Trade Area and California, and per capita gross domestic product data for the U.S. from 2001 to 2011. Data in Table 1-6 show that the Air Trade Area's per capita gross regional product increased from \$44,814 in 2001 to \$47,804 in 2011.⁸ Table 1-6 also indicates that per capita gross regional product for the Air Trade Area increased at a compound annual growth rate of 0.6 percent between 2001 and 2011, compared to a 0.4 percent CAGR for both California and the U.S. during this same period.

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

1.2.2 PER CAPITA PERSONAL INCOME

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

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

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

Table 1-6 Per Capita Gross Domestic / Regional Product

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

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-7 Per Capita Personal Income

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

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Data in Table 1-7 show that per capita personal income in the Air Trade Area is projected to increase at a CAGR of 0.9 percent, from \$43,651 in 2011 to \$46,575 in 2018.⁹ Per capita personal income in California and the U.S. are also projected to have a CAGR of 0.9 percent between 2011 and 2018.

1.2.3 MEDIAN HOUSEHOLD INCOME

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

1.2.3.1 Households with Income of \$75,000 and Above

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

1.2.4 LABOR FORCE TRENDS AND UNEMPLOYMENT RATES

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

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

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

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

Table 1-8 Household Income Distribution

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

NOTE:

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

SOURCE: ESRI Demographic and Income Profile, June 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-9 Five Wealthiest Metropolitan Regions (2011)

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

NOTE:

1/ CSA = Combined Statistical Area

SOURCE: ESRI Demographic and Income Profile, June 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

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

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

NOTE:

1/ CAGR = compound annual growth rate.

2/ In current dollars.

SOURCE: ESRI Demographic and Income Profile, June 2012.

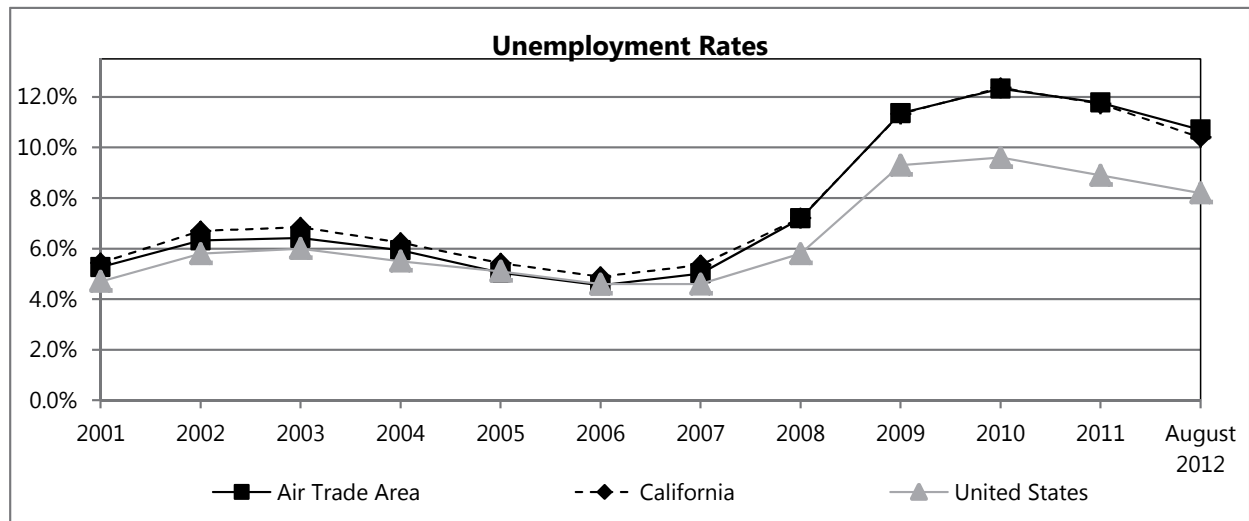
PREPARED BY: Partners for Economic Solutions, October 2012.

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

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

Compound Annual Growth Rate

2001 - 2011	0.74%	0.70%	0.67%
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NOTE:

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

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

PREPARED BY: Partners for Economic Solutions, October 2012.

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

In August 2012 (latest data available), the unemployment rate in the Air Trade Area was 10.7 percent (non-seasonally adjusted)¹²; this is higher than the non-seasonally adjusted rate in California (10.4 percent). The non-seasonally adjusted unemployment rate in the U.S. was 8.2 percent in August 2012.¹³

1.2.5 MAJOR CORPORATE HEADQUARTERS / EMPLOYERS IN THE AIR TRADE AREA

As shown in **Table 1-12**, major private sector employers in the Air Trade Area include internationally dominant aerospace companies (Boeing, Northrop Grumman, Raytheon), pharmaceutical and biotechnology companies (Allergan, Amgen, Abbott Laboratories), Walt Disney, a regional grocery chain, restaurant chains, and national retailers. In addition to providing a major source of local employment, these companies depend on air passenger and freight service for the continued health and expansion of their business enterprises. LAX's role as an international passenger and air cargo hub make it an important resource for large employers in the Air Trade Area.

The Air Trade Area is headquarters for 21 companies on the list of Fortune 500 firms ranked by annual revenue (see **Table 1-13**). These companies operate throughout the U.S., Asia, Europe, and other international locations and their activities extend to a network of more than 1,292 overseas offices, manufacturing plants, and other facilities.¹⁴ In addition, an estimated 1,250 foreign firms are located within 50 miles of LAX and they have approximately 2,300 branches, subsidiaries, or affiliates in the U.S.¹⁵

The reliance of these companies and their international suppliers, customers, and partners on face-to-face meetings and conferences, combined with their just-in-time inventory practices, suggests that the Air Trade Area will continue to be a significant source of demand for both business air travel and air freight shipments over the long term.

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

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

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

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

Table 1-12 Major Private Sector Employers^{1/}

COMPANY	INDUSTRY	LOCATION	COMPANY	INDUSTRY	LOCATION
99 Cents Only Stores	Discount Retailer	City of Commerce	Irvine Company	Real Estate	Newport Beach
Abbott Laboratories	Pharmaceuticals	Monrovia, Temecula	Jacobs Engineering Group	Engineering Consulting	Pasadena
ABM Industries	Facility Services	City of Commerce	JPMorgan Chase	Financial Services	Chatsworth
ACCO Engineered Systems	HVAC Systems	Glendale	Live Nation Entertainment	Entertainment	Los Angeles
Activision / Blizzard	Entertainment	Irvine, Santa Monica	Mattel	Toy Manufacturing	El Segundo
AECOM	Engineering Consulting	Los Angeles	Medtronic	Medical Device Manufacturer	Northridge
Allergan	Pharmaceuticals	Irvine	Mercury General	Insurance	Los Angeles
American Apparel	Apparel	Los Angeles	Morongo Casino, Resort & Spa	Gaming	Cabazon
American Honda Motor Corp.	Automobile Manufacturing	Torrance	Nestle USA	Food Products	Glendale
Amgen	Pharmaceuticals	Thousand Oaks	Northgate Gonzalez Market	Grocery Retailer	Anaheim
Aramark	Uniform Apparel	Burbank	Northrop Grumman	Aerospace	Redondo Beach
AT&T	Telecommunications	Anaheim, Cerritos, Los Angeles	Oakley Inc.	Sporting Goods	Foothill Ranch
Avery Dennison	Paper Products	Pasadena	Occidental Petroleum	Energy	Woodland Hills
Bank of America	Financial Services	Glendale, Los Angeles, Newport Beach	Pacific Mutual Holding Co.	Insurance	Newport Beach
Beckman Coulter	Laboratory Equipment	Irvine	Panda Restaurant Group	Quick Service Restaurant	Rosemead
Big 5 Sporting Goods	Retail	El Segundo	Parsons Brinckerhoff	Construction	Pasadena
Boeing	Aerospace/Defense	El Segundo, Long Beach, Palmdale, Seal Beach	Pechanga Resort & Casino	Gaming	Temecula
Broadcom	Semiconductors	Irvine	Pratt & Whitney	Aerospace	Canoga Park
California Pizza Kitchen	Restaurant	Los Angeles	Public Storage	Self Storage Facilities	Glendale
CB Richard Ellis Group	Real Estate	Los Angeles	Ralph's Grocery	Grocery Retailer	Compton
Chase Bank	Financial Services	Irvine	Raytheon	Aerospace/Defense	El Segundo
Cheesecake Factory	Restaurant	Calabasas Hills	Reliance Steel & Aluminum	Steel	Los Angeles
Citibank	Financial Services	Glendale	Spectrum Group International	Precious Metals Trading	Irvine
Del Taco LLC	Quick Service Restaurant	Lake Forest	Stater Bros. Market	Grocery Retailer	San Bernardino
Dine Equity	Restaurant	Glendale	Teledyne Technologies	Electronic Equipment	Thousand Oaks
DirecTV	Telecommunications	El Segundo	Tetra Tech	Engineering Consulting	Los Angeles
Dole Food	Food Products	Westlake Village	Time Warner Cable	Telecommunications	Anaheim
Edison International	Utility	Rosemead	Toshiba Corp.	Consumer Electronics	Irvine
Edwards Lifesciences Inc.	Medical Device Manufacturer	Irvine	Toyota Motor Sales USA	Automobile	Torrance
Farmers Insurance Group	Insurance	Los Angeles	Trader Joe's	Grocery Retailer	Monrovia
FedEx Corp.	Transportation/Freight	Los Angeles	Tutor Perini Corporation	Construction	Sylmar
First American Financial Corp.	Title Insurance	Santa Ana	United Parcel Service	Transportation/Freight	Los Angeles, Ontario
FX Networks	Entertainment	Los Angeles	Universal Studios	Entertainment	Universal City
Golden State Foods Corp.	Food Products	Irvine	VCA Antech	Animal Health	Los Angeles
Guess	Apparel	Los Angeles	Verizon	Telecommunications	Irvine, Thousand Oaks
Health Net	Health Care	Woodland Hills	Vons	Grocery Retailer	Arcadia
Hot Topic	Retail	City of Industry	Walt Disney	Entertainment	Anaheim, Burbank
IBM	Computer Products	Glendale	Wells Fargo	Financial Services	Irvine, Los Angeles
Ingram Micro.	Technology Product Distributor	Santa Ana	Yum Brands	Quick Service Restaurant	Irvine
Integrated Healthcare Holdings Inc.	Health Care	Santa Ana			

NOTE:

^{1/} For profit businesses only.

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

PREPARED BY: Partners for Economic Solutions, October 2012.

Table 1-13 Fortune 500 Company Headquarters in the Air Trade Area ^{1/}

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

NOTE:

1/ Based on 2011 revenues.

SOURCE: "2012 Fortune 500," *Fortune*, May 21, 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

1.2.6 EMPLOYMENT BY MAJOR INDUSTRIAL SECTOR

An analysis of nonagricultural employment trends by major industry divisions, presented in **Table 1-14**, indicates the sources of jobs in the local economy. In this table, employment trends in the Air Trade Area are compared to data for California and the U.S. in 2001 and 2011. Non-agricultural employment in the Air Trade Area increased from approximately 9.1 million workers in 2001 to approximately 9.3 million workers in 2011. This increase represents a 0.2 percent CAGR during this period. The Air Trade Area had a relatively higher proportion of employment in services, wholesale/retail trade, finance/insurance/real estate, and manufacturing compared to California and the U.S. in 2011. (See bar chart in Table 1-14.) Construction and government jobs in the Air Trade Area made up a relatively lower percentage of employment in 2011 in comparison to California and the U.S. The percentage of transportation/utilities jobs was higher in the Air Trade than in California and equal to that of the U.S. in 2011.

Data in Table 1-14 indicate that the Air Trade Area has a diversified employment base that is expected to provide the region with a foundation for recovery following periodic downturns in the business cycle. Brief profiles of the Air Trade Area's major industries, in descending order of 2011 employment, are provided below.

Services

The services sector in the Air Trade Area employed approximately 4.5 million workers in 2011 and accounted for 48.0 percent of total non-agricultural employment.

The services industry is the largest job sector in the Air Trade Area and employs workers in a wide range of subsectors that vary greatly in size. In 2011, 21.7 percent of the Air Trade Area's service workers were employed in leisure and hospitality, 19.2 percent were employed in health care, and 17.6 percent were employed in professional, scientific and technical services. In 2011, other service sector categories included: administration and support services (14.5 percent of service workers); information technology (7.0 percent); education (4.8 percent); management of enterprises (2.1 percent); and other services (13.1 percent).¹⁶

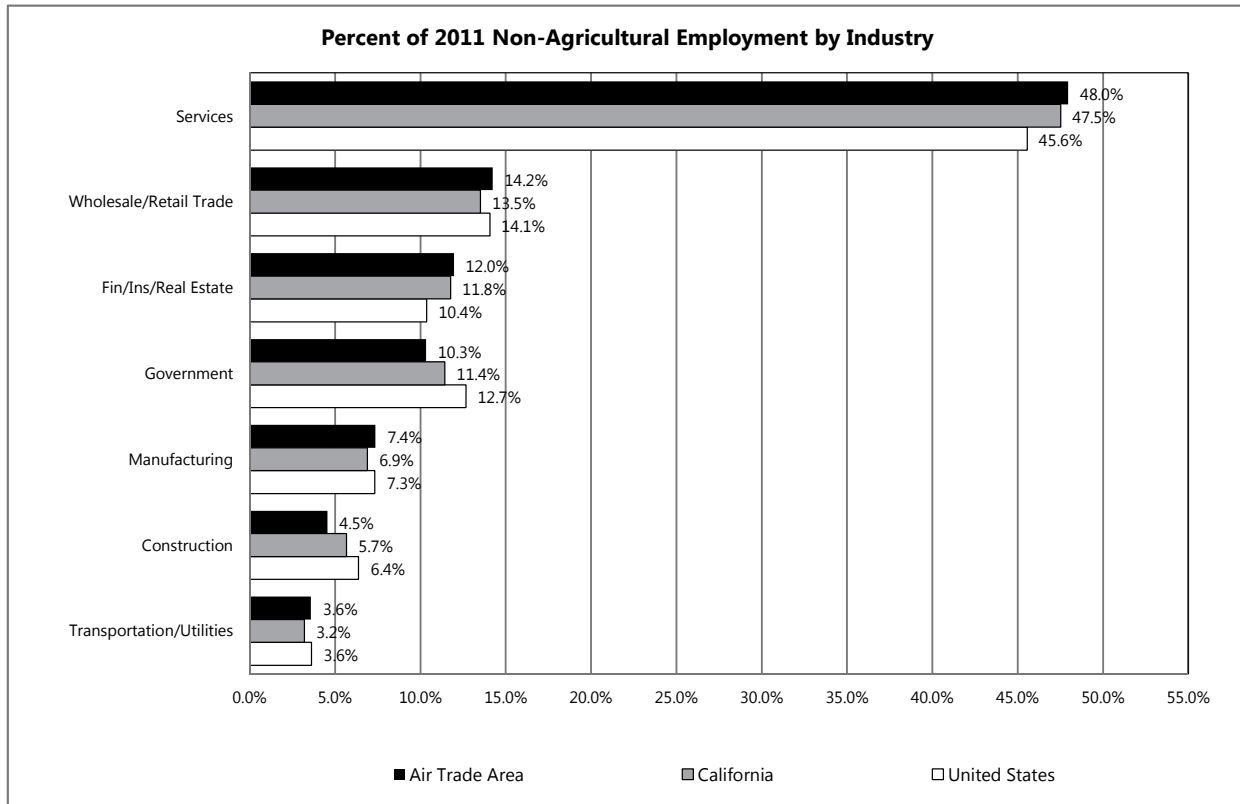
1.2.6.1 Information

Information employment includes jobs in publishing, media, software, internet services, web search, motion picture and sound recording, movie theaters, broadcasting, telecommunications, and data processing. In 2011, approximately 312,000 workers in the Air Trade Area were employed in the information industry. This accounted for 3.4 percent of total nonagricultural employment and exceeded the level in both California and the U.S. where information accounted for 2.9 percent and 2.0 percent of nonagricultural employment, respectively.

¹⁶ Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

Table 1-14 Employment by Major Industry Division (2001-2011)

INDUSTRY ^{1/}	AIR TRADE AREA			CALIFORNIA			UNITED STATES		
	2001	2011	CAGR ^{2/}	2001	2011	CAGR	2001	2011	CAGR
Services	4,093,375	4,454,096	0.8%	8,491,452	9,167,926	0.8%	67,034,707	76,951,142	1.4%
Wholesale/Retail Trade	1,338,111	1,322,878	-0.1%	2,719,363	2,607,651	-0.4%	24,490,780	23,768,834	-0.3%
Fin/Ins/Real Estate	817,339	1,110,985	3.1%	1,668,208	2,205,374	2.8%	13,354,415	17,524,725	2.8%
Government	1,007,684	959,812	-0.5%	2,389,076	2,271,977	-0.5%	21,079,987	21,395,218	0.1%
Manufacturing	1,000,986	683,994	-3.7%	1,872,755	1,329,544	-3.4%	16,911,287	12,378,727	-3.1%
Construction ^{3/}	502,675	422,273	-1.7%	1,312,070	1,093,728	-1.8%	11,414,008	10,772,859	-0.6%
Transportation/Utilities	330,425	332,739	0.1%	642,356	617,855	-0.4%	6,093,998	6,116,490	0.04%
Total	9,090,595	9,286,777	0.2%	19,095,280	19,294,055	0.1%	160,379,182	168,907,995	0.5%
PROJECTED	AIR TRADE AREA			CALIFORNIA			UNITED STATES		
2018 Employment	10,297,568			21,261,110			185,905,532		
CAGR 2011-2018	1.5%			1.4%			1.4%		



NOTES:

- 1/ Non-agricultural employment only.
- 2/ CAGR = compound annual growth rate.
- 3/ Includes mining and forestry employment.

SOURCE: Woods & Poole Economics Inc., 2012 Complete Economic and Demographic Data Source (CEDDS), January 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Prominent firms in the information industry that are located in the Air Trade Area include Walt Disney (Anaheim, Burbank), NBC/Universal (Burbank), Warner Bros. (Burbank), Dreamworks Animation (Glendale), Paramount (Hollywood), Nickelodeon (Burbank), the Comedy Channel (Glendale), FX Networks (Los Angeles), ValueClick (Westlake Village), THQ Inc. (Agoura Hills), Crown Media Holdings (Studio City), Sony Pictures (Culver City), Twentieth Century Fox (Los Angeles), MGM (Los Angeles), Universal Pictures (Universal City), Lions Gate Entertainment (Santa Monica), DIRECTV Group (El Segundo), AT&T (Anaheim), Verizon (Irvine), Sprint Nextel (Irvine), T-Mobile (Santa Ana), Cox Communications (Rancho Santa Margarita), Time Warner Cable (Anaheim), Los Angeles Times (Los Angeles), and Investor's Business Daily (Los Angeles).

With 125,000 jobs, motion picture and sound recording play a key role in the regional economy and account for approximately 40 percent of information industry jobs in the Air Trade Area.¹⁷ The production of feature films, television programs, commercials, and sound recordings employs writers, actors, producers, directors, musicians, costume designers, special effects creators, and other technicians. Entertainment production also benefits workers in a wide variety of industries such as food service, security, transportation, and floral design. In addition, Hollywood's position as an internationally renowned entertainment capital draws millions of tourists to the Air Trade Area each year.¹⁸

1.2.6.2 Higher Education

Employment in the education subsector is an important source of jobs in the Air Trade Area.¹⁹ In 2011, employment at educational institutions accounted for 4.8 percent of jobs in the services sector. Numerous public and private colleges and universities are located in the Air Trade Area. These institutions, among others, include: University of California campuses in Irvine, Los Angeles, and Riverside; California State University campuses in Camarillo, Dominguez Hills, Fullerton, Long Beach, Los Angeles, Pomona, Northridge, San Bernardino, and San Marcos; University of Southern California (Los Angeles); and Loyola Marymount University (Los Angeles). The 45 colleges and universities shown in **Table I-15** enroll approximately 792,000 students. These institutions, among others in the Air Trade Area, generate air travel demand through academic meetings and conferences, visiting professorships, study-abroad programs, and individual student and faculty travel.

¹⁷ Trends in Major Industries, *2012-2013 Mid-Year Economic Forecast and Industry Outlook*, July 2012, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation.

¹⁸ Motion Picture/TV Production, *2012-2013 Mid-Year Economic Forecast and Industry Outlook*, July 2012, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation.

¹⁹ Public schools, including colleges and universities, are excluded from educational services employment. Employees of public schools and public colleges and universities are included in government employment.

Table 1-15 Air Trade Area College and University Enrollment (2011)

INSTITUTION	LOCATION	TOTAL ENROLLMENT
University of California, Los Angeles	Los Angeles	39,593
University of Southern California	Los Angeles	36,896
Mt. San Antonio College	Walnut	36,798
California State University Fullerton	Fullerton	36,200
California State University Northridge	Northridge	35,272
Santa Monica College	Santa Monica	35,232
East Los Angeles College	Monterey Park	35,152
California State University Long Beach	Long Beach	33,417
Pasadena City College	Pasadena	30,370
University of California, Irvine	Irvine	27,700
Long Beach City College	Long Beach	26,950
El Camino College	Torrance	24,775
Cerritos College	Norwalk	24,521
College of the Canyons	Santa Clarita	22,968
Los Angeles Pierce College	Woodland Hills	22,303
Glendale Community College	Glendale	21,583
Los Angeles Valley College	Valley Glen	21,356
California State University Polytechnic - Pomona	Pomona	21,190
Rio Hondo College	Whittier	20,671
California State University Los Angeles	Los Angeles	20,142
Los Angeles City College	Los Angeles	19,983
University of California, Riverside	Riverside	18,925
Moorpark College	Moorpark	16,600
California State University San Bernardino	San Bernardino	16,400
Antelope Valley College	Lancaster	15,700
California State University Dominguez Hills	Carson	13,854
Ventura College	Ventura	13,800
Citrus College	Glendora	11,200
Azusa Pacific University	Azusa	9,258
Loyola Marymount University	Los Angeles	9,223
University of La Verne	La Verne	8,328
Pepperdine University	Malibu	7,604
California State University San Marcos	San Marcos	7,502
Claremont Colleges	Claremont	7,456
Oxnard College	Oxnard	7,440
Biola University	La Mirada	6,123
Chapman University	Orange	4,910
University of Redlands	Redlands	4,317
California State University Channel Islands	Camarillo	4,200
Loma Linda University	Loma Linda	4,100
California Baptist University	Riverside	3,909
California Lutheran University	Thousand Oaks	2,550
California Institute of Technology	Pasadena	2,230
Occidental College	Los Angeles	2,120
Woodbury University	Burbank	1,500
Total		792,321

SOURCES *The Lists 2012*, Los Angeles Business Journal; "Top Colleges and Universities in the Inland Empire," *Inland Empire Business Journal*, December 23, 2011; institution web sites; August 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Trade

Wholesale and retail trade in the Air Trade Area employed approximately 1.3 million workers in 2011, equating to 14.2 percent of total non-agricultural employment. Approximately 68 percent of the Air Trade Area's trade employees, or 902,000 workers, were engaged in retail trade. In 2011, approximately 420,000 Air Trade Area workers were engaged in wholesale trade.²⁰

The Air Trade Area economy has extensive links to the global economy and relies heavily on air passenger and air cargo service. In 2011, total trade activity (both imports and exports) between the Los Angeles Customs District²¹ and the rest of the world was valued at \$467.5 billion (see **Table 1-16**). Businesses in the Air Trade Area have taken advantage of overseas markets and have expanded their operations internationally. Many of the Air Trade Area's top companies depend on offshore plants and suppliers for manufacturing and assembly as well as raw materials. This expanding international business activity generates demand for both international air travel and air freight services.

Table I-16 shows that in 2011, \$83.7 billion in trade (including imports and exports) through the Los Angeles Customs District was conveyed by air. Of this amount, 99.4 percent (\$83.2 billion) was transported through LAX. Imports and exports that were transported through LAX represented 61.5 percent of California's total value of trade by air (\$135.3 billion) in 2011. The level of imports and exports through LAX reflects the prevalence of just-in-time inventory management of high value components (especially in the technology, defense, and aerospace sectors), as well as an expanding global network of suppliers and manufacturers. Furthermore, as Air Trade Area companies continue to develop new international markets for their goods and services, their reliance on international passenger and air freight service at LAX will increase in the future.

Finance / Insurance / Real Estate

The finance, insurance, and real estate industries (FIRE) employed more than 1.1 million workers in the Air Trade Area in 2011, accounting for 12.0 percent of total non-agricultural employment.

According to the *Los Angeles Business Journal*, major banks headquartered in the Air Trade Area are City National Bank (\$22.1 billion in assets), East West Bank (\$21.8 billion in assets), and Cathay Bank (\$10.5 billion in assets).²²

²⁰ Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

²¹ Detailed trade data (commodity, value, air value, vessel value) are tracked by Customs District and are published by the Foreign Trade Division of the U.S. Census Bureau at the U.S. Department of Commerce. These data can be used to make regional comparisons of total imports and exports, or imports and exports of particular commodities. The U.S. is classified into 55 Customs Districts, three of which are in California.

²² *The Lists 2012*, January 1, 2012, Los Angeles Business Journal.

Table 1-16 Total Trade by Conveyance (2011)

CUSTOMS DISTRICT	(\$ BILLIONS)		
	VALUE OF TOTAL TRADE ^{1/}	VALUE OF TOTAL TRADE BY AIR	PERCENT OF TOTAL TRADE BY AIR
Los Angeles	\$467.5	\$83.7	17.9%
California ^{2/}	\$641.1	\$135.3	21.1%
United States	\$3,687.6	\$917.3	24.9%

NOTES:

1/ Total trade = total imports and exports.

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

SOURCE: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division, February 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Government

Government employment accounted for approximately 960,000 workers in the Air Trade Area in 2011, representing 10.3 percent of total non-agricultural employment. The government sector in the Air Trade Area includes federal, state, county, and city employees. Federal employers within the Air Trade Area include the Internal Revenue Service, Social Security Administration, U.S. Department of Justice, Federal Aviation Administration, U.S. Postal Service, and many other entities. In 2011, the federal government employed approximately 85,000 civilian workers within the Air Trade Area across a variety of functions and agencies.²³ Other major governmental employers in the Air Trade Area include the State of California, the County of Los Angeles, the City of Los Angeles, and the City of Long Beach.²⁴

Manufacturing

With approximately 684,000 manufacturing workers, the Air Trade Area has the highest number of jobs in this industry compared to any other region in the U.S.²⁵ The diversity of the Air Trade Area's economy extends to the manufacturing sector where businesses range from aerospace and defense contractors to computer equipment, electronics, pharmaceuticals, medical devices, and many other types of specialized products. In 2011, manufacturing jobs made up 7.4 percent of nonagricultural employment in the Air Trade Area.

Construction

The construction industry employed more than 422,000 workers in the Air Trade Area in 2011, accounting for 4.5 percent of total nonagricultural employment. Tutor Perini Corporation (Sylmar), Ameron International (Pasadena), Valley Crest Landscape Co. (Calabasas), Webcor Builders (Los Angeles), J.F. Shea Co. (Walnut), Ryland Group (Calabasas), Lewis Homes (Upland), and KB Home (Los Angeles) are prominent construction-related firms that are headquartered in the Air Trade Area.²⁶

Many large-scale development projects are providing support to the construction industry in the Air Trade Area. Examples of these projects include:

- **Farmers Field Stadium and Los Angeles Convention Center Upgrade.** Developer Anschutz Entertainment Group (AEG) has proposed demolishing the 40 year-old West Hall of the Los Angeles Convention Center (LACC) and replacing it with a 68,000-seat stadium with a retractable roof. AEG has proposed the stadium project in an effort to attract a National Football League team to Los Angeles. The proposed stadium could also host NCAA Final Four basketball games, World Cup soccer matches, and other sports events. AEG's planned upgrades to the LACC would result in a total of 1.7 million square feet, making the facility the fifth largest in the U.S. compared to its current ranking at fifteenth. In 2011, AEG reached a naming rights agreement for the proposed stadium with Farmers

²³ Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

²⁴ Major Employers for Counties, State of California Employment Development Department, <http://www.labormarketinfo.edd.ca.gov/majorer/MajorER.asp>; InfoUSA.com, accessed August 2012.

²⁵ Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

²⁶ *The Lists 2012*, January 1, 2012, Los Angeles Business Journal; InfoUSA.com; Hoovers.com; accessed August 2012.

Insurance. In September 2012, the Los Angeles City Council approved the environmental impact report and a development agreement with AEG for the \$1.7 billion project. Parent company Anschutz Co. recently announced that it is seeking a buyer for AEG. Officials from AEG and the City of Los Angeles have stated that any new owner of AEG would be bound by the Farmers Field project's existing agreements.²⁷

- **NBC/Universal Evolution Plan.** Located on a 391-acre parcel adjacent to Burbank in the San Fernando Valley, this \$1.6 billion project will renovate and upgrade the site's existing studio facilities. The development program includes 1.45 million square feet of movie production space, a 327,000 square foot expansion of Universal Studios theme park, more shops and restaurants at CityWalk, and two 500-room hotels. The development approval process is ongoing and construction has not yet begun.²⁸
- **Exposition Transit Corridor Phase 2.** Phase 1 of the Expo Line opened in April 2012 and runs 8.6 miles from Downtown Los Angeles to Culver City. The \$1.5 billion, 6.6-mile Phase 2 project will include seven new stations at key destinations between Culver City and Santa Monica. When completed, the Expo Line will provide transit service between Downtown Los Angeles and Santa Monica, and it will improve regional mobility by connecting west Los Angeles County to the existing Metro Rail network. Construction of Phase 2 began in August 2012 and is expected to be completed in Late 2015. Phase 2 is expected to employ 250 workers during its construction phase.²⁹
- **Antelope Valley Solar Ranch One.** Construction is underway for a \$1.36 billion state-of-the-art photovoltaic power plant by First Solar in Lancaster (Los Angeles County). Financed by Exelon and by a \$646 million loan from the U.S. Department of Energy, the 2,100-acre facility will have 3.8 million photovoltaic solar panels. AV Solar Ranch One, designed to produce 230 megawatts, will provide enough power to supply 75,000 homes. It is the largest and most expensive solar development in U.S. history and is expected to employ 400 workers during its construction phase. Full commercial operation is expected in late 2013.³⁰

²⁷ Our Plan, farmersfield.com, accessed September 2012; "AEG Completes Farmers Field EIR," April 5, 2012, *Los Angeles Downtown News*, http://www.ladowntownnews.com/news/aeg-completes-farmers-field-eir/article_a5ab0a42-7f5a-11e1-9c9e-001a4bcf887a.html; accessed September 2012; "Farmers to Sponsor AEG's Proposed NFL Stadium," February 1, 2011, *Los Angeles Business Journal*; "News of the Week," September 3, 2012, *Los Angeles Business Journal*; "Anschutz Says AEG is for Sale," September 18, 2012, *Los Angeles Business Journal*; "AEG Sale Prompts Reassurances," September 25, 2012, *Los Angeles Business Journal*; "Ceremony Marks Next Step for Farmers Field," October 3, 2012, *Los Angeles Times*.

²⁸ NBCUniversal Abandons Residential Development at Studio, July 16, 2012, *Los Angeles Business Journal*; The NBC/Universal Evolution Plan, <http://nbcuniversalevolution.com/plan/>, accessed August 2012.

²⁹ Construction Begins on Mass Transit Line to Santa Monica, September 23, 2011, <http://www.buildexpo.org/about/>, accessed September 2012; Major Construction of Expo Phase 2 Now Underway, August 6, 2012, <http://www.buildexpo.org/about/>, accessed September 2012; Exposition Transit Corridor, Phase 2 to Santa Monica, <http://www.metro.net/projects/expo-santa-monica/>, accessed September 2012; Expo Executive Board Agendas-Presentations, Jobs Program Pres 2-05-09.pdf, February 2009, <http://www.buildexpo.org/about/>, accessed September 2012.

³⁰ "Cooling Off? Solar Ranch Nears Launch as Large Projects Lose Sizzle," August 27, 2012, *Los Angeles Business Journal*; About First Solar, <http://www.firstsolar.com/About-First-Solar>, accessed September 2012.

- **Korean Air Tower.** Korean Air has received approval to construct a \$1.0 billion office, hotel, and residential development on the former Wilshire Grand Hotel site in downtown Los Angeles. Plans call for the construction of a 45-story tower with 650 hotel rooms and 100 condominiums. Phase Two of the project includes a 65-story tower with 1.5 million square feet of office space. Demolition of the Wilshire Grand Hotel began in June 2012 and Phase One of the project is expected to open in 2016. Korean Air's plans for the site may be modified if it chooses to scale back the project to a single 80-foot tower with 900 hotel rooms and a reduced office component.³¹
- **Haynes Generating Station Modernization.** Located in Long Beach and owned and operated by the City of Los Angeles Department of Water & Power, the Haynes Generating Station is a natural gas and steam power plant that was built in the mid-1960s. It currently has seven generating units with a combined capacity of 1,600 megawatts, providing power to approximately one million homes. Two of the plant's steam boiler units that date from 1965 are being replaced with six advanced technology gas turbines that are more energy efficient, create fewer emissions, and increase the reliability of the power grid. The project also includes a switchyard expansion for the new gas turbines, modification of steam piping, and the installation of an auxiliary boiler system. Project cost is estimated at \$782 million and completion is scheduled for June 2013.³²
- **Metro Gold Line Foothill Extension.** The existing Metro Gold Line light rail service currently runs for 20 miles from east Los Angeles to Pasadena. The Foothill Extension will be an 11.5-mile extension from Pasadena to Azusa with six new stations in Sierra Madre, Arcadia, Monrovia, Duarte, Irwindale, and Azusa. This \$735 million project broke ground in 2011 and is scheduled for completion in 2015. The project is expected to employ 400 workers during its construction phase. When completed, the Gold Line Foothill Extension will offer a transportation option to congested roadways between Los Angeles and the San Gabriel Valley. It will provide riders with easy connections to Metrolink commuter rail lines, Metro Rail lines, Metro bus lines, other municipal bus lines, and other regional transportation services.³³

Transportation / Utilities

Approximately 333,000 workers were employed in the transportation and utilities industries in the Air Trade Area in 2011. Employment in these two industries in 2011 accounted for 3.6 percent of nonagricultural employment in the Air Trade Area. The Airport's direct transportation employment is estimated at 27,910 jobs

³¹ "Wilshire Grand Redevelopment Plan Approved," March 29, 2011, *Los Angeles Business Journal*; "Major Changes for Wilshire Grand Project: Two-Tower Effort Now Envisioned As One," March 14, 2012, *Los Angeles Downtown News*, http://www.ladowntownnews.com/news/major-changes-for-wilshire-grand-project-two-tower-effort-now/article_189af2ce-6e30-11e1-a5d1-0019bb2963f4.html, accessed September 2012.

³² Haynes Generating Station Repowering Project, September 2011, Los Angeles Department of Water & Power, <http://www.ladwpnews.com/go/doctype/1475/19380/>, accessed September 2012.

³³ "Construction Projects," August 27, 2012, *Los Angeles Business Journal*; Metro Gold Line Foothill Extension Fact Sheet, Foothill_Ext_Fact_sheet.pdf, <http://www.metro.net/projects/foothill-extension/>, accessed September 2012; Metro Gold Line Foothill Extension Phase 2A, Los Angeles County Economic Development Corporation, <http://laedc.org/reports/consulting/index.html>, accessed September 2012.

that are located on-airport or in adjacent aviation-related facilities.³⁴ Consequently, LAX itself is responsible for 8.4 percent of transportation and utilities employment in the Air Trade Area.

With approximately 6,400 acres of land and 68 miles of waterfront, the Port of Los Angeles (POLA) and the adjoining Port of Long Beach (POLB) make up the largest container port complex in the U.S.³⁵ In 2011, POLA and POLB processed a total of 14.0 million containers,³⁶ surpassing other U.S. container port facilities in New York (5.5 million TEUs), Savannah (2.9 million TEUs), and Oakland (2.3 million TEUs). Internationally, the combined POLA and POLB complex ranked eighth in total TEUs processed in 2011 after Shanghai, Singapore, Hong Kong, Shenzhen, Busan, Ningbo, and Guangzhou.³⁷

1.2.7 TOURISM INDUSTRY

Tourism in the Air Trade Area provides a significant source of demand for air travel and employs many workers in the leisure and hospitality subsector. An analysis of Air Trade Area attractions and visitor data is provided below.

Area Attractions

In addition to its mild climate and beaches, the Air Trade Area offers visitors numerous entertainment attractions, cultural institutions, shopping districts, dining selections, recreational options, and scenic parks and vistas. World famous entertainment venues include Disneyland, Universal Studios, Universal City Walk, Knott's Berry Farm, and Six Flags Magic Mountain. Other sightseeing destinations include the Hollywood Sign, the Hollywood Walk of Fame, the Queen Mary, Venice Beach boardwalk, the Los Angeles Zoo, and the Forest Lawn Memorial Parks.

Fine arts collections such as the Los Angeles County Museum of Art, the Norton Simon Museum, the Huntington Library, the Museum of Contemporary Art, the Getty Villa, and the Getty Center afford visitors and residents access to a broad selection of painting, sculpture, decorative arts, and cultural objects from a wide assortment of civilizations and eras. Likewise, performing arts venues in the Air Trade Area, such as the Walt Disney Concert Hall, offer acclaimed companies including the Los Angeles Philharmonic, Los Angeles Opera, and Los Angeles Master Chorale. Professional theater is thriving at venues such as the Pasadena Playhouse, Ahmanson Theatre, Geffen Playhouse, and the Mark Taper Forum. Multicultural performances also are available at the Bilingual Foundation of the Arts.

³⁴ Transportation and utilities jobs located on-airport or within one mile of LAX, *Los Angeles International Airport in 2011*, Los Angeles County Economic Development Corporation, www.laedc.org/reports/consulting/LAX_2011_FINAL.pdf, accessed August 2012.

³⁵ *International Trade Outlook: The Southern California Region 2012-13*, May 2012, Los Angeles Economic Development Corporation; About the Port, http://www.portoflosangeles.org/idx_about.asp, accessed October 2012; Facts at a Glance, <http://www.polb.com/about/facts.asp>, accessed October 2012.

³⁶ A twenty-foot equivalent unit (TEU) is the standard unit for counting containers of various capacities.

³⁷ *International Trade Outlook: The Southern California Region 2012-13*, May 2012, Los Angeles Economic Development Corporation.

The Air Trade Area offers travelers a scenic natural environment. With an annual average of 325 days of sunshine,³⁸ outdoor activities can be pursued throughout the year. Visitors seeking recreation may visit the Angeles National Forest, Catalina Island, Lake Arrowhead, San Bernardino National Forest, and Santa Monica Mountains National Recreation Area. In addition, more than 100 miles of shoreline run from Malibu to San Clemente.

In terms of spectator sports, several professional teams are based in the Air Trade Area, and Los Angeles is regularly named among the best sports cities in the U.S.³⁹ An average of 2.7 million baseball fans watch the Dodgers play at Dodger Stadium each season.⁴⁰ The region's second Major League Baseball team, The Los Angeles Angels of Anaheim, play at Angel Stadium of Anaheim. Based at Home Depot Center in Carson, the Los Angeles Galaxy added the internationally renowned soccer player David Beckham to their team in 2007. Staples Center is home to the Los Angeles Kings ice hockey team as well as three basketball teams: Los Angeles Lakers, Los Angeles Clippers, and Los Angeles Sparks. Although the Air Trade Area currently lacks a professional football team, Los Angeles has two successful college football teams: the USC Trojans play at Memorial Coliseum, and the UCLA Bruins play at Pasadena's Rose Bowl.⁴¹

Tourism and Overseas Visitor Trends

The Los Angeles Tourism & Convention Board estimates that the Air Trade Area hosted a record high 26.9 million overnight visitors in 2011, a 4.2 percent increase over the number of visitors in 2010. These visitors generated a record high \$15.2 billion in direct spending, a 7.8 percent increase over 2010.⁴² Tourism-related industries are a leading employer in the Air Trade Area with 964,620 workers employed in this sector in 2011.⁴³

In terms of U.S. citizens traveling abroad, survey data in **Table 1-17** from the U.S. Department of Commerce's Office of Tourism Industries show that 2,019,626 U.S. citizens departed from LAX to overseas destinations in 2011 (excluding Canada and Mexico). This represents 7.5 percent of total overseas departures by U.S. citizens in 2011. Following JFK (New York), MIA (Miami), ATL (Atlanta), and EWR (Newark), LAX is ranked as the fifth busiest airport for overseas departures by U.S. citizens, placing it ahead of other important international travel hubs such as ORD (Chicago), IAD (Washington, D.C.), SFO (San Francisco), IAH (Houston), and PHL (Philadelphia).

³⁸ Los Angeles Tourism & Convention Board, <http://discoverlosangeles.com/guides/fun-facts/did-you-know.html>, accessed August 2012.

³⁹ #8 Best Sports City in the U.S. in 2011, #3 Best Sports City in the U.S. in 2010, #5 Best Sports City in the U.S. in 2009, *The Sporting News*, <http://aol.sportingnews.com/sport/story/2011-10-04/best-sports-cities-the-list-from-1-to-271>, accessed September 2012.

⁴⁰ Dodger Stadium, <http://discoverlosangeles.com/play/sports/lasports-venues/>, accessed September 2012.

⁴¹ Los Angeles' Sports Scene Creates A Triumphant Getaway For Visitors, <http://discoverlosangeles.com/play/sports/lasports-venues/>, accessed September 2012.

⁴² Los Angeles Tourism & Convention Board, 2011 LA Tourism Quick Facts, <http://discoverlosangeles.com/business-services/research-and-reports/>, accessed August 2012.

⁴³ Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

Table 1-17 Top U.S. Airports of Departure for U.S. Citizens to Overseas Countries (2011)

RANK	U.S. AIRPORT	U.S. CITIZEN DEPARTURES ^{1/}	% OF ALL U.S. CITIZEN DEPARTURES
1	New York (JFK)	4,665,776	17.3%
2	Miami (MIA)	2,828,430	10.5%
3	Atlanta (ATL)	2,338,847	8.7%
4	Newark (EWR)	2,210,502	8.2%
5	Los Angeles (LAX)	2,019,626	7.5%
6	Chicago (ORD)	1,853,990	6.9%
7	Washington Dulles (IAD)	1,505,135	5.6%
8	San Francisco (SFO)	1,330,702	4.9%
9	Houston (IAH)	1,202,064	4.4%
10	Philadelphia (PHL)	920,917	3.4%
	Other Departure Airports	6,147,019	22.7%
Total		27,023,008	100.0%

NOTE:

1/ Excluding departures to Canada and Mexico.

SOURCE: U.S. Department of Commerce, ITA, Office of Tourism Industries, July 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

Based on a survey from the U.S. Department of Commerce's Office of Tourism Industries, data in **Table 1-18** show that 3,653,000 travelers from overseas (excluding Canada and Mexico) selected Los Angeles as their destination city in 2011. This represents a 9.1 percent increase over the figure for 2010 when 3,348,000 overseas travelers selected Los Angeles as their destination city. Following New York, Los Angeles was the second most popular U.S. destination for overseas travelers in 2011, ranking ahead of other major destinations such as Miami, San Francisco, Las Vegas, Orlando, and Washington, D.C.

Of the 26.4 million international visitors that traveled to California by air in 2011, 16.7 million (63 percent) arrived at LAX.⁴⁴ The California Travel and Tourism Commission projects that international air travelers to California will increase by 4.6 percent in 2013, 5.3 percent in 2014, and 5.5 percent in 2015.⁴⁵ The International Monetary Fund's (IMF) *World Economic Outlook* estimates that global real GDP growth will reach 3.6 percent in 2013 and 4.4 percent from 2014 through 2017. These IMF projections indicate that there will be a sufficient level of global economic growth to continue to support demand for passenger service to LAX by international travelers.⁴⁶

1.3 Economic Outlook

Although the Air Trade Area is well-positioned with a broad and diverse economic base, it still remains subject to overall economic conditions in the U.S. In the wake of the December 2007-June 2009 recession, the U.S. economy is experiencing weaknesses in housing construction, consumer spending and business investment, as well as relatively high unemployment and low GDP growth.⁴⁷

The most recently published forecast by business economists from the National Association for Business Economics (NABE) indicates consensus for modest GDP growth in 2012 and for the unemployment rate to remain above 8.0 percent. The NABE forecast estimates that the U.S. will have an average unemployment rate of 8.1 percent in 2012. In terms of real GDP growth, the NABE forecast estimates that the U.S. economy will grow at an annual rate of 2.3 percent in 2012.⁴⁸

⁴⁴ Year-to-Date December 2011, California Airports Monthly Traffic Reports, <http://industry.visitcalifornia.com/Research/California-Statistics-and-Trends/>, accessed September 2012.

⁴⁵ Research Presentations, California Tourism Outlook 2011-12, <http://industry.visitcalifornia.com/Research/Reports-and-Presentations/>, accessed September 2012.

⁴⁶ *World Economic Outlook*, October 2012, International Monetary Fund.

⁴⁷ Building Permits - States and Metro Areas, National Association of Homebuilders, http://www.nahb.org/reference_list.aspx?sectionID=130, accessed August 2012; Table 2.1. Personal Income and Its Disposition, Bureau of Economic Analysis, <http://www.bea.gov/national/nipaweb/TableView.asp>, accessed August 2012; Table 5.3.2. Contributions to Percent Change in Real Private Fixed Investment by Type and Table 5.6.6B. Change in Real Private Inventories by Industry, Chained Dollars, Bureau of Economic Analysis, <http://www.bea.gov/national/nipaweb/TableView.asp>, accessed August 2012; Labor Force Statistics from the Current Population Survey, Bureau of Labor Statistics, <http://www.bls.gov/cps/>, accessed August 2012; Table 1.1.1. Percent Change From Preceding Period in Real Gross Domestic Product, Bureau of Economic Analysis, <http://www.bea.gov/national/nipaweb/TableView.asp>, accessed August 2012.

⁴⁸ *NABE Outlook*, May 2012, National Association for Business Economics.

Table 1-18 Top Destination Cities for Overseas Visitors (2011)

RANK	DESTINATION CITY	OVERSEAS VISITORS ^{1/}	% OF ALL OVERSEAS VISITORS
1	New York	9,285,000	23.8%
2	Los Angeles	3,653,000	9.4%
3	Miami	2,956,000	7.6%
4	San Francisco	2,872,000	7.4%
5	Las Vegas	2,788,000	7.1%
6	Orlando	2,788,000	7.1%
7	Washington, D.C.	1,812,000	4.6%
8	Houston	1,785,000	4.6%
9	Boston	1,311,000	3.4%
10	Detroit	1,199,000	3.1%
	Other Destination Cities	8,587,000	22.0%
Total		39,036,000	100.0%

NOTE:

1/ Excluding visitors from Canada and Mexico.

SOURCE: U.S. Department of Commerce, ITA, Office of Tourism Industries, May 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

A recent NABE industry survey cites concerns about the potential negative impact on business conditions caused by the European debt crisis, the possible expiration of Bush-era tax cuts in December 2012, and possible federal government spending cuts in January 2013. On the positive side, the NABE industry survey notes that inflationary pressures on the U.S. economy are expected to be muted throughout 2012.⁴⁹

Similar to the NABE forecast, a recent report from the Los Angeles Economic Development Corporation (LAEDC)⁵⁰ indicates that although the Air Trade Area economy is recovering and unemployment is gradually diminishing, progress is expected to be slow. The LAEDC forecast estimates that Air Trade Area employment will not return to its pre-recession level within the next two years. However, in 2012 and 2013 LAEDC forecasts that employment in the Air Trade Area will improve in the professional and technical services, leisure and hospitality, wholesale and retail trade, and health care sectors.⁵¹

1.3.1 LONG-TERM ECONOMIC ASSUMPTIONS INCORPORATED IN PASSENGER DEMAND PROJECTIONS

As described in more detail in Section 5.7 of this report, the methodologies employed in developing the projections of passenger demand at the Airport include (among other methodologies) statistical linear regression modeling with local and national socioeconomic and demographic factors as independent variables and enplaned passengers as the dependent variable. Independent variables considered for this analysis include population, employment, income, gross regional product, and gross domestic product. For each of these socioeconomic and demographic factors, the regression modeling produces a coefficient that is applied to the projection of the corresponding socioeconomic or demographic factor to provide an estimate of enplaned passengers. **Table 1-19** presents the 2011 and 2018 figures utilized in the modeling as well as the compound annual growth rate for each independent variable between 2011 and 2018.

⁴⁹ *NABE Industry Survey*, July 2012, National Association for Business Economics.

⁵⁰ Established by the Los Angeles County Board of Supervisors in 1981, the Los Angeles County Economic Development Corporation (LAEDC) is a private, non-profit organization that supports job growth and business attraction and retention in Los Angeles County. LAEDC's programs are focused on economic analysis, business development, trade expansion, and facilitating foreign investment. It also provides advisory services to address public policy issues that concern the region's economic vitality and quality of life.

⁵¹ *2012-2013 Mid-Year Economic Forecast and Industry Outlook*, July 2012, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation.

Table 1-19 Forecast of Economic Variables Used in Passenger Demand Projections

VARIABLE ^{1/2/}	2011	2018	CAGR 2011-2018
ATA Population	18,115,184	19,562,510	1.1%
US Population	312,308,189	334,525,142	1.0%
ATA Total Employment	9,286,777	10,297,568	1.5%
US Total Employment	168,907,995	185,905,532	1.4%
ATA Total Personal Income (\$ billion)	\$790.8	\$911.1	2.0%
US Total Personal Income (\$ billion)	\$13,336.1	\$15,258.3	1.9%
ATA Per Capita Personal Income	\$43,651	\$46,575	0.9%
US Per Capita Personal Income	\$42,702	\$45,612	0.9%
ATA Gross Regional Product (\$ billion)	\$866.0	\$1,024.9	2.4%
US Gross Domestic Product (\$ billion)	\$14,401.8	\$16,875.8	2.3%
ATA Per Capita GRP	\$47,804	\$52,389	1.3%
US Per Capita GDP	\$46,114	\$50,447	1.3%

NOTES:

1/ ATA = Air Trade Area

2/ All dollar amounts are in 2011 dollars.

SOURCE: Woods & Poole Economics Inc., *2012 Complete Economic and Demographic Data Source (CEDDS)*, January 2012.

PREPARED BY: Partners for Economic Solutions, October 2012.

2. Air Traffic

This chapter describes historical and projected air traffic activity at the Airport; key factors affecting these activity levels; and assumptions and methodologies analyzed and incorporated in projections of Airport activity. This chapter discusses the role of the Airport (Section 2.1), the Airport's share of regional demand relative to other Southern California airports (Section 2.2), the airlines serving the Airport (Section 2.3), historical Airport activity (Section 2.4), factors affecting aviation demand and the airline industry (Section 2.5), and projected Airport activity (Section 2.6).

It should be noted that some tables and exhibits in this chapter reflect fiscal year information and others reflect calendar year information, depending upon the availability of data.

2.1 Role of the Airport

The Airport is one of the busiest airports in the world and is defined by the FAA as a large hub.¹ **Table 2-1** presents the Airport's worldwide ranking of activity in CY 2011. As shown, the Airport ranked 6th worldwide and 3rd nationwide in total passengers during this period with 61.9 million enplaned and deplaned passengers; 3rd worldwide and nationwide in total operations with 702,895 takeoffs and landings; and 13th worldwide and 5th nationwide in total cargo with 1.7 million enplaned and deplaned tons.²

The Airport serves one of the nation's largest domestic O&D passenger bases. As shown in **Table 2-2**, it was ranked first nationwide in domestic O&D passengers during the 12 months ending March 31, 2012, the latest 12 months currently available.

Table 2-3 presents domestic O&D passengers for the Airport and the nation between CY 2000 and CY 2011. As shown, domestic O&D activity at the Airport decreased from 33.5 million passengers in CY 2000 to 31.2 million in CY 2011. This change represents a compound annual decrease of 0.6 percent during this period, compared to a CAGR of 0.1 percent nationwide. A breakout of activity trends during this period is provided below:

¹ As defined by the FAA, a large hub has at least 1.0 percent of the nation's enplaned passengers in any calendar year (at least 7.2 million in CY 2011).

² *2011 World Traffic Report*, Airports Council International.

Table 2-1 Top 15 Worldwide Ranking of Activity - CY 2011

PASSENGERS				OPERATIONS				CARGO			
WORLD RANK	U.S. RANK	AIRPORT	TOTAL PASSENGERS	WORLD RANK	U.S. RANK	AIRPORT	TOTAL OPERATIONS	WORLD RANK	U.S. RANK	AIRPORT	TOTAL CARGO (TONS)
1	1	Atlanta (ATL)	92,389,023	1	1	Atlanta (ATL)	923,996	1		Hong Kong (HKG)	3,976,768
2		Beijing (PEK)	78,675,058	2	2	Chicago (ORD)	878,798	2	1	Memphis (MEM)	3,916,410
3		London (LHR)	69,433,565	3	3	Los Angeles (LAX)	702,895	3		Shanghai (PVG)	3,085,268
4	2	Chicago (ORD)	66,701,241	4	4	Dallas (DFW)	646,803	4	2	Anchorage (ANC)	2,543,105
5		Tokyo (HND)	62,584,826	5	5	Denver (DEN)	628,796	5		Incheon (ICN)	2,539,222
6	3	Los Angeles (LAX)	61,862,052	6	6	Charlotte (CLT)	539,842	6		Paris (CDG)	2,300,063
7		Paris (CDG)	60,970,551	7		Beijing(PEK)	533,257	7		Dubai (DXB)	2,269,768
8	4	Dallas (DFW)	57,803,439	8	7	Las Vegas (LAS)	531,538	8		Frankfurt (FRA)	2,214,939
9		Frankfurt (FRA)	56,436,255	9	8	Houston (IAH)	517,262	9	3	Louisville (SDF)	2,188,422
10		Hong Kong (HKG)	53,328,613	10		Paris (CDG)	514,059	10		Tokyo (NRT)	1,945,351
11	5	Denver (DEN)	52,849,132	11		Frankfurt (FRA)	487,162	11		Singapore (SIN)	1,898,850
12		Jakarta (CGK)	51,178,188	12		London (LHR)	480,931	12	4	Miami (MIA)	1,841,929
13		Dubai (DXB)	50,977,960	13	9	Phoenix (PHX)	461,989	13	5	Los Angeles (LAX)	1,681,611
14		Amsterdam (AMS)	49,755,252	14	10	Philadelphia (PHL)	448,129	14		Beijing (PEK)	1,640,247
15		Madrid (MAD)	49,644,680	15	11	Detroit (DTW)	443,028	15		Taipei (TPE)	1,627,463

SOURCE: 2011 World Traffic Report, Airports Council International, September 2012.

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

Table 2-2 Top 20 Total Domestic O&D Airports - 12 Months Ended March 31, 2012

RANK	AIRPORT	TOTAL DOMESTIC O&D PASSENGERS
1	Los Angeles International	31,726,590
2	McCarran International	29,671,750
3	Orlando International	27,036,710
4	Chicago O'Hare International	25,720,410
5	Denver International	25,177,910
6	Hartsfield-Jackson Atlanta International	24,612,210
7	General Edward Lawrence Logan International	21,785,950
8	Phoenix Sky Harbor International	20,690,830
9	La Guardia	20,516,930
10	Seattle/Tacoma International	20,393,550
11	Dallas/Fort Worth International	20,289,160
12	Fort Lauderdale International	17,576,230
13	John F. Kennedy International	17,471,450
14	Newark Liberty International	15,864,820
15	Baltimore/Washington International Thurgood Marshal	15,536,100
16	Philadelphia International	15,025,230
17	San Diego International	14,918,980
18	Minneapolis/St. Paul International	14,790,100
19	Tampa International	13,916,700
20	Ronald Reagan Washington National	13,740,000

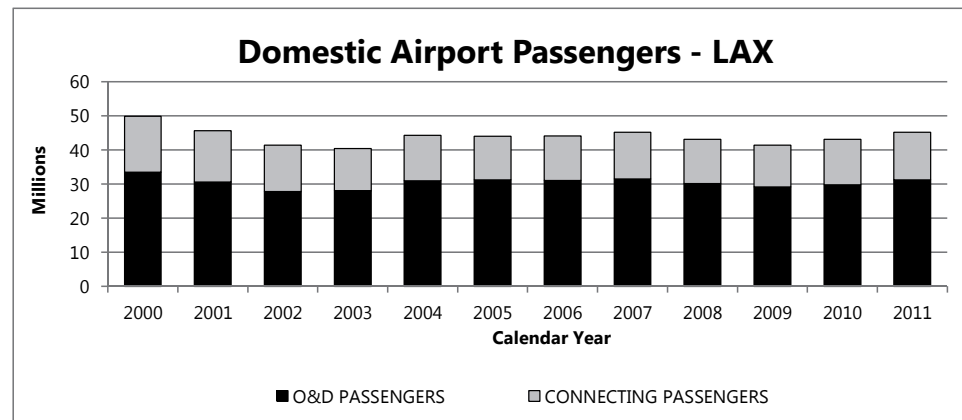
SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, September 2012.

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

Table 2-3 Historical Domestic O&D Passengers

Calendar Years

CALENDAR YEAR	LAX DOMESTIC O&D PASSENGERS	LAX ANNUAL O&D % CHANGE	U.S. DOMESTIC O&D PASSENGERS	U.S. ANNUAL % CHANGE	LAX SHARE OF U.S. O&D PASSENGERS	LAX DOMESTIC ENPLANED AND DEPLANED PASSENGERS	LAX O&D PERCENTAGE	LAX DOMESTIC CONNECTING PASSENGERS	LAX CONNECTING PERCENTAGE
2000	33,451,660	-	864,670,260	-	3.9%	49,887,433	67.1%	16,435,773	32.9%
2001	30,601,330	(8.5%)	805,727,290	(6.8%)	3.8%	45,656,025	67.0%	15,054,695	33.0%
2002	27,785,620	(9.2%)	782,752,300	(2.9%)	3.5%	41,379,168	67.1%	13,593,548	32.9%
2003	28,012,880	0.8%	797,484,400	1.9%	3.5%	40,358,935	69.4%	12,346,055	30.6%
2004	30,955,430	10.5%	869,737,980	9.1%	3.6%	44,228,427	70.0%	13,272,997	30.0%
2005	31,200,070	0.8%	917,050,600	5.4%	3.4%	44,003,260	70.9%	12,803,190	29.1%
2006	31,031,850	(0.5%)	923,169,280	0.7%	3.4%	44,129,926	70.3%	13,098,076	29.7%
2007	31,453,060	1.4%	951,728,750	3.1%	3.3%	45,190,615	69.6%	13,737,555	30.4%
2008	30,099,320	(4.3%)	902,934,500	(5.1%)	3.3%	43,130,864	69.8%	13,031,544	30.2%
2009	29,115,070	(3.3%)	848,900,760	(6.0%)	3.4%	41,419,913	70.3%	12,304,843	29.7%
2010	29,729,290	2.1%	856,011,800	0.8%	3.5%	43,134,145	68.9%	13,404,855	31.1%
2011	31,233,290	5.1%	870,089,960	1.6%	3.6%	45,130,728	69.2%	13,897,438	30.8%
Compound Annual Growth Rate									
2000 - 2002	(8.9%)		(4.9%)			(8.9%)		(9.1%)	
2002 - 2007	0.5%		2.8%			(0.2%)		(1.5%)	
2007 - 2009	(3.8%)		(5.6%)			(4.3%)		(5.4%)	
2009 - 2011	3.6%		1.2%			4.4%		6.3%	
2000 - 2011	(0.6%)		0.1%			(0.9%)		(1.5%)	



SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, August 2012.
 PREPARED BY: Ricondo & Associates, Inc., August 2012.

- Domestic O&D passengers at the Airport decreased at a compound annual rate of 8.9 percent between CY 2000 and CY 2002, while nationwide activity decreased 4.9 percent.
- Thereafter, domestic O&D passengers at the Airport increased at a CAGR of 0.5 percent through CY 2007 (reaching 31.5 million in CY 2007), compared to a CAGR of 2.8 percent nationwide.
- During the downturn in the economy resulting from the global recession in CY 2008, domestic O&D traffic at the Airport experienced a compound annual decrease of 3.8 percent between CY 2007 and CY 2009 (reaching 29.1 million in CY 2009), while the nation experienced a compound annual decrease of 5.6 percent during this same period.
- As the nation started to emerge from the recession, traffic at the Airport rebounded in CY 2010 and 2011, with the Airport growing at a CAGR of 3.6 percent between CY 2009 and CY 2011, resulting in total domestic O&D passengers reaching 31.2 million in CY 2011, compared with the domestic O&D passengers nationwide increasing at a CAGR of 1.2 percent during this same period.
- As also shown, the Airport's share of U.S. domestic O&D passengers decreased between CY 2000 and CY 2011, reaching a low of 3.3 percent in CY 2007 and CY 2008, before slightly increasing each year between CY 2009 and CY 2011.

Table 2-3 also presents the Airport's percentage of domestic O&D passengers to total domestic passengers. As shown, this percentage was relatively stable for the majority of the period shown at approximately 70 percent. The remaining 30 percent of domestic passengers represents connecting passenger traffic.³ Although no airline dominates or provides hubbing activity at the Airport, the level of connecting passenger traffic is influenced by (1) the Airport's role as a major gateway to numerous international markets, (2) the geographical location of the Airport in relation to numerous markets along the West Coast corridor, (3) the significant number of nonstop flights to and from domestic markets, and (4) the alliances among airlines serving the Airport.

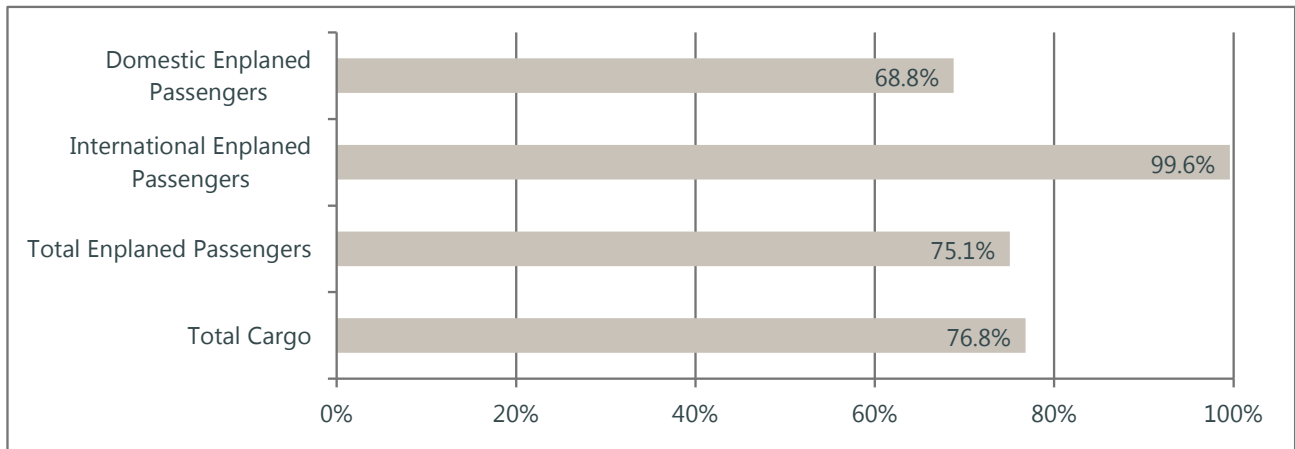
The Airport is the busiest international gateway on the west coast, and international activity at the Airport benefits from the high number of nonstop flights throughout the U.S. The Airport enplaned 8.4 million international passengers in CY 2011, compared to 4.5 million for San Francisco International Airport (SFO) and 3.0 million for Seattle International Airport (SEA). During the week of August 11, 2012, the Airport had 921 scheduled international passenger flights, compared to 527 for SFO and 317 for SEA. In addition, the Airport has scheduled passenger service provided by 42 foreign flag carriers, while SFO and SEA has 23 and 11 foreign flag carriers, respectively. The Airport also enplaned and deplaned 1.1 million tons of international cargo in CY 2011, compared to 243,063 tons by SFO and 82,061 tons for SEA.

³ When international passengers are included, approximately 75 percent of total passengers at the Airport are O&D passengers.

2.2 Regional Demand

The demographic and economic characteristics of the Air Trade Area create a strong local demand for air transportation. This demand is predominantly served through the Airport, particularly for international travel and nonstop travel to major medium- and long-haul markets (e.g., New York, Chicago, Honolulu, and Washington, D.C.), as well as travel within the West Coast corridor. **Exhibit 2-1** shows the dominance of the Airport relative to the other four commercial service airports within the Air Trade Area.⁴ The other four commercial service airports primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor.

Exhibit 2-1 LAX Share of Air Trade Area Activity - CY 2011



SOURCES: City of Los Angeles, Department of Airports (LAX and LA/ONT); Individual airports (BUR, LGB, SNA), August 2012.
 PREPARED BY: Ricondo & Associates, Inc., August 2012.

In addition to the Airport, the other four airports in the Air Trade Area include Bob Hope Airport (BUR), John Wayne Airport (SNA), Long Beach Airport (LGB), and LA/Ontario International Airport (LA/ONT). A brief discussion of these four airports is provided below:

- As shown previously on the map labeled Exhibit 1-1, BUR, defined by the FAA as a medium hub, is located 30 miles north of the Airport.⁵ As of August 2012, nonstop service was provided to 11 domestic markets with a total of 72 daily domestic flights (compared to the Airport's nonstop service to 90 domestic markets, with an average of 680 daily flights; and nonstop service to 60 international markets, with an average of 130 daily flights in August 2012).

⁴ Based on individual airport data.

⁵ As defined by the FAA, a medium hub has between 0.25 percent and 0.999 percent of the nation's enplaned passengers in any calendar year (between 1.8 million and 7.2 million in CY 2011).

- SNA, also defined by the FAA as a medium hub, is located 40 miles southeast of the Airport. As of August 2012, nonstop service was provided to 16 domestic markets and four international markets with a total of 119 daily flights. There is a legal limit of 10.3 million annual passengers (MAP) currently in place at SNA. See Section 2.5.7.2 for more details regarding passenger caps at SNA.
- LGB, defined by the FAA as a small hub, is located 25 miles southeast of the Airport.⁶ As of August 2012, nonstop service was provided to 13 domestic markets with a total of 43 daily flights. A stipulated settlement agreement entered into by the City of Long Beach and the airlines permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB, with such activity levels permitted to be exceeded as long as flights operate at or below annual noise budgets for each class of operator. See Section 2.5.7.2 for more details regarding passenger flight operations at LGB.
- LA/ONT, which is also owned by the City, operated by the Department, and defined by the FAA as a medium hub, is located 50 miles east of the Airport. As of August 2012, nonstop service was provided to 13 domestic markets with a total of 63 daily flights, as well as one flight to Guadalajara, Mexico.

Table 2-4 presents average one-way domestic fares for all five commercial service airports in the Air Trade Area for CY 2011. As shown, average one-way domestic fares at the Airport for short-haul and medium-haul markets are competitive with fares at the other four commercial service airports. Although average one-way domestic fares to long-haul markets from the Airport are higher than the other commercial service airports serving the Air Trade Area, the Airport's yield per coupon mile for the long-haul markets is competitive (\$0.102 versus \$0.084 to \$0.099 for the other four airports).

Table 2-5 presents historical shares of total enplaned passengers for the five commercial service airports serving the Air Trade Area between CY 2000 and CY 2011. As shown, the Airport's share declined steadily between CY 2000 and CY 2003, had a brief recovery in CY 2004 to 71.1 percent before dropping again in 2005 to 70.7 percent, but then started to steadily increase from CY 2005 to CY 2011, resulting in a 75.1 percent share in CY 2011. As consolidation of the airline industry occurred following the global recession in 2008, and subsequent mergers and acquisitions between airlines streamlined activity, the Airport benefited from the centralized operation within the Air Trade Area, while LA/Ontario International Airport was hardest hit, with its regional share of enplaned passengers decreasing from 8.2 percent in CY 2007 to 5.5 percent in CY 2011.

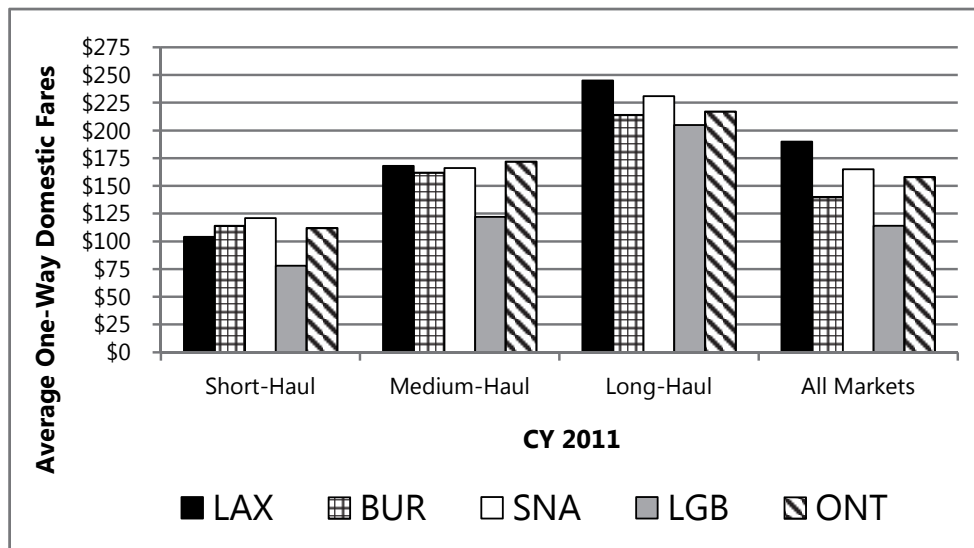
Exhibit 2-2 below illustrates the CY 2011 shares of total enplaned passengers for the five commercial service airports serving the Air Trade Area.

⁶ As defined by the FAA, a small hub has between 0.05 percent and 0.249 percent of the nation's enplaned passengers in any calendar year (between 0.4 million and 1.8 million in CY 2011).

Table 2-4 Average One-Way Domestic Fares for Airports in the Air Trade Area

CY 2011

AIRPORT	SHORT-HAUL MARKETS ^{1/}	MEDIUM-HAUL MARKETS ^{1/}	LONG-HAUL MARKETS ^{1/}	ALL MARKETS
Los Angeles (LAX)	\$104	\$168	\$245	\$190
Bob Hope (BUR)	\$114	\$162	\$214	\$140
John Wayne (SNA)	\$121	\$166	\$231	\$165
Long Beach (LGB)	\$78	\$122	\$205	\$114
LA/Ontario (LA/ONT)	\$112	\$172	\$217	\$158



NOTE:

^{1/} (SH) Short Haul = 1 to 600 miles

(MH) Medium Haul = 601 to 1,800 miles

(LH) Long Haul = over 1,800 miles

SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, August 2012.

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

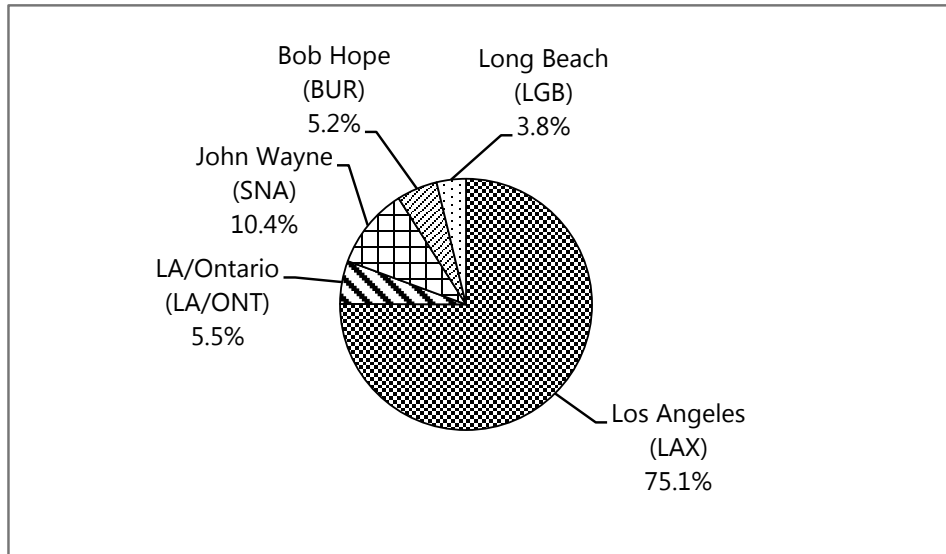
Table 2-5 Regional Airport Shares of Total Enplaned Passengers

Calendar Year											
CALENDAR YEAR	AIRPORT (LAX)		LA/ONTARIO (ONT)		JOHN WAYNE (SNA)		BOB HOPE (BUR)		LONG BEACH (LGB)		TOTAL ENPLANED PASSENGERS
	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	ENPLANED PASSENGERS	PERCENTAGE OF TOTAL	
2000	33,836,077	77.3%	3,359,978	7.7%	3,894,993	8.9%	2,367,835	5.4%	312,713	0.7%	43,771,596
2001	31,007,930	76.4%	3,354,400	8.3%	3,672,827	9.1%	2,248,654	5.5%	287,245	0.7%	40,571,056
2002	28,181,481	73.3%	3,259,866	8.5%	3,957,565	10.3%	2,312,611	6.0%	731,279	1.9%	38,442,802
2003	27,544,606	70.8%	3,285,577	8.4%	4,274,960	11.0%	2,369,729	6.1%	1,445,547	3.7%	38,920,419
2004	30,343,873	71.1%	3,473,284	8.1%	4,902,263	11.5%	2,464,441	5.8%	1,470,620	3.4%	42,654,481
2005	30,649,324	70.7%	3,611,978	8.3%	4,821,459	11.1%	2,759,984	6.4%	1,523,812	3.5%	43,366,557
2006	30,500,130	70.8%	3,533,858	8.2%	4,814,108	11.2%	2,843,281	6.6%	1,385,260	3.2%	43,076,637
2007	31,244,261	70.6%	3,607,184	8.2%	4,989,018	11.3%	2,960,294	6.7%	1,458,128	3.3%	44,258,885
2008	29,930,985	71.8%	3,112,112	7.5%	4,492,626	10.8%	2,664,875	6.4%	1,457,209	3.5%	41,657,807
2009	28,288,211	72.9%	2,444,643	6.3%	4,336,168	11.2%	2,295,858	5.9%	1,455,070	3.7%	38,819,950
2010	29,605,542	73.9%	2,404,511	6.0%	4,310,170	10.8%	2,233,590	5.6%	1,488,869	3.7%	40,042,682
2011	30,923,005	75.1%	2,281,032	5.5%	4,287,955	10.4%	2,151,250	5.2%	1,549,744	3.8%	41,192,986
Compound Annual Growth Rate											
2000 - 2003	(6.6%)		(0.7%)		3.2%		0.0%		66.6%		(3.8%)
2003 - 2007	3.2%		2.4%		3.9%		5.7%		0.2%		3.3%
2007 - 2009	(4.8%)		(17.7%)		(6.8%)		(11.9%)		(0.1%)		(6.3%)
2009 - 2011	4.6%		(3.4%)		(0.6%)		(3.2%)		3.2%		3.0%
2000 - 2011	(0.8%)		(3.5%)		0.9%		(0.9%)		15.7%		(0.6%)

SOURCES: Airports Council International (2000 - 2008); Individual airport websites 2009 - 2012.

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

Exhibit 2-2 Air Trade Area Airport Shares of Total Enplaned Passengers – CY 2011



SOURCES: City of Los Angeles, Department of Airports (LAX and ONT); Individual airports (BUR, LGB, SNA), August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

2.3 Airlines Serving the Airport

As of August 2012, scheduled passenger service at the Airport was provided by 20 U.S. flag air carriers, scheduled and nonscheduled service by 42 foreign flag carriers, and nonscheduled service by seven charter airlines. In addition, 22 all-cargo carriers provided scheduled cargo service. All 12 of the nation's Group III passenger airlines (airlines defined by the U.S. Department of Transportation as having annual operating revenues of over \$1.0 billion) provide scheduled service at the Airport. These airlines include Alaska, American, American Eagle, Delta, Frontier, Hawaiian, JetBlue, SkyWest, Southwest/AirTran, United, and US Airways. A complete list of airlines serving the Airport as of August 2012 is provided in **Table 2-6**.

The three major airline alliances are well represented by the large and diverse mix of passenger airlines serving the Airport. Twelve of the 26 members of Star Alliance, 10 of the 18 members of SkyTeam, and eight of the 12 members of oneworld currently provide scheduled service at the Airport. In FY 2012, 68.7 percent of international enplaned passengers at the Airport were flown by alliance members, indicating the importance of airline alliances to large international gateways (55.5 percent of domestic enplaned passengers at the Airport were flown by alliance members; 59.1 percent of total enplaned passengers at the Airport).

Table 2-6 Airlines Serving the Airport^{1/}

SCHEDULED U.S. CARRIERS (20)	FOREIGN FLAG CARRIERS (42)	NONSCHEDULED CARRIERS (7)	ALL-CARGO CARRIERS (22)
AirTran ^{2/}	Aeroflot	ArkeFly	Aerotransporte De Carga Union
Alaska	AeroMexico	Clay Lacy Aviation	Aerotransportes Mas De Carga
Allegiant Air	Aerolitoral (Aeromexico Connect)	Miami Air	Air Transport International
American	Air Berlin	North American	Asiana Cargo
American Eagle	Air Canada	Pace	Astar
Delta	Air China	USA Jet	Atlas Air Cargo
ExpressJet	Air France	World Airways	Cargolux
Frontier	Air New Zealand		Cathay Pacific Cargo
Great Lakes Aviation	Air Pacific		China Cargo
Hawaiian	Air Tahiti Nui		China Southern Cargo
Horizon	Alitalia		DHL/Airborne
JetBlue	All Nippon		Eva Airways Cargo
Republic	Asiana		FedEx
SkyWest	British Airways		Florida West
Southwest ^{2/}	Cathay Pacific		Kalitta Air
Spirit	China		Korean Cargo
Sun Country	China Eastern		Nippon Cargo
United	China Southern		Polar Air
US Airways	Copa		Singapore Airlines Cargo
Virgin America	El Al Israel		United Parcel Service
	Emirates		World Airways Cargo
	Eva Airways		Yangtze River Express
	Iberia		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa German		
	Malaysia		
	Qantas		
	Singapore		
	SWISS		
	TACA		
	Thai Airways		
	Transaero		
	Turkish Airlines		
	Virgin Atlantic Airways		
	Virgin Australia		
	Volaris		
	Westjet		

NOTE:

1/ As of August 2012.

2/ Following their merger in CY 2011, Southwest and AirTran received a single operating certificate from the FAA in CY 2012; however, they continue to operate as separate airlines while integrating.

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Table 2-7 lists scheduled U.S. flag air carriers at the Airport since FY 2002. As shown, the Airport has had the benefit of a large and relatively stable air carrier base during the years shown, which has helped promote competitive pricing and scheduling diversity in its major domestic markets. In addition, 13 of the 20 U.S. flag airlines currently serving the Airport have operated there for each of the years shown, including 10 of the 12 Group III U.S. passenger airlines. Activity by those U.S. flag carriers providing a significant level of service is discussed below:⁷

- United, with a 19.8 percent share of domestic enplaned passengers at the Airport in FY 2012 (see Table 2-13), provides nonstop service to 20 domestic markets with a total of 697 weekly flights; as well as a total of 60 weekly flights to the international markets of Cancun, Guadalajara, London, Mexico City, Puerto Vallarta, Los Cabos, Leon/Guanajuato, Shanghai, Sydney, and Tokyo (See **Table 2-8**).
- American, with an 18.6 percent share, provides nonstop service to 19 domestic markets with a total of 614 weekly flights; as well as a total of 47 weekly flights to the international markets of London, Los Cabos, Shanghai, Tokyo, and Toronto.
- Southwest, with a 15.3 percent share, provides nonstop service to 23 domestic markets with a total of 754 weekly flights.
- Delta, with a 12.6 percent share, provides nonstop service to 20 domestic markets with a total of 403 weekly flights; as well as a total of 37 weekly flights to the international markets of Cancun, Guadalajara, Guatemala City, Tokyo, Puerto Vallarta, and Sydney.
- SkyWest, with an 8.1 percent share and operating as the Delta Connection and United Express, provides nonstop service to 36 domestic markets with a total of 983 weekly flights and provides seven weekly flights to Vancouver, B.C., Canada.
- Virgin America, with a 5.9 percent share, provides nonstop service to 11 domestic markets with a total of 264 weekly flights; as well as a total of six weekly flights to the international market of Cancun.
- US Airways, with a 4.2 percent share, provides nonstop service to three domestic markets with a total of 118 weekly flights.
- American Eagle, with a 3.5 percent share and serving as a code-sharing partner with American, provides nonstop service to 17 domestic markets with a total of 444 weekly flights

Table 2-9 lists the foreign flag air carriers at the Airport since FY 2002. As shown, a large and growing foreign flag air carrier base developed during the years shown. In addition, 34 of the 42 foreign flag carriers serving the Airport have operated there for each of the years shown. Activity by those carriers providing a significant level of service is discussed below:⁸

⁷ All of the domestic nonstop service discussed below is as of the week ending August 17, 2012.

⁸ All of the international nonstop service discussed below is as of the week ending August 17, 2012.

Table 2-7 Scheduled U.S. Flag Air Carrier Base - LAX

AIR CARRIER	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013^{1/}
Alaska	•	•	•	•	•	•	•	•	•	•	•	•
American	•	•	•	•	•	•	•	•	•	•	•	•
American Eagle	•	•	•	•	•	•	•	•	•	•	•	•
Delta ^{2/}	•	•	•	•	•	•	•	•	•	•	•	•
Frontier	•	•	•	•	•	•	•	•	•	•	•	•
Hawaiian	•	•	•	•	•	•	•	•	•	•	•	•
Horizon	•	•	•	•	•	•	•	•	•	•	•	•
SkyWest	•	•	•	•	•	•	•	•	•	•	•	•
Southwest	•	•	•	•	•	•	•	•	•	•	•	•
Spirit	•	•	•	•	•	•	•	•	•	•	•	•
United ^{3/}	•	•	•	•	•	•	•	•	•	•	•	•
US Airways	•	•	•	•	•	•	•	•	•	•	•	•
Sun Country	•	•	•	•	•	•	•	•	•	•	•	•
AirTran				•	•	•	•	•	•	•	•	•
ExpressJet				•	•	•	•	•	•	•	•	•
Republic						•	•		•	•	•	•
Virgin America							•	•	•	•	•	•
JetBlue								•	•	•	•	•
Allegiant									•	•	•	•
Great Lakes										•	•	•
Airlines No Longer Serving the Airport												
Mesa	•	•	•	•	•	•	•	•	•	•		
Midwest	•	•	•	•	•	•	•	•	•			
ATA	•	•	•	•	•	•	•					
MAXJet							•					
Atlantic Southeast				•	•	•						
Air Wisconsin	•	•	•	•	•							
Independence Air				•	•							
Freedom Air		•	•									
Vanguard	•	•										
Number of Airlines	18	19	18	21	21	20	21	19	21	21	20	20

NOTES:

1/ As of August 2012.

2/ Includes service by Northwest between FY 2002 and FY 2010.

3/ Includes service by Continental at the Airport between FY 2002 and FY 2012.

SOURCE: Official Airline Guide, August 2012.

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

Table 2-8 Scheduled Nonstop Activity for U.S. Flag & Foreign Flag Carriers - LAX ^{1/}

AIRLINE	U.S. FLAG AIR CARRIERS			FOREIGN FLAG AIR CARRIERS			
	DOMESTIC MARKETS SERVED	WEEKLY DOMESTIC FLIGHTS	INTERNATIONAL MARKETS SERVED	WEEKLY INTERNATIONAL FLIGHTS	AIRLINE	MARKETS SERVED	WEEKLY FLIGHTS
SkyWest	36	983	Vancouver	7	Air Canada	Montreal, Vancouver, Calgary, Toronto	104
SouthWest	23	754			Aeromexico	Guadalajara, Mexico City	49
United	20	697	Cancun, Guadalajara, London, Mexico City, Tokyo, Puerto Vallarta, Los Cabos, Sydney, Leon/Guanajuato, Shanghai	60	Volaris	Culiacan, Guadalajara, Mexico City, Zacatecas, Aguascalientes, Morelia	44
American	19	614	London, Tokyo, Los Cabos, Toronto, Shanghai	47	WestJet	Edmonton, Vancouver, Calgary	28
American Eagle	17	444			Korean Air	Tokyo, Sao Paulo, Seoul	27
Delta	20	403	Cancun, Guadalajara, Guatemala City, Tokyo, Puerto Vallarta, Sydney	37	Qantas	Brisbane, Melbourne, Sydney	25
Virgin America	11	264	Cancun	6	British Airways	London	21
Alaska	4	134	Guadalajara, Mexico City, Mazatlan, Puerto Vallarta, Los Cabos, Vancouver, Ixtapa/Zihuatanejo, Manzanillo	76	Cathay Pacific	Hong Kong	21
US Airways	3	118			Lufthansa	Frankfurt, Munich	21
JetBlue	3	69			Air New Zealand	Auckland, London, Rarotonga Island	21
Horizon	5	59	La Paz, Loreto	8	Air Tahiti Nui	Paris, Papeete	21
AirTran	3	35			Air France	Paris, Papeete	18
Spirit	3	35			EVA	Taipei	18
Great Lakes	3	35			LACSA	Guatemala City, San Salvador, San Jose	18
Frontier	2	32			Taca Intl	Guatemala City, San Salvador	17
Hawaiian	2	28			Air China	Beijing	14
Allegiant	14	24			China Airlines	Taipei	14
Sun Country	1	12			Copa	Panama City	14
Republic	2	10			All Nippon	Tokyo	14
Qantas ^{2/}	1	7			Asiana	Brisbane, Sydney	14
					Virgin Australia Int'l	Brisbane, Melbourne, Sydney	14
					Virgin Atlantic	London	14
					Singapore	Tokyo, Singapore	12
					Aeromexico Connect	Hermosillo, Leon/Guanajuato	11
					KLM-Royal Dutch	Amsterdam	10
					Alitalia-Compagnia Aerea	Rome	7
					China Southern	Guangzhou	7
					Emirates	Dubai	7
					Japan	Tokyo	7
					Lan	Lima	7
					SWISS	Zurich	7
					China Eastern	Shanghai	7
					Turkish	Istanbul	7
					Air Berlin	Dusseldorf, Berlin	6
					Air Pacific	Nadi	5
					El Al Israel	Tel Aviv	5
					Aeroflot Russian	Moscow	5
					Malaysia	Tokyo	4
					Thai Airways Intl	Seoul	4
					Iberia	Madrid	3
					Lan Peru	Lima	3
					ArkeFly	Amsterdam	2
					Transaero	Moscow	2
Total		4,757		241			679

NOTES:

1/ Nonstop service as of August 11 - 17, 2012.

2/ One daily nonstop flight from the Airport to John F. Kennedy International Airport.

SOURCE: Official Airline Guide (Week of August 11 - 17, 2012).

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

Table 2-9 Scheduled Foreign Flag Air Carrier Base - LAX

AIR CARRIER	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013 ^{1/}
Aeroflot	•	•	•	•	•	•	•	•	•	•	•	•
AeroMexico	•	•	•	•	•	•	•	•	•	•	•	•
Air Canada	•	•	•	•	•	•	•	•	•	•	•	•
Air China	•	•	•	•	•	•	•	•	•	•	•	•
Air France	•	•	•	•	•	•	•	•	•	•	•	•
Air New Zealand	•	•	•	•	•	•	•	•	•	•	•	•
Air Pacific	•	•	•	•	•	•	•	•	•	•	•	•
Air Tahiti Nui	•	•	•	•	•	•	•	•	•	•	•	•
All Nippon	•	•	•	•	•	•	•	•	•	•	•	•
Asiana	•	•	•	•	•	•	•	•	•	•	•	•
British Airways	•	•	•	•	•	•	•	•	•	•	•	•
Cathay Pacific	•	•	•	•	•	•	•	•	•	•	•	•
China	•	•	•	•	•	•	•	•	•	•	•	•
China Eastern	•	•	•	•	•	•	•	•	•	•	•	•
China Southern	•	•	•	•	•	•	•	•	•	•	•	•
El Al Israel	•	•	•	•	•	•	•	•	•	•	•	•
Eva Airways	•	•	•	•	•	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•	•	•	•	•	•
KLM Royal Dutch	•	•	•	•	•	•	•	•	•	•	•	•
Korean	•	•	•	•	•	•	•	•	•	•	•	•
LACSA	•	•	•	•	•	•	•	•	•	•	•	•
Lan	•	•	•	•	•	•	•	•	•	•	•	•
Air Berlin	•	•	•	•	•	•	•	•	•	•	•	•
Lufthansa German	•	•	•	•	•	•	•	•	•	•	•	•
Malaysia	•	•	•	•	•	•	•	•	•	•	•	•
Qantas	•	•	•	•	•	•	•	•	•	•	•	•
Singapore	•	•	•	•	•	•	•	•	•	•	•	•
TACA	•	•	•	•	•	•	•	•	•	•	•	•
Thai Airways	•	•	•	•	•	•	•	•	•	•	•	•
Virgin Atlantic	•	•	•	•	•	•	•	•	•	•	•	•
Alitalia	•						•	•	•	•	•	•
Copa	•	•	•	•	•	•	•	•	•	•	•	•
AeroLitoral	•	•	•	•	•	•	•	•	•	•	•	•
SWISS	•	•	•	•	•	•	•	•	•	•	•	•
WestJet				•	•	•	•	•	•	•	•	•
Lan Peru				•	•	•	•	•	•	•	•	•
Emirates								•	•	•	•	•
Virgin Australia									•	•	•	•
Volaris									•	•	•	•
Iberia										•	•	•
Turkish										•	•	•
Transaero											•	•
Virgin Blue								•	•			
Air Canada Jazz					•	•	•	•	•			
Air India			•	•	•	•	•	•	•			
Aer Lingus	•	•	•	•	•	•	•	•	•			
Air Jamaica	•	•	•	•	•	•	•	•	•			
Avianca	•	•	•	•	•	•	•	•	•			
Mexicana	•	•	•	•	•	•	•	•	•			
Philippine	•	•	•	•	•	•	•	•	•			
Martinair Holland	•	•						•	•			
Aero California	•	•	•	•	•							
Varig Brazilian	•	•	•	•	•							
Harmony			•	•								
Canada 3000	•											
Number of Airlines	43	41	42	44	44	42	43	46	48	41	42	42

NOTE:

1/ As of August 2012.

SOURCE: Official Airline Guide, August 2012.

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

- Qantas, with a 6.2 percent share of international enplaned passengers at the Airport in FY 2012 (see Table 2-14), provides nonstop service to Brisbane, Melbourne, and Sydney with a total of 25 weekly flights.
- Air Canada, with a 5.5 percent share, provides nonstop service to Calgary, Montreal, Toronto, and Vancouver with a total of 104 weekly flights.
- Korean, with a 3.9 percent share, provides nonstop service to Tokyo, Sao Paulo, and Seoul with a total of 27 weekly flights.
- Air New Zealand, with a 3.6 percent share, provides nonstop service to Auckland, London, and Rarotonga Island with a total of 21 weekly flights.
- Aeromexico, with a 3.3 percent share, provides nonstop service to Guadalajara and Mexico City with a total of 49 weekly flights.
- British Airways, with a 3.2 percent share, provides nonstop service to London with a total of 21 weekly flights.

2.4 Historical Airport Activity

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

2.4.1 HISTORICAL PASSENGER ACTIVITY

Table 2-10 presents historical data on total enplaned passengers (domestic and international activity combined) at the Airport and the nation between FY 2000 and FY 2012. Factors impacting historical domestic and international activity are discussed in this section.

After experiencing a compound annual decrease of 9.5 percent between FY 2001 and FY 2003 due to the events of September 11, 2001 and the nationwide economic slowdown, domestic enplaned passengers at the Airport increased at a CAGR of 1.9 percent between FY 2003 and FY 2008, a rate of growth that was below the CAGR of 3.0 percent experienced nationwide. Factors contributing to the Airport's relatively flat growth during this period include the relative maturity of the service market (which contributed to lower growth rates overall) and the significant decrease in scheduled domestic departing seats. Domestic enplaned passengers at the Airport decreased 7.9 percent in FY 2009 from FY 2008 levels as a result of the global recession and the commencement of consolidation between the carriers, notably the merger of Delta and Northwest. This was in line with the national decline in traffic during this same period, as total U.S. enplaned passengers decreased by 7.3 percent in FY 2009 from the previous year. As an economic recovery began in FY 2010, so did the activity levels at the Airport, with domestic enplaned passengers increasing at a CAGR of 3.7 percent between FY 2009 and FY 2012, compared to the 1.0 percent CAGR experienced nationwide.

Table 2-10 Historical Enplanements - LAX

FISCAL YEAR	DOMESTIC ACTIVITY					INTERNATIONAL ACTIVITY		TOTAL ACTIVITY	
	AIRPORT ENPLANED PASSENGERS ^{1/}	AIRPORT ANNUAL % CHANGE	U.S. ENPLANED PASSENGERS ^{1/ 2/}	U.S. ANNUAL % CHANGE	AIRPORT SHARE OF U.S. ENPLANED PASSENGERS ^{1/}	AIRPORT ENPLANED PASSENGERS ^{1/}	ANNUAL % CHANGE	AIRPORT ENPLANED PASSENGERS ^{1/}	ANNUAL % CHANGE
2000	24,880,727	-	641,200,000	-	3.9%	8,350,995	-	33,231,722	-
2001	24,960,755	0.3%	625,800,000	(2.4%)	4.0%	8,879,214	6.3%	33,839,969	1.8%
2002	20,783,817	(16.7%)	575,100,000	(8.1%)	3.6%	7,347,844	(17.2%)	28,131,661	(16.9%)
2003	20,441,104	(1.6%)	587,800,000	2.2%	3.5%	7,269,224	(1.1%)	27,710,328	(1.5%)
2004	21,241,860	3.9%	628,500,000	6.9%	3.4%	7,837,987	7.8%	29,079,847	4.9%
2005	22,143,442	4.2%	669,500,000	6.5%	3.3%	8,404,809	7.2%	30,548,251	5.0%
2006	22,030,697	(0.5%)	668,400,000	(0.2%)	3.3%	8,624,449	2.6%	30,655,146	0.3%
2007	22,374,333	1.6%	690,100,000	3.2%	3.2%	8,429,137	(2.3%)	30,803,470	0.5%
2008	22,427,379	0.2%	680,700,000	(1.4%)	3.3%	8,714,960	3.4%	31,142,339	1.1%
2009	20,662,591	(7.9%)	630,800,000	(7.3%)	3.3%	7,666,428	(12.0%)	28,329,019	(9.0%)
2010	21,127,610	2.3%	635,200,000	0.7%	3.3%	7,875,532	2.7%	29,003,142	2.4%
2011	22,151,724	4.8%	649,900,000	^{3/} 2.3%	3.4%	8,128,847	3.2%	30,280,571	4.4%
2012	23,019,578	3.9%	649,400,000	^{4/} (0.1%)	3.5%	8,499,546	4.6%	31,519,124	4.1%

Compound Annual Growth Rate					
2000 - 2001	0.3%		(2.4%)	6.3%	1.8%
2001 - 2003	(9.5%)		(3.1%)	(9.5%)	(9.5%)
2003 - 2008	1.9%		3.0%	3.7%	2.4%
2008 - 2009	(7.9%)		(7.3%)	(12.0%)	(9.0%)
2009 - 2012	3.7%		1.0%	3.5%	3.6%
2000 - 2012	(0.6%)		0.1%	0.1%	(0.4%)

NOTES:

- 1/ Twelve months ending June 30.
- 2/ Twelve months ending September 30.
- 3/ Estimated by the FAA.
- 4/ Projected by the FAA.

SOURCES: City of Los Angeles, Department of Airports (Airport activity, August 2012); FAA (U.S. activity, March 2012).
PREPARED BY: Ricondo & Associates, Inc., August 2012.

As shown in **Table 2-11**, Southwest tripled its daily nonstop flights at the Airport between FY 1991 and FY 2005, increasing its activity from 41 to 120 daily flights during this period. Southwest's passenger activity increased accordingly, from approximately 1.0 million enplaned passengers in FY 1991 to approximately 3.8 million in FY 2005, a CAGR of 10.0 percent. Its share of domestic enplaned passengers during this same period increased from 4.1 percent to 15.5 percent. Other airlines began matching fares with Southwest in certain markets during the mid to late-1990s, including Shuttle by United, stimulating domestic passenger traffic at the Airport. As also shown in Table 2-11, Southwest's daily flights at the Airport peaked at approximately 130 flights in FY 2008 before decreasing back to approximately 120 daily flights in FY 2011 and FY 2012.

Table 2-12 presents scheduled domestic departing seats by selected airlines (which accounted for a combined 81 percent of annual scheduled domestic departing seats in FY 2012), as well as the total for the Airport between FY 2002 and FY 2012. As shown, scheduled domestic departing seats decreased at a compound annual rate of 2.4 percent between FY 2002 and FY 2009. This decrease in seat capacity reflected decisions by the airlines to increase load factors systemwide and enhance revenue performance during difficult economic times for the industry. This decrease in capacity was especially pronounced for United, American, and Delta (mainline and affiliates), airlines with high shares of domestic enplaned passengers at the Airport. Their scheduled domestic departing seats decreased at a compound annual rate of 3.9 percent, 3.3 percent, and 2.6 percent, respectively, between FY 2002 and FY 2009. With the cutbacks in airline service nationwide and the global recession, total scheduled domestic departing seats decreased 8.9 percent in FY 2009 from FY 2008 levels, coinciding with the 7.9 percent decrease in domestic enplaned passengers at the Airport during this same period. As the industry started to emerge from the recession, total scheduled domestic departing seats increased at a CAGR of 2.6 percent between FY 2009 and FY 2012. Delta's scheduled domestic departing seats were especially volatile between FY 2008 and FY 2012 as it tried to right-size its operations at the Airport and provide a better blend of mainline and affiliate activity.

Table 2-13 presents domestic enplaned passengers by airline between FY 2008 and FY 2012.⁹ As shown, four airlines (American, United, Southwest, and Delta) accounted for between 66.3 percent and 73.4 percent of domestic enplaned passengers at the Airport during this period, with six other airlines accounting for an additional 18.1 to 27.1 percent. No major shifts in market share among the carriers occurred during the years depicted. **Exhibit 2-3** presents this information for FY 2012.

⁹ Due to reporting requirements of certain airlines, the mainline carriers and code-share airlines could not be combined. For example, SkyWest code-shares with Delta, US Airways, and United, but does not differentiate between them in its monthly report of enplaned passenger activity submitted to the Airport.

Table 2-11 Nonstop Service by Southwest/AirTran - LAX

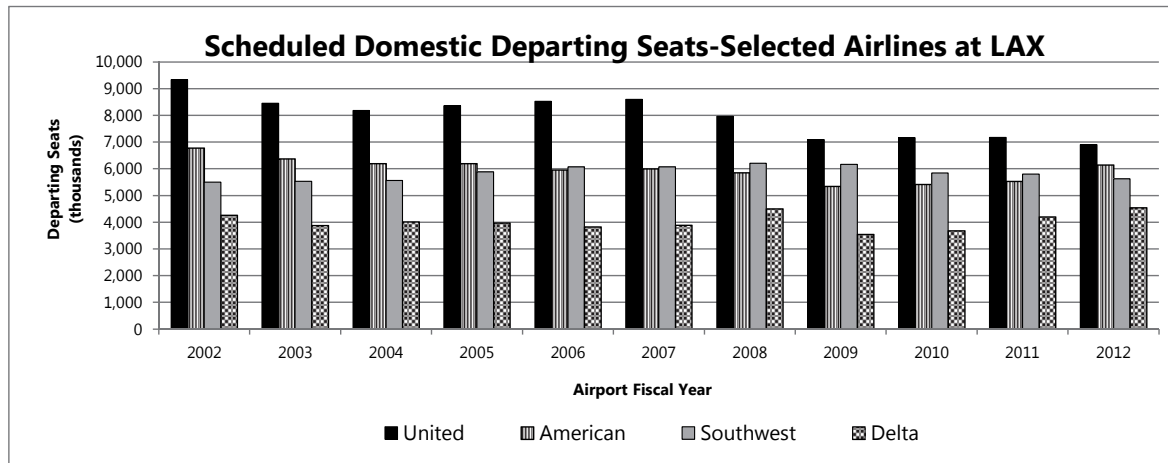
	DAILY NONSTOP FLIGHTS (FISCAL-YEAR-END)																					
	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Albuquerque	5	6	6	6	6	6	6	6	6	6	6	6	6	6	5	4	4	4	4	4	4	4
El Paso	7	7	7	7	7	6	6	6	6	6	6	5	4	4	3	3	3	3	3	3	3	3
Oakland	9	10	16	18	24	24	24	24	24	24	23	21	21	21	21	21	20	17	15	15	13	12
Phoenix	20	24	26	25	22	22	23	21	21	21	19	16	13	13	13	13	13	12	11	11	10	9
Las Vegas		8	13	13	19	19	19	18	17	17	16	14	14	14	14	14	14	13	13	12	11	11
San Jose				12	12	13	13	13	13	13	13	13	13	13	13	13	13	12	11	10	10	10
Reno					3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	3
Sacramento					6	6	6	7	7	8	8	8	9	9	10	10	9	9	9	9	8	8
Salt Lake City					4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	3	3	3
Tucson					4	4	4	4	5	5	5	5	5	5	5	5	5	5	5	5	5	5
San Antonio						1	1	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2
Kansas City							2	3	4	5	5	5	5	5	4	4	4	4	3	3	3	3
Nashville							2	2	3	3	3	3	3	3	3	3	3	3	3	2	2	2
Austin									1	1	1	1	1	1	1	1	1	1	2	2	2	2
New Orleans										1	1	1	1	1	1	0	0	0	0	0	1	1
Indianapolis											1	1	1	1	1	1	1	1	0	0	0	0
Chicago Midway												3	3	3	6	7	7	7	7	7	7	7
Houston Hobby												1	1	1	4	4	4	4	4	4	4	4
Baltimore													2	2	2	2	2	2	2	3	3	3
St. Louis														1	1	1	1	1	1	2	2	2
Atlanta															3	4	5	6	5	5	5	5
Philadelphia															2	2	2	0	0	0	0	0
Denver																		5	6	6	7	7
Milwaukee																		2	2	2	2	2
San Francisco																		11	11	11	10	10
Total	41	55	68	81	107	108	113	112	115	118	115	111	110	111	120	120	119	131	126	124	120	118

SOURCE: Official Airline Guide, August 2012.
 PREPARED BY: Ricondo & Associates, Inc., August 2012.

Table 2-12 Scheduled Domestic Departing Seats (LAX) by Selected Airlines and Airport Total ^{1/}

Thousands

SCHEDULED DOMESTIC DEPARTING SEATS										
FISCAL YEAR	UNITED	ANNUAL % CHANGE	AMERICAN	ANNUAL % CHANGE	SOUTHWEST	ANNUAL % CHANGE	DELTA	ANNUAL % CHANGE	AIRPORT TOTAL	ANNUAL % CHANGE
2002	9,332	-	6,778	-	5,495	-	4,264	-	31,726	-
2003	8,448	(9.5%)	6,379	(5.9%)	5,533	0.7%	3,882	(9.0%)	28,777	(9.3%)
2004	8,180	(3.2%)	6,201	(2.8%)	5,561	0.5%	4,016	3.5%	28,660	(0.4%)
2005	8,358	2.2%	6,202	0.0%	5,887	5.9%	3,975	(1.0%)	29,058	1.4%
2006	8,526	2.0%	5,953	(4.0%)	6,070	3.1%	3,828	(3.7%)	28,511	(1.9%)
2007	8,593	0.8%	6,001	0.8%	6,073	0.1%	3,889	1.6%	29,053	1.9%
2008	7,959	(7.4%)	5,855	(2.4%)	6,207	2.2%	4,504	15.8%	29,295	0.8%
2009	7,086	(11.0%)	5,346	(8.7%)	6,165	(0.7%)	3,546	(21.3%)	26,684	(8.9%)
2010	7,162	1.1%	5,414	1.3%	5,844	(5.2%)	3,679	3.7%	26,787	0.4%
2011	7,176	0.2%	5,527	2.1%	5,806	(0.6%)	4,198	14.1%	27,853	4.0%
2012	6,904	(3.8%)	6,145	11.2%	5,627	(3.1%)	4,544	8.2%	28,793	3.4%
Compounded Annual Growth Rate										
2002 - 2009	(3.9%)		(3.3%)		1.7%		(2.6%)		(2.4%)	
2009 - 2012	(0.9%)		4.8%		(3.0%)		8.6%		2.6%	
2002 - 2012	(3.0%)		(1.0%)		0.2%		0.6%		(1.0%)	



NOTE:

^{1/} Airline data includes recently merged airlines and code-share affiliates.

SOURCE: Official Airline Guide, August 2012.

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

Table 2-13 Historical Domestic Enplaned Passengers by Airline - LAX ^{1/}

AIRLINE	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
1 United	5,000,529	22.3%	4,593,570	22.2%	4,701,301	22.3%	4,613,547	20.8%	4,563,069	19.8%
2 American	4,307,613	19.2%	4,009,530	19.4%	3,993,708	18.9%	3,983,782	18.0%	4,271,480	18.6%
3 Southwest	3,851,867	17.2%	3,556,203	17.2%	3,389,180	16.0%	3,512,432	15.9%	3,516,770	15.3%
4 Delta	3,191,237	14.2%	3,013,224	14.6%	3,015,589	14.3%	3,125,100	14.1%	2,901,744	12.6%
5 Skywest	1,336,688	6.0%	1,234,324	6.0%	1,386,050	6.6%	1,735,518	7.8%	1,857,053	8.1%
6 Virgin America	343,589	1.5%	733,879	3.6%	892,894	4.2%	1,050,399	4.7%	1,358,674	5.9%
7 US Airways	1,106,982	4.9%	1,060,095	5.1%	958,824	4.5%	981,885	4.4%	964,577	4.2%
8 Alaska	782,663	3.5%	809,289	3.9%	774,149	3.7%	812,389	3.7%	891,964	3.9%
9 American Eagle	485,023	2.2%	406,422	2.0%	437,705	2.1%	536,346	2.4%	814,306	3.5%
10 JetBlue	150	0.0%	7,746	0.0%	151,538	0.7%	264,531	1.2%	358,326	1.6%
11 Frontier	255,525	1.1%	212,323	1.0%	236,783	1.1%	299,477	1.4%	283,888	1.2%
12 Airtran	240,455	1.1%	240,493	1.2%	301,610	1.4%	298,698	1.3%	275,881	1.2%
13 Spirit	100,603	0.4%	73,567	0.4%	69,098	0.3%	139,504	0.6%	265,973	1.2%
14 Hawaiian	226,323	1.0%	195,558	0.9%	186,449	0.9%	240,006	1.1%	235,502	1.0%
15 Allegiant Air	243	0.0%	24,814	0.1%	171,093	0.8%	191,518	0.9%	186,876	0.8%
16 Horizon	372,094	1.7%	300,703	1.5%	281,661	1.3%	244,198	1.1%	129,410	0.6%
17 Qantas	61,873	0.3%	63,004	0.3%	83,162	0.4%	54,835	0.2%	73,826	0.3%
18 Sun Country	53,843	0.2%	33,700	0.2%	24,545	0.1%	43,425	0.2%	51,079	0.2%
19 Great Lakes	-	0.0%	-	0.0%	-	0.0%	1,295	0.0%	9,523	0.0%
20 Compass	-	0.0%	-	0.0%	-	0.0%	-	0.0%	7,044	0.0%
Other	710,079	3.2%	94,147	0.5%	72,271	0.3%	22,839	0.1%	2,613	0.0%
Airport Total ^{2/}	22,427,379	100.0%	20,662,591	100.0%	21,127,610	100.0%	22,151,724	100.0%	23,019,578	100.0%

NOTES:

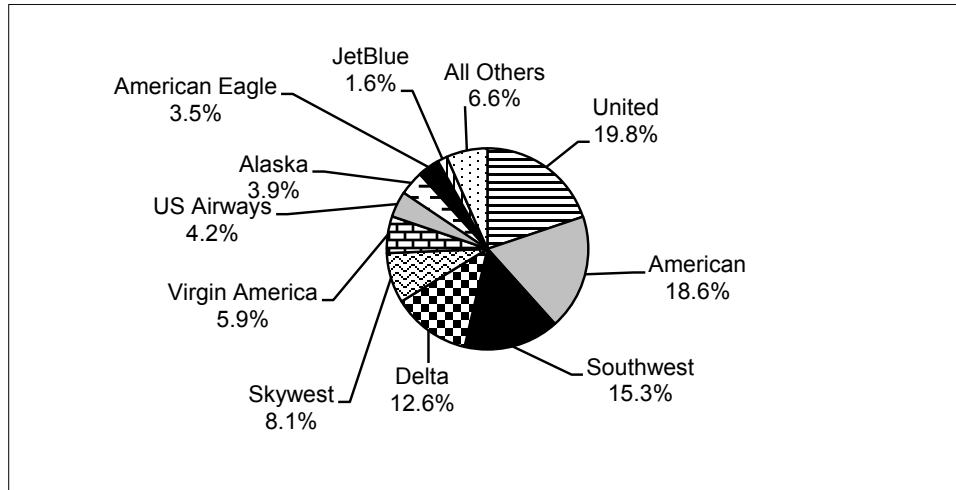
1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Exhibit 2-3 Domestic Enplaned Passengers by Airline (LAX) – FY 2012



SOURCE: City of Los Angeles, Department of Aviation, July 2012.
 PREPARED BY: Ricondo & Associates, Inc., August 2012

Table 2-10 also presents historical data on international enplaned passengers at the Airport between FY 2000 and FY 2012. As shown, international passenger activity at the Airport increased from 8.3 million enplaned passengers in FY 2000 to 8.5 million in FY 2012, a CAGR of 0.1 percent during this period. Due to the effects of September 11, 2001 and a downturn in the international economy, particularly in Asia, international enplaned passengers at the Airport decreased from 8.9 million in FY 2001 to 7.3 million in FY 2003 (a compound annual decrease of 9.5 percent during this period). Thereafter, international passenger activity began to recover, with enplaned passengers increasing at a CAGR of 3.7 percent between FY 2003 and FY 2008, reaching 8.7 million. In FY 2009, due to the global economic environment and capacity reductions by U.S. and foreign flag carriers on international routes, international passenger enplaned passengers decreased by 12.0 percent from FY 2008. As the world began to recover from the global recession, international passenger activity at the Airport rebounded, and increased at a CAGR of 3.5 percent between FY 2009 and FY 2012.

Table 2-14 presents international enplaned passengers by airline between FY 2008 and FY 2012. International enplaned passengers are spread over a number of airlines (42 foreign flag carriers and nine U.S. flag carriers in FY 2012), with no airline dominating. Alaska enplaned the most international passengers at the Airport in FY 2012 with a 7.4 percent share, providing nonstop service to eight international destinations, seven in Mexico and one in Canada. United, providing nonstop service to ten international cities in Mexico, Asia, Europe and Australia, had the second highest share of international enplaned passengers at the Airport in FY 2012 with 6.6 percent of the traffic. Also shown, the top 20 airlines in FY 2012 accounted for between 68.1 and 73.8 percent of international activity during the years depicted. **Exhibit 2-4** presents this information for FY 2012.

Table 2-14 Historical International Enplaned Passengers by Airline - LAX ^{1/}

AIRLINE	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
1 Alaska	627,303	7.2%	550,757	7.2%	525,876	6.7%	572,603	7.0%	630,962	7.4%
2 United	503,410	5.8%	382,555	5.0%	346,571	4.4%	463,223	5.7%	563,053	6.6%
3 Qantas	552,338	6.3%	527,956	6.9%	523,808	6.7%	516,169	6.3%	529,344	6.2%
4 Air Canada	477,779	5.5%	424,024	5.5%	416,345	5.3%	438,868	5.4%	468,793	5.5%
5 Korean	335,803	3.9%	334,256	4.4%	352,470	4.5%	332,593	4.1%	335,310	3.9%
6 Delta	300,456	3.4%	223,921	2.9%	310,047	3.9%	316,546	3.9%	329,256	3.9%
7 American	303,604	3.5%	267,948	3.5%	263,688	3.3%	320,543	3.9%	327,443	3.9%
8 Air New Zealand	386,452	4.4%	334,028	4.4%	339,760	4.3%	340,567	4.2%	304,171	3.6%
9 Aeromexico	241,626	2.8%	208,536	2.7%	204,679	2.6%	269,479	3.3%	282,415	3.3%
10 British Airways	296,390	3.4%	284,737	3.7%	269,204	3.4%	274,372	3.4%	274,882	3.2%
11 Cathay Pacific	326,263	3.7%	244,372	3.2%	220,936	2.8%	254,191	3.1%	262,793	3.1%
12 Air France	280,763	3.2%	281,619	3.7%	251,803	3.2%	254,579	3.1%	258,054	3.0%
13 Lufthansa German	266,492	3.1%	242,930	3.2%	245,944	3.1%	237,723	2.9%	240,780	2.8%
14 Eva Airways	255,263	2.9%	232,477	3.0%	239,294	3.0%	203,575	2.5%	215,751	2.5%
15 Virgin Blue	-	0.0%	28,383	0.4%	164,706	2.1%	207,737	2.6%	210,249	2.5%
16 Volaris	-	0.0%	63	0.0%	140,563	1.8%	202,376	2.5%	207,702	2.4%
17 Asiana	159,873	1.8%	179,999	2.3%	199,010	2.5%	201,848	2.5%	205,030	2.4%
18 China	222,747	2.6%	209,862	2.7%	225,456	2.9%	209,101	2.6%	201,466	2.4%
19 Air Tahiti Nui	210,280	2.4%	187,397	2.4%	181,137	2.3%	194,764	2.4%	185,890	2.2%
20 Virgin Atlantic	184,303	2.1%	176,229	2.3%	169,654	2.2%	185,852	2.3%	181,849	2.1%
Other	2,783,815	31.9%	2,344,379	30.6%	2,284,581	29.0%	2,132,138	26.2%	2,284,353	26.9%
Airport Total ^{2/}	8,714,960	100.0%	7,666,428	100.0%	7,875,532	100.0%	8,128,847	100.0%	8,499,546	100.0%

NOTES:

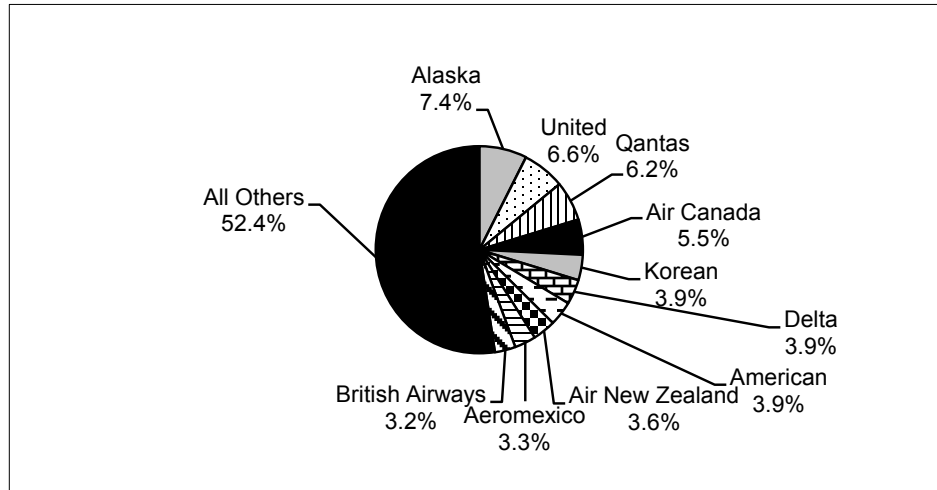
1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Exhibit 2-4 International Enplaned Passengers by Airline (LAX) – FY 2012



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

Table 2-15 presents total enplaned passengers by airline at the Airport between FY 2008 and FY 2012. Four airlines (United, American, Southwest, and Delta) accounted for slightly more than half of total enplaned passengers at the Airport from FY 2008 through FY 2012. The shares for these four airlines have been steadily decreasing since FY 2010; and as of FY 2012, their collective market share of total enplaned passengers at the Airport was 52.3 percent.

2.4.2 AIR SERVICE MARKETS

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as it serves primarily O&D passengers. **Table 2-16** presents historical data on the Airport’s top 50 domestic O&D markets for CY 2011, the latest calendar year for which such data are currently available. As shown, many markets along the West Coast corridor occupy the highest ranks. Notwithstanding this strong regional demand, the Airport’s markets in CY 2011 had an average stage length (i.e., passenger trip distance) of 1,562 miles, compared to 800 miles nationwide. Historically, the Airport’s average stage length has significantly exceeded the nation’s, reflecting strong local demand for service to long-haul markets such as New York, Honolulu, Washington, D.C., Atlanta, and Boston.

Nonstop scheduled domestic air service available from the Airport is presented in **Table 2-17**. As shown, 91 domestic cities are served with a total of 4,757 weekly nonstop flights. San Francisco, the Airport’s second-largest domestic O&D market, was provided 353 weekly nonstop flights. Other domestic markets with significant weekly nonstop service include New York/Newark (315), San Diego (247), and Las Vegas (234). **Exhibit 2-5** graphically illustrates the Airport’s nonstop domestic markets, as of the week ending August 17, 2012.

Table 2-15 Historical Total Enplaned Passengers by Airline - LAX^{1/}

AIRLINE	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
1 United	5,503,939	17.7%	4,976,125	17.6%	5,047,872	17.4%	5,076,770	16.8%	5,126,122	16.3%
2 American	4,611,217	14.8%	4,277,478	15.1%	4,257,396	14.7%	4,304,325	14.2%	4,598,923	14.6%
3 Southwest	3,851,867	12.4%	3,556,203	12.6%	3,389,180	11.7%	3,512,432	11.6%	3,516,770	11.2%
4 Delta	3,491,693	11.2%	3,237,145	11.4%	3,325,636	11.5%	3,441,646	11.4%	3,231,000	10.3%
5 Skywest	1,383,225	4.4%	1,289,602	4.6%	1,441,834	5.0%	1,777,359	5.9%	1,887,638	6.0%
6 Alaska	1,409,966	4.5%	1,360,046	4.8%	1,300,025	4.5%	1,384,992	4.6%	1,522,926	4.8%
7 Virgin American	343,589	1.1%	733,879	2.6%	893,623	3.1%	1,085,506	3.6%	1,387,310	4.4%
8 US Airways	1,110,117	3.6%	1,060,803	3.7%	958,824	3.3%	981,885	3.2%	964,577	3.1%
9 American Eagle	485,023	1.6%	406,422	1.4%	437,705	1.5%	536,346	1.8%	814,306	2.6%
10 Qantas	614,211	2.0%	590,960	2.1%	606,970	2.1%	571,004	1.9%	603,170	1.9%
11 Air Canada	477,779	1.5%	424,024	1.5%	416,345	1.4%	438,868	1.4%	468,793	1.5%
12 JetBlue	150	0.0%	7,746	0.0%	151,538	0.5%	264,531	0.9%	358,326	1.1%
13 Korean	335,803	1.1%	334,256	1.2%	352,470	1.2%	332,593	1.1%	335,310	1.1%
14 Air New Zealand	386,452	1.2%	334,028	1.2%	339,760	1.2%	340,567	1.1%	304,228	1.0%
15 Frontier	278,881	0.9%	212,323	0.7%	236,783	0.8%	299,477	1.0%	284,804	0.9%
16 Aeromexico	241,626	0.8%	208,536	0.7%	204,679	0.7%	269,479	0.9%	282,415	0.9%
17 Airtran	240,455	0.8%	240,493	0.8%	301,610	1.0%	298,698	1.0%	275,881	0.9%
18 British Airways	296,390	1.0%	284,737	1.0%	269,204	0.9%	274,372	0.9%	274,882	0.9%
19 Spirit	120,584	0.4%	73,567	0.3%	69,098	0.2%	139,504	0.5%	265,973	0.8%
20 Cathay Pacific	326,263	1.0%	244,372	0.9%	220,936	0.8%	254,191	0.8%	262,793	0.8%
Other	5,633,109	18.1%	4,476,274	15.8%	4,781,654	16.5%	4,696,026	15.5%	4,752,977	15.1%
Airport Total ^{2/}	31,142,339	100.0%	28,329,019	100.0%	29,003,142	100.0%	30,280,571	100.0%	31,519,124	100.0%

NOTES:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Table 2-16 Primary Domestic O&D Passenger Markets - LAX

CY 2011				
RANK	MARKET	NONSTOP SERVICE ^{1/}	TRIP LENGTH ^{2/}	TOTAL O&D PASSENGERS
1	New York, NY	•	LH	3,315,240
2	San Francisco, CA	•	SH	1,933,540
3	Chicago, IL	•	MH	1,541,200
4	Las Vegas, NV	•	SH	1,192,960
5	Washington, DC	•	LH	1,088,960
6	Dallas, TX	•	MH	998,300
7	Seattle, WA	•	MH	996,350
8	Denver, CO	•	MH	981,550
9	Honolulu, HI	•	LH	945,460
10	Boston, MA	•	LH	876,800
11	Atlanta, GA	•	LH	820,780
12	Houston, TX	•	MH	675,710
13	Phoenix, AZ	•	SH	650,280
14	Oakland, CA	•	SH	626,410
15	San Jose, CA	•	SH	625,640
16	Orlando, FL	•	LH	549,230
17	Detroit, MI	•	LH	525,860
18	Minneapolis, MN	•	MH	485,930
19	Fort Lauderdale, FL	•	LH	476,180
20	Philadelphia, PA	•	LH	473,530
21	Miami, FL	•	LH	468,710
22	Sacramento, CA	•	SH	446,270
23	Salt Lake City, UT	•	SH	436,560
24	Portland, OR	•	MH	435,880
25	Kahului, HI	•	LH	400,360
26	Baltimore, MD	•	LH	386,760
27	Austin, TX	•	MH	309,120
28	St. Louis, MO	•	MH	307,540
29	Kansas City, MO	•	MH	285,710
30	New Orleans, LA	•	LH	284,070
31	Reno, NV	•	SH	267,850
32	Albuquerque, NM	•	MH	242,140
33	Nashville, TN	•	MH	239,280
34	Tucson, AZ	•	SH	228,660
35	Milwaukee, WI	•	MH	216,080
36	Lihue, HI	•	LH	211,850
37	Charlotte, NC	•	LH	206,440
38	St. Petersburg, FL	•	LH	202,220
39	Cleveland, OH	•	LH	190,430
40	San Antonio, TX	•	MH	184,510
41	Kona, HI	•	LH	180,060
42	Raleigh, NC	•	LH	177,250
43	Indianapolis, IN	•	LH	155,340
44	Cincinnati, OH	•	LH	150,130
45	Hartford, CT	•	LH	147,560
46	Pittsburgh, PA	•	LH	141,610
47	Columbus, OH	•	LH	137,040
48	El Paso, TX	•	MH	130,490
49	San Juan, PR	•	LH	98,950
50	Buffalo, NY	•	LH	94,400
	Others			4,090,110
	Total			31,233,290

Average

Airport ^{3/}	1,562 miles
United States	800 miles

NOTES:

- 1/ Nonstop service as of August 11 - 17, 2012.
- 2/ (SH) Short Haul = 1 to 600 miles
 (MH) Medium Haul = 601 to 1,800 miles
 (LH) Long Haul = over 1,800 miles
- 3/ Average calculated for all of the Airport's O&D markets.

SOURCE: US DOT Origin & Destination Survey of Airline Passenger Traffic, August 2012.

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

Table 2-17 (1 of 2) Nonstop Domestic Markets - LAX

MARKET	WEEKLY NONSTOP FLIGHTS	NUMBER OF AIRLINES	AIRLINE
1 San Francisco	353	6	American (42), Delta (7), SkyWest (71), United (101), Virgin America (58), Southwest (74)
2 New York City ^{1/}	315	8	American (7-EWR, 63-JFK), JetBlue (41), Delta (54), Qantas (7), United (61-EWR, 40-JFK), Virgin America (42)
3 San Diego	247	2	American Eagle (69), SkyWest (133-SAN, 45-CLD)
4 Las Vegas	234	5	American (35), Spirit (21), SkyWest (78), United (20), Southwest (80)
5 Chicago ^{2/}	229	5	American (75-ORD), Spirit (7-ORD), United (84-ORD), Virgin America (21-ORD), Southwest (42-MDW)
6 Dallas	177	3	American (133), SkyWest (23), Virgin America (21)
7 Phoenix	176	4	American Eagle (27), SkyWest (47), US Airways (43), Southwest (59)
8 Denver	162	5	Frontier (26), American Eagle (28), Republic (7), United (55), Southwest (46)
9 San Jose	149	4	American Eagle (49), SkyWest (14), Horizon (20), Southwest (66)
10 Houston ^{3/}	139	3	American Eagle (21-IAH), United (90-IAH), Southwest (28-HOU)
11 Sacramento	129	3	American Eagle (28), SkyWest (49), Southwest (52)
12 Seattle	122	3	Alaska (74), SkyWest (21), Virgin America (27)
13 Honolulu	121	4	American (28), Delta (23), Hawaiian (21), United (49)
14 Atlanta	116	3	Delta (76), AirTran (27), Southwest (13)
15 Oakland	107	2	SkyWest (28), Southwest (79)
16 Washington, DC ^{4/}	106	5	American (7-DCA, 21-IAD), Alaska (7-DCA), United (53-IAD), Virgin America (18-IAD)
17 Salt Lake City	101	4	Delta (33), American Eagle (21), SkyWest (28), Southwest (19)
18 Santa Barbara	89	2	American Eagle (35), SkyWest (54)
19 Boston	84	4	American (28), JetBlue (21), United (14), Virgin America (21)
20 Fresno	75	2	American Eagle (41), SkyWest (34)
21 Portland	73	3	Alaska (39), SkyWest (20), Virgin America (14)
22t Kahului	69	4	American (21), Delta (14), Hawaiian (7), United (27)
22t Philadelphia	69	3	United (7), US Airways (41), Virgin America (21)
24 Tucson	68	3	American Eagle (21), SkyWest (14), Southwest (33)
25 Albuquerque	66	3	American Eagle (21), SkyWest (18), Southwest (27)
26 Miami	62	2	American (56), Delta (6)
27 Minneapolis	60	2	Delta (48), Sun Country (12)
28t Austin	49	3	American (21), SkyWest (14), Southwest (14)
28t Reno	49	3	American Eagle (21), SkyWest (7), Southwest (21)
30 Detroit	47	2	Delta (40), Spirit (7)
31 Orlando	45	4	American (14), Delta (14), United (10), Virgin America (7)
32 San Luis Obispo	42	1	SkyWest
33 Monterey	41	2	American Eagle (20), SkyWest (21)
34 Lihue	35	3	American (14), Delta (7), United (14)
35t Charlotte	34	1	US Airways
35t Palm Springs	34	1	SkyWest
35t St. Louis	34	2	American (21), Southwest (13)
38t Baltimore	33	3	AirTran (7), United (13), Southwest (13)
38t San Antonio	33	2	SkyWest (19), Southwest (14)
40t Nashville	28	2	American (14), Southwest (14)
40t El Paso	28	2	American Eagle (14), Southwest (14)
40t Ft. Lauderdale	28	3	American (7), JetBlue (7), Virgin America (14)
40t Kona	28	3	American (7), Delta (7), United (14)
44t Colorado Springs	27	2	Frontier (6), SkyWest (21)
44t New Orleans	27	3	Delta (13), United (7), Southwest (7)
44t Santa Maria	27	1	SkyWest
47 Oklahoma City	26	2	American Eagle (14), SkyWest (12)
48 Cleveland	24	1	United

NOTES:

- 1/ Includes flights to Kennedy, LaGuardia, and Newark.
- 2/ Includes flights to Chicago O'Hare and Chicago Midway.
- 3/ Includes flights to Houston G. Bush International and Houston Hobby.
- 4/ Includes flights to Washington Reagan International and Washington Dulles International.

SOURCE: Official Airline Guide (Week of August 11-17, 2012).

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

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Table 2-17 (2 of 2) Nonstop Domestic Markets - LAX

MARKET	WEEKLY NONSTOP FLIGHTS	NUMBER OF AIRLINES	AIRLINE
49 Yuma	21	1	SkyWest
50t Kansas City	20	3	Delta (4), SkyWest (2), Southwest (14)
50t Memphis	20	1	Delta
52 Cincinnati	19	1	Delta
53 Santa Rosa	18	1	Horizon
54t Anchorage	14	1	Alaska
54t Aspen	14	2	American Eagle (7), SkyWest (7)
54t Bakersfield	14	1	SkyWest
54t El Centro/Imperial	14	1	SkyWest
54t Inyokern	14	1	SkyWest
54t Prescott	14	1	Great Lakes
54t Visalia	14	1	Great Lakes
61 Milwaukee	13	2	AirTran (1), Southwest (12)
62 Boise	11	1	SkyWest
63 Medford	9	2	Allegiant (2), Horizon (7)
64t Bozeman	7	1	SkyWest
64t Hilo	7	1	United
64t Jackson	7	1	SkyWest
64t Merced	7	1	Great Lakes
64t Mammoth Lakes	7	1	Horizon
64t Pittsburgh	7	1	United
64t Santa Fe	7	1	American Eagle
64t Sun Valley	7	1	Horizon
64t Tampa	7	1	Delta
73t St. George	6	1	SkyWest
73t Tulsa	6	1	SkyWest
75t Columbus	4	1	Delta
75t Indianapolis	4	1	Delta
77t Bellingham	3	1	Allegiant
77t Missoula	3	1	Allegiant
77t Omaha	3	1	Republic
77t Raleigh	3	1	Delta
81t Billings	2	1	Allegiant
81t Eugene	2	1	Allegiant
81t Pasco	2	1	Allegiant
81t Springfield	2	1	Allegiant
81t Fayetteville	2	1	Allegiant
86t Des Moines	1	1	Allegiant
86t Fargo	1	1	Allegiant
86t Sioux Falls	1	1	Allegiant
86t Grand Junction	1	1	Allegiant
86t Wichita	1	1	Allegiant
86t Idaho Falls	1	1	Allegiant
Total Weekly Departures	4,757		

NOTES:

- 1/ Includes flights to Kennedy, LaGuardia, and Newark.
- 2/ Includes flights to Chicago O'Hare and Chicago Midway.
- 3/ Includes flights to Houston G. Bush International and Houston Hobby.
- 4/ Includes flights to Washington Reagan International and Washington Dulles International.

SOURCE: Official Airline Guide (Week of August 11-17, 2012).

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

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SOURCE: Official Airline Guide, Inc., August 2012.
 PREPARED BY: Ricondo & Associates, Inc., August 2012.

EXHIBIT 2-5

Nonstop Domestic Markets

[A-95]

Table 2-18 presents historical data on the Airport's top 50 international O&D markets for CY 2011, the latest calendar year for which such data are currently available. As shown, numerous international markets are represented including cities in Mexico, Central and South America, the Caribbean, Europe, Asia, and the Pacific. Based on these data, approximately 96 percent of international traffic at the Airport was O&D traffic in CY 2011, indicating that approximately 4 percent of all international passengers arriving at the Airport are connecting to other flights. Nonstop scheduled international air service available from the Airport is presented in **Table 2-19**. As shown, 57 international cities are served with a total of 921 weekly nonstop flights. Each of the Airport's top 13 international O&D markets in CY 2011 are served with nonstop service, as well as 44 of the Airport's top 50 international O&D markets. London, the largest international O&D market for the Airport in CY 2011, is served by 56 weekly nonstop flights. Other international markets with significant nonstop service from the Airport include Vancouver (70 weekly nonstop flights), Tokyo (67), Guadalajara (65), Mexico City (63), and Toronto (56). **Exhibit 2-6** graphically illustrates the Airport's nonstop international markets, as of the week ending August 17, 2012.

2.4.3 HISTORICAL AIRCRAFT OPERATIONS

Table 2-20 presents historical operations at the Airport by major user groups between FY 2000 and FY 2012. After increasing through FY 2001, aircraft operations declined through FY 2003 primarily due to the continued effects of September 11, 2001, an economic slowdown, and the subsequent reduction of activity by passenger and all-cargo carriers at the Airport. Between FY 2004 and FY 2008, total operations increased at a CAGR of 1.7 percent, reaching 679,781 operations in FY 2008. By comparison, total aircraft operations nationwide decreased at a 1.7 percent compounded rate during these years. Due to the cutbacks in passenger airline capacities and the economic environment, total operations at the Airport decreased 17.3 percent in FY 2009. Total operations at the Airport rebounded between FY 2010 and FY 2012, increasing at a CAGR of 2.8 percent during this period and reaching 610,585 operations in FY 2012.

Passenger airline activity at the Airport increased 2.6 percent between FY 2000 and FY 2001, from 707,920 operations to 726,536 operations during this period. After increasing through FY 2001, passenger airline activity at the Airport steadily decreased through FY 2004. AirTran's initiation of service at the Airport, as well as expanded service by American and Mexicana, fueled an increase in activity in FY 2005. Passenger airline operations increased at a CAGR of 1.7 percent between FY 2004 and FY 2008, reaching 609,812 operations in FY 2008. By comparison, combined air carrier and air taxi/commuter operations nationwide decreased at a compounded annual rate of 0.4 percent between FY 2004 and FY 2008. As discussed above, cutbacks in passenger airline capacities and the economic environment resulted in a decrease in passenger airline activity from 609,812 operations in FY 2008 to 521,783 operations in FY 2009, a 14.4 percent decrease during this period. Passenger airline activity increased each year thereafter through FY 2012, increasing at a CAGR of 2.3 percent between FY 2009 and FY 2012.

General aviation activity at the Airport was relatively stable between FY 2000 and FY 2012. This activity accounted for approximately 2.5 percent of total operations at the Airport during this period. The majority of general aviation activity in the Air Trade Area is accommodated at Van Nuys Airport (VNY), ranked as one of the busiest general aviation airports in the world by averaging approximately 400,000 operations annually.

Table 2-18 Primary International O&D Passenger Markets - LAX

CY 2011 ^{1/}				
RANK	CITY	COUNTRY	NONSTOP SERVICE ^{2/}	TOTAL O&D PASSENGERS ^{3/}
1	London	United Kingdom	•	1,258,228
2	Seoul	Republic of Korea	•	785,521
3	Taipei	Chinese Taipei	•	742,101
4	Guadalajara	Mexico	•	685,525
5	Mexico City	Mexico	•	649,568
6	Vancouver	Canada	•	598,398
7	Tokyo	Japan	•	597,167
8	Paris	France	•	526,020
9	Toronto	Canada	•	505,520
10	Hong Kong	Hong Kong-China	•	444,843
11	Sydney	Australia	•	444,302
12	Auckland	New Zealand	•	333,575
13	San Salvador	El Salvador	•	327,553
14	Manila	Philippines	•	293,838
15	Frankfurt	Germany	•	285,633
16	Dubai	United Arab Emirates	•	276,715
17	Shanghai	China	•	269,205
18	San Jose Del Cabo	Mexico	•	267,730
19	Papeete	French Polynesia	•	221,995
20	Amsterdam	Netherlands	•	213,465
21	Calgary	Canada	•	209,306
22	Beijing	China	•	208,916
23	Cancun	Mexico	•	200,710
24	Panama City	Panama Republic	•	187,130
25	Melbourne	Australia	•	186,741
26	Guatemala City	Guatemala	•	185,431
27	Brisbane	Australia	•	183,604
28	Munich	Germany	•	163,780
29	Zurich	Switzerland	•	161,539
30	Lima	Peru	•	146,462
31	Tel Aviv	Israel	•	144,863
32	Singapore	Singapore	•	144,564
33	Montreal	Canada	•	142,209
34	San Jose	Costa Rica	•	138,433
35	Rome	Italy	•	133,184
36	Bangkok	Thailand	•	123,528
37	Puerto Vallarta	Mexico	•	116,520
38	Guangzhou	China	•	110,018
39	Istanbul	Turkey	•	108,785
40	Moscow	Russia (European)	•	100,389
41	Madrid	Spain	•	97,181
42	Edmonton	Canada	•	94,866
43	Nadi	Fiji Islands	•	93,209
44	Leon-Guanajuato	Mexico	•	93,120
45	Sao Paulo	Brazil	•	91,895
46	Morelia	Mexico	•	66,833
47	Santiago	Chile	•	57,262
48	Koeln/Bonn Airport	Germany	•	53,713
49	Buenos Aires	Argentina	•	51,550
50	Barcelona	Spain	•	48,635
	Others			1,696,862
	Total			15,268,140

NOTES:

- 1/ Most current 12-month data available from the U.S. Department of Transportation.
- 2/ As of week ending August 17, 2012.
- 3/ Results for CY 2011 combine U.S. Carrier Origin & Destination data plus Gateway to Gateway Data for passengers using foreign flag carriers as their LAX gateway to/from International gateways.

SOURCE: US DOT *Origin & Destination Survey of Airline Passenger Traffic, International*
 US DOT T-100(f) Onflight Market Data for Foreign Carriers, August 2012.

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

Table 2-19 Nonstop International Markets - LAX

		WEEKLY NONSTOP FLIGHTS	NUMBER OF AIRLINES	AIRLINE
1	Vancouver BC, Canada	70	4	Air Canada (28), Alaska (21), SkyWest (7), WestJet (14)
2	Tokyo, Japan	67	10	American (7-NRT), Delta (7-HND, 7-NRT), Japan (7-NRT), Korean Air (7-NRT), Malaysia (4), All Nippon Airways (7-HND, 7-NRT), Singapore (7-NRT), United (7-NRT)
3	Guadalajara, Mexico	65	5	Aeromexico (14), Alaska (14), Delta (7), United (7), Volaris (23)
4	Mexico City, Mexico	63	4	Aeromexico (35), Alaska (14), United (7), Volaris (7)
5t	London, England, UK	56	5	American (7), British Airways (21), Air New Zealand (7), United (7), Virgin Atlantic Airways (14)
5t	Toronto, ON, Canada	56	2	American (14), Air Canada (42)
7	Seoul, Rep. of Korea	35	3	Korean Air (17), Asiana (14), Thai Airways Intl (4)
8	Sydney, NS, Australia	34	4	Delta (7), Qantas Airways (13), United (7), Virgin Australia Int'l (7)
9	Los Cabos, Mexico	33	3	American (12), Alaska (14), United (7)
10	Taipei, Chinese Taipei	32	2	EVA Airways (18), China (14)
11	Paris, France	22	2	Air France (15), Air Tahiti Nui (7)
12t	Hong Kong, China	21	1	Cathay Pacific Airways
12t	Shanghai China	21	3	American (7), China Eastern (7), United (7)
12t	San Salvador, El Salvador	21	2	LACSA (7), Taca Intl (14)
12t	Calgary, AB, Canada	21	2	Air Canada (14), WestJet (7)
16	Montreal QC, Canada	20	1	Air Canada
17t	Guatemala City, Guatemala	17	3	Delta (7), LACSA (7), Taca Intl (3)
17t	Papeete, French Polynesia	17	2	Air France (3), Air Tahiti Nui (14)
19t	Frankfurt, Germany	14	1	Lufthansa
19t	Beijing, China	14	1	Air China
19t	Panama City, Panama	14	1	Copa
22	Auckland, New Zealand	13	1	Air New Zealand
23	Amsterdam, Netherlands	12	2	KLM-Royal Dutch (10), ArkeFly (2)
24	Leon/Guanajuato, Mexico	11	2	United (7), Aeromexico Connect (4)
25t	Brisbane, QL, Australia	10	2	Qantas Airways (6), Virgin Australia Int'l (4)
25t	Cancun, Mexico	10	3	Delta (1), United (3), Virgin America (6)
25t	Lima, Peru	10	2	Lan (7), Lan Peru (3)
28t	Melbourne, VI, Australia	9	2	Qantas Airways (6), Virgin Australia Int'l (3)
28t	Puerto Vallarta, Mexico	9	3	Alaska (7), Delta (1), United (1)
30t	Guangzhou, China	7	1	China Southern
30t	Moscow, Russian Fed.	7	2	Aeroflot Russian (5), Transaero (2)
30t	Dubai, U.A. Emirates	7	1	Emirates
30t	Rome, Italy	7	1	Alitalia
30t	Hermosillo, Mexico	7	1	AeroMexico
30t	Istanbul, Turkey	7	1	Turkish
30t	Munich, Germany	7	1	Lufthansa
30t	EdmontonAB, Canada	7	1	WestJet
30t	Zurich, Switzerland	7	1	Swiss
39	Morelia, Mexico	6	1	Volaris
40t	Loreto, Mexico	5	1	Horizon
40t	Nadi, Fiji	5	1	Air Pacific
40t	Singapore	5	1	Singapore
40t	Tel Aviv, Israel	5	1	El Al
44t	San Jose, Costa Rica	4	1	LASCA
44t	Zacatecas, Mexico	4	1	Volaris
46t	Aguascalientes, Mexico	3	1	Volaris
46t	Dusseldorf, Germany	3	1	Air Berlin
46t	Sao Paulo, SP, Brazil	3	1	Korean Air
46t	La Paz, Mexico	3	1	Horizon
46t	Madrid, Spain	3	1	Iberia
46t	Mazatlan, Mexico	3	1	Alaska
46t	Berlin, Germany	3	1	Air Berlin
53	Ixtapa/Zihuatanejo, Mexico	2	1	Alaska
54t	Culiacan, Mexico	1	1	Volaris
54t	Durango, Mexico	1	1	ExpressJet
54t	Rarotonga Island, Cook Is., S. Pacific	1	1	Air New Zealand
54t	Manzanillo, Mexico	1	1	Alaska
	Total Weekly Flights	921		

SOURCE: Official Airline Guide (Week of August 11-17, 2012).

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



SOURCE: Official Airline Guide, Inc., August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

EXHIBIT 2-6

Nonstop International Markets

[A-99]

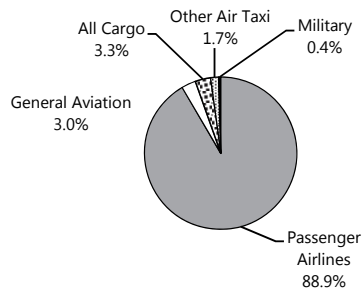
Table 2-20 Historical Aircraft Operations - LAX

FISCAL YEAR	U.S. CARRIERS ^{1/}	FOREIGN FLAG CARRIERS ^{1/}	AIRLINE TOTAL ^{1/}	GENERAL AVIATION	ALL CARGO	OTHER AIR TAXI	MILITARY	TOTAL
2000	633,404	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	647,792	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	528,750	66,650	595,400	15,188	31,694	12,818	2,315	657,415
2003	506,940	71,834	578,774	16,379	25,834	18,208	2,239	641,434
2004	496,712	74,376	571,088	14,709	25,344	22,740	2,806	636,687
2005	506,418	80,808	587,226	14,040	27,100	22,605	2,852	653,823
2006	498,930	81,476	580,406	16,116	26,272	25,582	2,488	650,864
2007	510,210	74,918	585,128	15,624	25,232	35,037	2,488	663,509
2008	529,529	80,283	609,812	18,239	22,174	26,798	2,758	679,781
2009	448,847	72,936	521,783	15,758	19,440	2,447	2,561	561,989
2010	446,088	68,118	514,206	19,514	18,951	6,804	2,908	562,383
2011	465,237	70,958	536,195	18,681	19,124	9,193	2,445	585,638
2012	488,264	70,725	558,989	18,546	19,874	10,472	2,704	610,585

Compound Annual Growth Rate

2000 - 2001	2.3%	5.7%	2.6%	(2.8%)	(1.8%)	(16.2%)	(22.9%)	1.8%
2001 - 2004	(8.5%)	(1.9%)	(7.7%)	(6.1%)	(11.1%)	18.3%	12.6%	(7.2%)
2004 - 2008	1.6%	1.9%	1.7%	5.5%	(3.3%)	4.2%	(0.4%)	1.7%
2008 - 2009	(15.2%)	(9.2%)	(14.4%)	(13.6%)	(12.3%)	(90.9%)	(7.1%)	(17.3%)
2009 - 2012	2.8%	(1.0%)	2.3%	5.6%	0.7%	62.4%	1.8%	2.8%
2000 - 2012	(2.1%)	(0.4%)	(1.9%)	0.1%	(5.0%)	(3.7%)	0.5%	(2.0%)

Historical Aircraft Operations (LAX) - FY 2012



NOTE:

^{1/} Data for FY 2010 is scheduled activity from Official Airline Guide, Inc.

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Activity by all-cargo carriers at the Airport was relatively stable between FY 2000 and FY 2001, then decreased from 36,110 operations in FY 2001 to 25,344 in FY 2004, a compounded annual decrease of 11.1 percent during this period. Thereafter, activity by this user group was relatively stable between FY 2004 and FY 2007, with a low of 25,232 in FY 2007 to a high of 27,100 in FY 2005. All-cargo activity at the Airport decreased from 25,232 operations in FY 2007 to 18,951 in FY 2010. High fuel prices and a weak economy lead to the reduction in all-cargo operations during this period. A modest increase in all-cargo activity occurred in recent years, increasing at a CAGR of 2.4 percent between FY 2010 and FY 2012.

In recent years (FY 2004 to FY 2008), activity by other air taxi operators (i.e., for-hire charters, fixed base operators, etc.) averaged approximately 27,000 operations per year between FY 2004 and FY 2008. Due to the inherent volatility in this type activity, the economic environment, and high fuel prices, other air taxi activity at the Airport decreased to a low of approximately 2,500 operations in FY 2009.

Military activity at the Airport was relatively stable between FY 2000 and FY 2012, averaging approximately 2,500 operations per year during this period.

2.4.4 HISTORICAL LANDED WEIGHT

Table 2-21 presents landed weight for passenger airlines and all-cargo carriers at the Airport between FY 2000 and FY 2012. As shown, landed weight for passenger airlines increased from 54,934,696 thousand pounds in FY 2000 to 56,668,681 thousand pounds in FY 2001, a year-over-year increase of 3.2 percent during this period. After decreasing to 47,275,807 thousand pounds in FY 2004, landed weight for passenger airlines at the Airport remained relatively stable through FY 2008, averaging 47,355,059 thousand pounds between FY 2004 and FY 2008. Decreases in capacity resulted in landed weight for passenger airlines at the Airport decreasing from 47,787,165 thousand pounds in FY 2008 to 42,982,832 thousand pounds in FY 2009, a 10.1 percent decrease during this period. Thereafter, landed weight for passenger airlines at the Airport increased at a CAGR of 2.2 percent through FY 2012. As also shown, landed weight for all-cargo carriers at the Airport decreased from 6,339,188 thousand pounds in FY 2000 to 4,325,572 thousand pounds in FY 2003, and then remained relatively stable at approximately 4,300,000 thousand pounds through FY 2012.

Table 2-22 presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 2008 and FY 2012. As shown, four airlines (United, American, Southwest, and Delta) accounted for 44.1 percent to 46.7 percent of total landed weight at the Airport during this period. Four other airlines accounted for an additional 11.1 percent to 14.1 percent of landed weight between FY 2008 and FY 2012. FedEx accounted for the highest share of landed weight among all-cargo carriers at the Airport during each of the years shown, averaging approximately 1,635,012 thousand pounds of landed weight between FY 2008 and FY 2012. **Exhibit 2-7** below presents airline shares of landed weight at the Airport for FY 2012.

Table 2-21 Historical Landed Weight (thousand pounds) - LAX

(thousand pounds)

FISCAL YEAR	DOMESTIC MAJORS/NATIONALS	REGIONALS/ COMMUTERS	INTERNATIONAL	INTERNATIONAL	TOTAL	ALL CARGO	AIRPORT TOTAL	ANNUAL % CHANGE
			U.S. FLAG CARRIERS	FOREIGN FLAG CARRIERS	PASSENGER AIRLINES			
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884	-
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663	2.6%
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225	(14.9%)
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008	(3.1%)
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943	(0.4%)
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891	1.3%
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198	(0.8%)
2007	26,677,762	2,954,684	2,843,496	14,845,477	47,321,419	4,964,390	52,285,809	0.9%
2008	26,179,246	3,639,478	2,732,947	15,235,494	47,787,165	4,311,780	52,098,945	(0.4%)
2009	24,392,691	2,701,756	2,121,612	13,766,773	42,982,832	3,735,976	46,718,808	(10.3%)
2010	24,465,008	2,902,972	2,062,511	14,050,708	43,481,199	3,890,090	47,371,289	1.4%
2011	25,064,080	3,233,809	2,281,928	13,913,599	44,493,416	3,954,394	48,447,810	2.3%
2012	25,790,799	3,526,713	2,454,785	14,119,882	45,892,179	4,143,160	50,035,339	3.3%
Compound Annual Growth Rate								
2000 - 2001	2.3%	1.3%	8.3%	4.4%	3.2%	(2.5%)	2.6%	
2001 - 2009	(4.9%)	1.1%	(7.1%)	(0.1%)	(3.4%)	(6.1%)	(3.6%)	
2009 - 2012	1.9%	9.3%	5.0%	0.8%	2.2%	3.5%	2.3%	
2000 - 2012	(2.7%)	3.1%	(3.0%)	0.5%	(1.5%)	(3.5%)	(1.7%)	

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Table 2-22 Historical Landed Weight by Airline (thousand pounds) - LAX^{1/}

AIRLINE	FY 2008		FY 2009		FY 2010		FY 2011		FY 2012	
	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
1 United	7,945,946	15.3%	7,052,298	15.1%	6,907,635	14.6%	6,986,999	14.4%	6,932,412	13.9%
2 American	6,203,061	11.9%	5,667,801	12.1%	5,616,948	11.9%	5,589,632	11.5%	5,900,084	11.8%
3 Delta	4,606,761	8.8%	4,007,883	8.6%	4,331,409	9.1%	4,487,225	9.3%	4,641,153	9.3%
4 Southwest	5,092,746	9.8%	5,068,050	10.8%	4,744,526	10.0%	4,737,254	9.8%	4,601,662	9.2%
5 Skywest	1,787,682	3.4%	1,634,395	3.5%	1,865,047	3.9%	2,187,953	4.5%	2,295,517	4.6%
6 Virgin America	520,530	1.0%	923,066	2.0%	1,079,918	2.3%	1,331,658	2.7%	1,634,820	3.3%
7 FedEx	1,775,030	3.4%	1,642,089	3.5%	1,523,405	3.2%	1,605,640	3.3%	1,628,897	3.3%
8 Alaska	1,684,252	3.2%	1,530,621	3.3%	1,365,625	2.9%	1,433,511	3.0%	1,518,762	3.0%
9 Qantas Airways	1,442,048	2.8%	1,434,230	3.1%	1,426,256	3.0%	1,243,114	2.6%	1,331,893	2.7%
10 Korean	1,138,390	2.2%	1,138,866	2.4%	1,249,739	2.6%	1,219,303	2.5%	1,200,835	2.4%
11 American Eagle	613,349	1.2%	544,559	1.2%	600,609	1.3%	681,853	1.4%	1,037,949	2.1%
12 US Airways	1,315,542	2.5%	1,231,410	2.6%	987,948	2.1%	1,023,668	2.1%	1,003,778	2.0%
13 Cathay Pacific Airways	930,340	1.8%	747,759	1.6%	699,675	1.5%	764,462	1.6%	778,532	1.6%
14 China	738,316	1.4%	650,588	1.4%	830,542	1.8%	769,780	1.6%	726,682	1.5%
15 Eva Airways	769,663	1.5%	666,451	1.4%	704,432	1.5%	643,079	1.3%	607,128	1.2%
16 Air New Zealand	740,537	1.4%	628,380	1.3%	650,340	1.4%	643,814	1.3%	589,878	1.2%
17 British Airways	679,770	1.3%	634,410	1.4%	612,360	1.3%	621,180	1.3%	588,948	1.2%
18 Air Canada	617,503	1.2%	532,474	1.1%	520,123	1.1%	561,953	1.2%	583,479	1.2%
19 Asiana	570,672	1.1%	620,966	1.3%	649,826	1.4%	656,330	1.4%	524,490	1.0%
20 Lufthansa	605,150	1.2%	547,259	1.2%	548,024	1.2%	505,985	1.0%	522,132	1.0%
Other	12,321,657	23.7%	9,815,253	21.0%	10,456,902	22.1%	10,753,417	22.2%	11,386,308	22.8%
Airport Total ^{2/}	52,098,945	100.0%	46,718,808	100.0%	47,371,289	100.0%	48,447,810	100.0%	50,035,339	100.0%

NOTES:

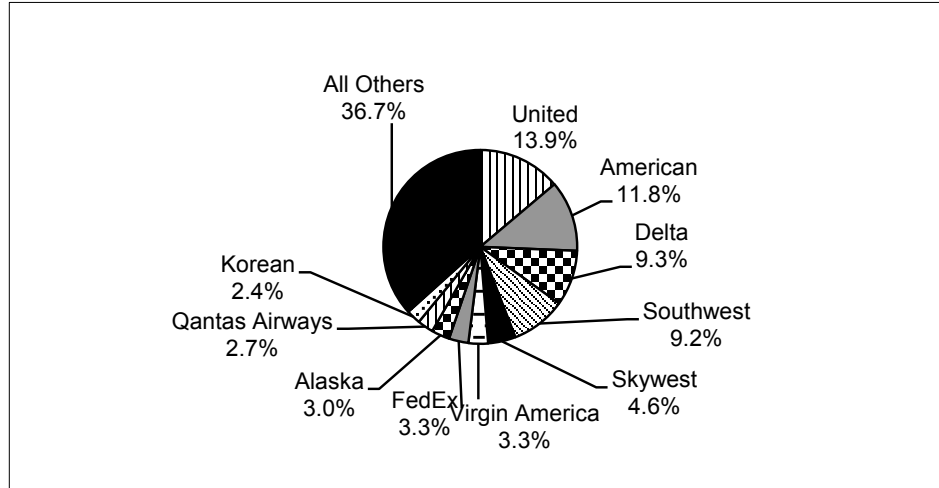
1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2012 activity in descending order.

2/ Totals may not add due to individual rounding.

SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

Exhibit 2-7 Landed Weight by Airline (LAX) – FY 2012



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

2.4.5 HISTORICAL CARGO ACTIVITY

As discussed earlier, the Airport ranked 13th worldwide and 5th nationwide in total cargo handled with approximately 1.7 million enplaned and deplaned tons in CY 2011.¹⁰ The demand for cargo at the Airport is driven by the diverse and large number of all-cargo and passenger airlines (via belly-hold) operating at the Airport, especially the large number of foreign flag carriers (42 passenger airlines and 13 all-cargo carriers). **Table 2-23** presents historical enplaned and deplaned cargo handled at the Airport between FY 2000 and FY 2012. As shown, and as a result of the events of September 11, 2001 and an economic slowdown, total cargo decreased from 2,229,183 tons in FY 2000 to 1,882,391 tons in FY 2002, a compound annual decrease of 8.1 percent during this period. Thereafter, it steadily increased from 1,882,391 tons in FY 2002 to 2,136,373 tons in FY 2005, a CAGR of 4.3 percent during this period. As also presented in Table 2-23, cargo volumes at LAX decreased slightly in FY 2006 (a 0.9 percent decrease year-over-year) and in FY 2007 (a 1.7 percent decrease year-over-year). Cargo volumes at the Airport continued to decline in FY 2008 and in FY 2009, with an additional 5.2 percent decrease from FY 2007 and an 18.1 percent decrease from FY 2008, respectively. Similar to the passenger airlines, the air cargo industry was impacted in these years by the global economy, increasing fuel costs, continued declines in the value of the U.S. dollar, uncertainties in the Middle East, and new security regulations. In recent years, however, total air cargo has rebounded, increasing at a CAGR of 6.0 percent between FY 2009 and FY 2012.

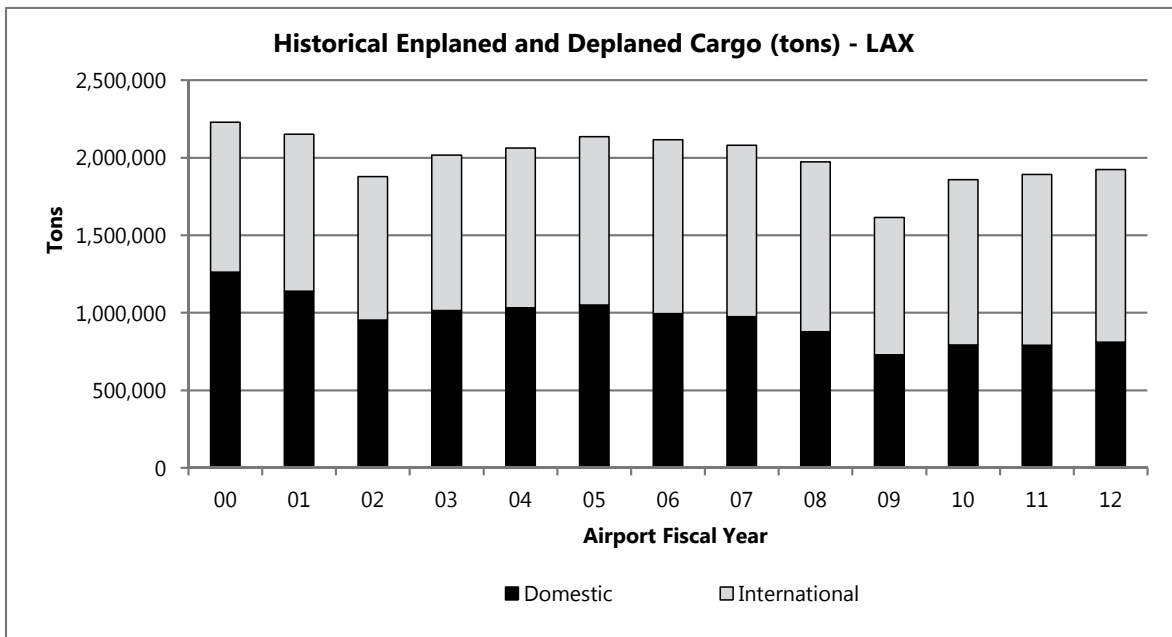
¹⁰ 2011 World Traffic Report, Airports Council International .

Table 2-23 Historical Enplaned and Deplaned Cargo (tons) - LAX

FISCAL YEAR	DOMESTIC CARGO	ANNUAL % CHANGE	INTERNATIONAL CARGO	ANNUAL % CHANGE	TOTAL CARGO	ANNUAL % CHANGE
2000	1,263,279	-	965,904	-	2,229,183	-
2001	1,112,803	(11.9%)	1,032,259	6.9%	2,145,062	(3.8%)
2002	953,264	(14.3%)	929,127	(10.0%)	1,882,391	(12.2%)
2003	1,015,712	6.6%	1,001,045	7.7%	2,016,757	7.1%
2004	1,032,947	1.7%	1,028,893	2.8%	2,061,840	2.2%
2005	1,051,046	1.8%	1,085,327	5.5%	2,136,373	3.6%
2006	994,637	(5.4%)	1,122,527	3.4%	2,117,164	(0.9%)
2007	975,734	(1.9%)	1,105,899	(1.5%)	2,081,633	(1.7%)
2008	877,455	(10.1%)	1,095,273	(1.0%)	1,972,728	(5.2%)
2009	728,705	(17.0%)	886,594	(19.1%)	1,615,299	(18.1%)
2010	792,005	8.7%	1,067,249	20.4%	1,859,254	15.1%
2011	791,414	(0.1%)	1,101,270	3.2%	1,892,684	1.8%
2012	811,728	2.6%	1,111,668	0.9%	1,923,396	1.6%

Compound Annual Growth Rate

2000 - 2002	(13.1%)	(1.9%)	(8.1%)
2002 - 2005	3.3%	5.3%	4.3%
2005 - 2009	(8.8%)	(4.9%)	(6.8%)
2009 - 2012	3.7%	7.8%	6.0%
2000 - 2012	(3.6%)	1.2%	(1.2%)



SOURCE: City of Los Angeles, Department of Airports, August 2012.

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

2.5 Factors Affecting Aviation Demand and the Airline Industry

This section discusses qualitative factors that could influence future aviation activity at the Airport. While data and/or information related to these factors have not specifically been incorporated into the projections of Airport activity discussed in Section 2.6 (e.g., jet fuel prices), these factors were indirectly considered and analyzed in developing the projections.

2.5.1 NATIONAL ECONOMY

Air travel demand is directly correlated to consumer income, business profits, and U.S. Gross Domestic Product (GDP). As consumer income, business profits, and GDP increase, so does demand for air travel. Econometric research by the International Air Transport Association¹¹ and the MIT International Center for Air Transportation¹² found that demand for air passenger service is responsive to changes in GDP with a very high correlation coefficient. In addition, the national economy is tied closely to the overall global economy. As such, any major impacts/fluctuations to the global economy could directly or indirectly impact the national economy and, therefore, international and domestic activity at the Airport.

As noted in Chapter 1, the nation experienced an economic recession between December 2007 and June 2009, which was marked by a combination of declines in construction activity, falling home prices, rising oil prices, and a falling stock market. Following annual year-over-year increases between 2003 through 2007, demand for air travel weakened nationwide in 2008, registering a 3.1 percent decline during that year, followed by an additional 5.2 percent decline nationwide in 2009. In 2010 and 2011, air travel demand rebounded and scheduled passenger totals increased 2.6 and 1.8 percent, respectively, from the previous year's level. The 2011 passenger total still remained 4.0 percent below the level of 835.4 million in 2007, the peak level for passenger totals nationwide between 2000 and 2011.

Similar to air travel demand weakening nationwide in 2008, U.S. GDP decreased 0.3 percent in 2008 from 2007 levels (the first annual decrease in U.S. GDP since 1991), followed by a 3.5 percent decrease in 2009. Trends in U.S. GDP thereafter have improved, with the nation recording an increase of 3.0 percent in 2010 and a 1.7 percent increase in 2011. Recently, according to the "second" estimate released by the Bureau of Economic Analysis, U.S. GDP increased 1.9 percent in the first quarter of 2012 from the fourth quarter of 2011. The rise in real GDP in recent years is reflective of positive contributions from stronger consumer spending, private inventory investment, residential and nonresidential fixed investment, and exports during these periods. In September 2010, the National Bureau of Economic Research determined that a trough in business activity occurred in the U.S. economy in June 2009, thus officially marking the end of the recession that began in December 2007 and the beginning of an expansion. The recession lasted 18 months, which makes it the longest of any recession since World War II.

¹¹ *Air Travel Demand, IATA Economics Briefing No. 9*, International Air Transport Association, April 2008.

¹² *Analysis of Interaction Between Air Transportation and Economic Activity: A Worldwide Perspective*, MIT International Center for Air Transportation, March 2009.

The most recently published surveys of leading economists by the National Association for Business Economics (NABE) and the Blue Chip Economic Indicators indicate consensus for modest U.S. annual real GDP growth through 2013 – roughly consistent with the latest forecast by the U.S. Federal Reserve Open Market Committee (FOMC).¹³ The May 2012 NABE forecast projects U.S. real GDP growth of 2.4 percent for 2012 and 2.8 percent in 2013. The June 2012 Blue Chip Economic Indicators forecast has a similar outlook, projecting 2.1 percent growth in U.S. real GDP for 2012 and 2.6 percent growth in 2013.¹⁴ According to the latest FOMC forecast, U.S. real GDP is projected to grow between 1.4 to 2.9 percent in 2012, 2.2 to 2.8 percent in 2013, 3.0 to 3.5 percent in 2014 and 2.3 to 2.5 percent beyond the 2014 period, which suggests the upward trend in nationwide air travel should continue.¹⁵ However, should the economy stall, or again trend downward (e.g., encounter a “double-dip” recession), aviation demand nationwide would likely be negatively impacted.

2.5.2 STATE OF THE AIRLINE INDUSTRY

In the aftermath of the events of September 11, the U.S. airline industry saw a material adverse shift in the demand for air travel. The result was five years of reported industry operating losses between 2001 and 2005, totaling more than \$28 billion (excluding extraordinary charges and gains). Following the restructuring years after the events of September 11, the airline industry finally gained ground in 2007 with virtually every U.S. airline posting profits. In 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar resulted in the worst financial environment for U.S. network and low-cost carriers since September 11. In 2008, many of the domestic network competitors announced significant capacity reductions, increases in fuel surcharges, fares and fees, and other measures to address the challenges.

Whereas the capacity reductions following the events of September 11 were the direct results of reduced demand due to perceived terror threats targeting the traveling public, the industry reductions starting in late 2008 and continuing through the first half of 2009 were primarily driven by significant increases in fuel costs over a span of two and a half years, a weak dollar exacerbating the impact of increased fuel costs for U.S. airlines, and the contraction of the U.S. economy. After nearly an \$8.0 billion profit for the global airline industry in 2011, the International Air Transport Association (IATA) is predicting a \$3.0 billion profit for the global industry in 2012. Globally, passenger traffic increased 5.9 percent in 2011 over 2010. Even though recovery is uneven across different regions, North American airlines profits are projected to be \$1.4 billion in 2012, compared to the \$1.3 billion profit in 2011. The increase in profit is due to North American carriers' strict control on capacity.

¹³ Source: National Association of Business Economics, *NABE Outlook May 2012*, available online at <http://nabe.com/press/outlook1205.pdf>. Accessed in July 2012.

¹⁴ Source: Barron's, *Economic Beat: The Chips are a Mixed Bag*, June 23, 2012.

¹⁵ Source: U.S. Federal Reserve, *Economic Projections of Federal Reserve Board Members and Federal Reserve Bank Presidents, June 2012*, available online at <http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20120620.pdf>. Accessed in July 2012.

2.5.3 COST OF AVIATION FUEL

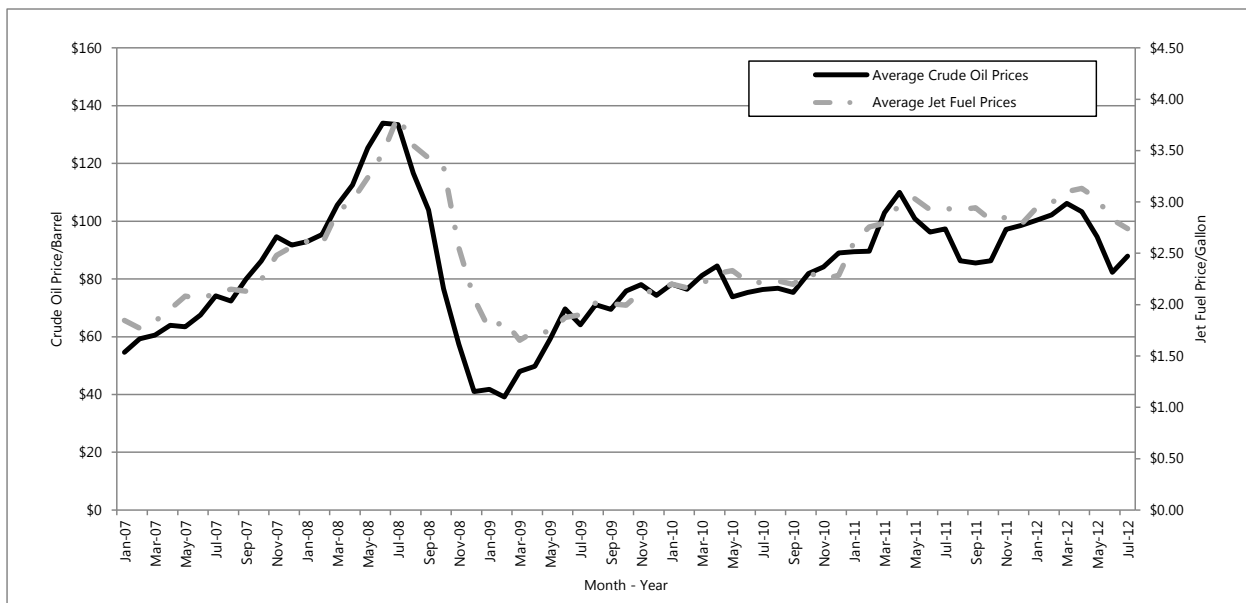
The price of fuel is one of the most significant forces affecting the airline industry today. In 2000, jet fuel accounted for nearly 14 percent of airline industry operating expenses and, historically, fuel expense was the second highest operating expense for the airline industry behind labor. In 2008, jet fuel surpassed labor as an airline’s largest operating expense and, according to the Airlines for America (A4A), formerly known as Air Transport Association, fuel comprised approximately 30.6 percent of an airline’s total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airline industry’s largest operating expense representing 25.8 percent of total operating expenses, while fuel was at 21.3 percent.

The average price of jet fuel was \$0.82 per gallon in 2000 compared to \$2.87 per gallon in 2011, an increase of 250 percent. According to A4A, every one-cent increase in the price per gallon of jet fuel increases annual airline operating expenses by approximately \$190 million to \$200 million.

If jet fuel prices approach or surpass their mid-2008 peak (July 2008’s average price was \$3.84 per gallon), aviation demand nationwide may be negatively impacted due to potential route reductions the airlines might make or higher ticket prices the airlines might impose in efforts to remain profitable, as airlines have done in the past when jet fuel prices increased. The average price of jet fuel in July 2012 was \$2.70 per gallon, compared to the July 2011 average price of \$2.94 per gallon.

Exhibit 2-8 shows the monthly averages of jet fuel and crude oil prices from January 2007 through July 2012.

Exhibit 2-8 Historical Monthly Averages of Jet Fuel and Crude Oil Prices



SOURCE: Airlines for America (A4A), August 2012.
 PREPARED BY: Ricondo & Associates, Inc., August 2012.

2.5.4 AIRLINE SCHEDULED SEAT CAPACITY

The airlines continue to restrain growth in capacity due to the weak economy and relatively high fuel prices, keeping in place reductions they implemented beginning in 2008. The height of the industry capacity decline occurred in the first quarter of 2009, as domestic seat-capacity declined by 11.0 percent versus the first quarter of 2008. Demand for domestic air travel, as measured by revenue passenger miles (RPMs), slipped at a similar rate of 11.6 percent during this period. Based on Official Airline Guide, Inc. scheduled departing seat data, scheduled domestic capacity was down 1.6 percent in May 2012 compared to the same month in 2011.¹⁶

The business model for airlines has changed due, in part, to recent soaring oil prices, as the airlines now focus on better matching supply (seats) with demand (passengers). This capacity “right-sizing” and discipline has resulted in higher yields (as measured by revenue passenger miles) in recent years. Domestic mainline passenger yields (per coupon mile) increased from \$0.1195 in 2009 to \$0.1359 in 2011, a compound annual growth rate of 6.6 percent during this period. Domestic passenger yields for regionals/commuters decreased at a compound rate of 4.1 percent between 2009 and 2011; however, this decrease was more a function of longer trip lengths due to a growing number of larger and faster regional jet aircraft rather than failing to “right-size” capacity.

2.5.5 AIRLINE BANKRUPTCIES

A number of airlines serving the Airport have filed for bankruptcy since the events of September 11, 2001 including Air Canada, American, ATA, Delta, Frontier, Hawaiian, Japan (JAL), Maxjet, Mexicana, Midway, Northwest, United, US Airways, Vanguard, and Varig. ATA, MaxJet, Mexican, Midway, Vanguard, and Varig have ceased operations. AMR Corporation, the parent company of American and American Eagle, filed for Chapter 11 bankruptcy protection on November 29, 2011 and is currently in its reorganization stage. American was ranked second in total enplaned passengers at the Airport each year between FY 2008 and FY 2012 (see Table 2-15). None of the airlines that have ceased operations was responsible for more than 2.0 percent of enplaned passengers at the Airport. Moreover, certain airline bankruptcies have resulted in reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. Additional bankruptcies, liquidations, or major restructurings of other airlines could occur. It is not possible to predict the impact on the Airport of current or future airline bankruptcies, liquidations, or major restructurings.

2.5.6 AIRLINE CONSOLIDATIONS

The airline industry continues to evolve as a result of competition and changing demand patterns. It is possible that airlines serving the Airport could consolidate operations through mergers and acquisitions. Delta’s merger with Northwest received regulatory and shareholder approval in October 2008, with a single operating certificate under Delta’s name granted by the FAA on December 31, 2009. In CY 2010, the respective Boards of Directors and shareholders of United and Continental approved a merger of the two airlines, with operations under the United name. On November 30, 2011, the merger was completed and Continental no longer operates as a separate airline. In addition, in CY 2010, the respective Boards of

¹⁶ Source: <http://www.usatoday.com/travel/flights/airline-capacity-map.htm>. The data reflect what airlines had reported to Official Airline Guide (OAG) regarding their May 2012 schedules as of April 3, 2012.

Directors of Southwest and AirTran approved Southwest's acquisition of AirTran, which was completed in CY 2011. Southwest and AirTran received a single operating certificate from the FAA in CY 2012; however, Southwest and AirTran continue to operate as separate airlines while integrating. On August 31, 2012, American and US Airways signed legal documents allowing them to confidentially exchange information to discuss and analyze a potential merger.

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

2.5.7 FEDERAL SEQUESTRATION

On August 2, 2011, Congress passed the Federal Budget Control Act of 2011 (the Act), enacted as Public Law 112-25. The Act established caps on defense and nondefense discretionary spending that will reduce spending by \$1.0 trillion over 10 years. The Act also created the Joint Select Committee on Deficit Reduction (referred to as the Supercommittee) to come up with a plan to reduce the deficit by another \$1.2 trillion over the same 10 years. The Act also established sequestration as an incentive to compel deficit reduction. Sequestration would require automatic, across-the-board cuts of another \$1.0 trillion to nearly all government programs, including the FAA and the TSA. On November 21, 2011, the Supercommittee concluded that it would not be possible to make any bipartisan agreement available to the public before its December 23, 2011 deadline.

In order to avoid sequestration on January 2, 2013, Congress must pass and the President enact a deficit reduction proposal that meets the requirement of the Act, unless amended.

If sequestration occurs, the FAA will have to cut its federal fiscal year (FFY) 2013 budget by \$1.35 billion. Under the terms of the Act, the FAA will be unable to shield air traffic control or any other FAA-funded service from cuts. Cuts under sequestration are expected to be in the range of 8 to 10 percent to nondefense discretionary programs, including the FAA and the TSA. According to one Congressional estimate, sequestration could force layoffs of approximately 1,200 air traffic controllers, 9,000 TSA screeners, and 1,600 customs inspectors nationwide. Other potential consequences of sequestration that have been estimated by various groups include the following:

- The Center for American Progress, an independent nonpartisan educational institute based in Washington, D.C., states that FAA officials will likely be forced to cut air traffic service at smaller airports, where they would have the least impact on the traveling public. Their analysis indicated that those airports having less than 700,000 to 800,000 enplaned passengers per year would be targeted for air traffic controller downsizing, representing as many as 106 U.S. airports that would effectively be shut down.

- A study was commissioned by the Aerospace Industries Association and compiled by Econsult Corporation, an economic consulting firm based in Philadelphia.¹⁷ In one scenario, it was assumed that the FAA would spread the sequestration reductions in proportion to budget shares of its various accounts. The study estimates that enplaned passengers nationwide would decrease by 5 to 10 percent (annual decreases of 37 million to 73 million), and that cargo would decrease by 1 million to 2 million pounds annually.

In the event sequestration is invoked on January 2, 2013, it is not possible at this time to estimate the impacts that it would have on future activity at the Airport through the Projection Period. As such, the potential impacts of sequestration have not been factored into the activity projections provided in this Report.

2.5.8 AIRPORT SECURITY

With enactment of the Aviation and Transportation Security Act (ATSA) in November 2001, the Transportation Security Administration (TSA) was created and established different and improved security processes and procedures. The ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. The act also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. The federal government controls aviation industry security requirement, which can significantly impact the economics of the industry. Security requirements due to unexpected events could increase industry costs directly and indirectly and could have an adverse effect on passenger demand.

2.5.9 THREAT OF TERRORISM

As has been the case since September 11, the recurrence of terrorism incidents against either domestic or international aviation during the Projection Period remains a risk to achieving the activity projections contained herein. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services. As discussed in Section 2.6, it is assumed in the forecasts of activity at the Airport that no major security or terrorist incidents will occur during the Projection Period that negatively impact aviation demand.

2.5.10 OTHER FACTORS AFFECTING THE AIRPORT

2.5.10.1 Stipulated Settlement

In December 2004, the Board of Airport Commissioners and the City Council of the City of Los Angeles adopted a comprehensive development program for the Airport, by way of adopting a LAX Master Plan (also known as Alternative D), the City's general plan for the Airport known as the LAX Plan, and the LAX Specific Plan. The LAX Specific Plan is the implementing ordinance that establishes zoning and land use regulations and procedures for the processing of future specific projects and activities anticipated under the LAX Master Plan.

¹⁷ *Economic Impacts of FAA Budget Sequestration on the U.S. Economy*, Econsult Corporation, August 2012.

In January 2005, litigation commenced by the Cities of El Segundo, Inglewood, and Culver City, the County of Los Angeles, and the Alliance for a Regional Solution to Airport Congestion against the Department, the City of Los Angeles, the City Council, the Mayor, and the Board of Airport Commissioners, challenged approval of the LAX Master Plan and the LAX Master Plan EIR. The lawsuits were settled on February 17, 2006 pursuant to a stipulated settlement and judgment (the "Stipulated Settlement" or "Settlement").

The Stipulated Settlement requires, in certain limited circumstances, gate reductions at LAX. However, if LAX does not have 75 million passengers annually or if the LAX Master Plan is substantially revised pursuant to a LAX Specific Plan Amendment process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction is necessary. Please refer to the "AIRPORT PLANNING" section in Part II of the Official Statement for the Series 2012 Bonds for a more detailed discussion.

The projections of Airport activity reflected in this report through FY 2018 are consistent with and/or fall within the requirements and limitations of the Settlement.

2.5.10.2 Constraints at Other Area Airports

In addition to the factors affecting the airline industry and the Settlement discussed above, certain constraints at other airports in the Air Trade Area may have an effect on enplaned passengers at the Airport. Some of these constraints are discussed below.

Beginning in 1968, Orange County, the owner and operator of SNA, became the defendant in numerous civil damage actions where individuals residing to the south of SNA claimed damage and injury to their persons and property, alleged to be caused by the noise and other environmental effects of aircraft operations at SNA. To end the litigation, both parties reached the Airport Settlement Agreement of 1985 (SNA Agreement). The SNA Agreement limited virtually every aspect of operations at SNA, including a passenger limit of 8.4 MAP, caps on daily flights and aircraft types, limits on terminal size and public parking spaces, number of loading bridges, and hours of operation. In 2002, the limit on passengers was increased to 10.3 MAP effective January 1, 2003 and to 10.8 MAP in 2011 until December 31, 2015.

In an effort to resolve protracted litigation, the City of Long Beach (owner and operator of LGB) and the airlines entered into a stipulated settlement agreement in 1995. Under the settlement, the Long Beach City Council adopted the current Airport Noise Compatibility Ordinance (Ordinance). One component of the Ordinance permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB. These operational levels equate to a capacity of approximately 4.2 MAP (LGB reached approximately 3.1 MAP in CY 2011). These operational activity levels may be increased so long as flights operate at or below annual noise budgets for each class of operator.

In February 2005, the City of Burbank and the Burbank-Glendale-Pasadena Airport Authority (Authority), the owner and operator of BUR, entered into an Airport Development Agreement (BUR Agreement). The BUR Agreement outlines development guidelines for BUR over the next 10 years, including (1) the City of Burbank will not change its zoning for BUR so that the Authority may meet its facility needs consistent with that zoning for a period of seven years; (2) the Authority will not build a new passenger terminal for 10 years and will not enlarge the current terminal during the term of the BUR Agreement; and (3) the City of Burbank and the

Authority will jointly develop a strategy for addressing the desire for nighttime airport noise relief consistent with federal laws and procedures.

2.5.10.3 Proposed High-Speed Rail in California

In November 2008, California voters passed a referendum allowing the State to issue approximately \$9.0 billion of bonds to help fund the first phase of a high-speed rail system that would ultimately connect various cities in Northern California to cities in Southern California. According to information from the California High Speed Rail Authority in its Revised 2012 Business Plan, high-speed rail service would not begin until 2022 (after the Projection Period) and would connect Merced to the San Fernando Valley. The Revised 2012 Business Plan also stipulates that the Phase 1 Blended Section (San Francisco to Los Angeles/Anaheim) would not be operational until 2029, well beyond the Projection Period included in these analyses.

2.6 Projections of Airport Activity

Projections of aviation demand at the Airport (discussed in Sections 2.6.1, 2.6.2, and 2.6.3 below) were developed after analyzing several different projection methodologies. **Table 2-24** describes the various projection methodologies analyzed for both the Near-Term (FY 2013 through FY 2015) and the Longer-Term (FY 2016 to FY 2018). Table 2-24 also compares the projected enplaned passenger growth rates under each methodology and indicates which specific methodologies were ultimately used in the final projection of enplaned passengers for purposes of this report and the financial tables accompanying Chapter 4.

The specific projections of Airport activity ultimately used for purposes of this report and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific methodologies described herein and on Table 2-24 and (2) a number of specific assumptions that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A. In addition, general assumptions that were incorporated in the projections of Airport activity through FY 2018 include:

- The underlying economic conditions of the Air Trade Area are anticipated to drive future demand for O&D air travel at the Airport. Economic conditions are expected to fluctuate during the Projection Period, including the fluctuations in fuel prices (among other things), and will cause year-to-year traffic variations. However, a long-term increase in Airport and nationwide traffic is expected to occur during the Projection Period.
- The Airport will continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its air carrier base will also continue to foster competitive pricing and scheduling diversity. O&D passengers will continue to account for a high percentage of enplaned passengers at the Airport, for both domestic and international activity.
- Activity at the Airport will continue to be served over a broad base of airlines, with no one or two airlines dominating in market shares of activity during the Projection Period.

Table 2-24 Enplaned Passenger Projection Methodologies Analyzed and Incorporated

NEAR-TERM PROJECTION (FY 2013-FY 2015):			
METHODOLOGY	DESCRIPTION	CAGR FOR FY 2013 - FY 2015 ENPLANED PASSENGERS	STATUS
1. Scheduled Departing Seats (OAG) Approach	Based on OAG schedules of departing seats and relationship with enplaned passengers (e.g., aircraft load factors).	+2.2% Total +2.1% Domestic +2.6% International	This method was used as the final projection for FY 2013 to FY 2015 enplaned passengers
LONGER-TERM PROJECTION (FY 2016-FY 2018):			
METHODOLOGY	DESCRIPTION	CAGR FOR FY 2016 - FY 2018 ENPLANED PASSENGERS	STATUS
1. Market Share Approach	Judgments of LAX share of total U.S. enplanements applied to FAA projections of U.S. enplanements (American Airlines, Southwest Airlines, United Airlines, and combined other airlines were analyzed individually)	+1.8% Total +1.8% Domestic +1.9% International	This method was used as the final projection for FY 2016 to FY 2018 enplaned passengers
2. Regression Modeling Approach Using Socioeconomic Variables (including population, income, per capital income, and employment)	Coefficients produced by regressions are applied to projections of each of these socioeconomic variables to estimate long-term growth.	Range from +1.1% to +1.4% Total	Used as comparison benchmark; however, coefficients of determination (R^2) were relatively low.
3. Trend Analysis	Relies on historical time series data to predict the future	+0.9% Total	Used as comparison benchmark; however, coefficient of determination (R^2) was relatively low.

SOURCE: Ricondo & Associates, Inc., September 2012.
 PREPARED BY: Ricondo & Associates, Inc., September 2012.

- The demand for air service in the Air Trade Area will continue to be predominantly served through the Airport, particularly for international air traffic and nonstop travel to major medium- and long-haul markets (e.g., New York, Chicago, Honolulu, and Washington, D.C.), as well as the high demand for travel in the West Coast corridor.
- The Airport will continue to accommodate the majority of the air passenger demand generated in the Air Trade Area. Capacity and/or legal constraints will continue to limit expansion at LGB and SNA. Regional redistribution of passenger demand from the Airport will most likely occur at the under-utilized LA/Ont (which is located in an area with growing population and business activity) and, to a certain extent, at BUR.
- International traffic growth at the Airport will outpace domestic traffic growth, consistent with historical trends.
- Airline consolidation/mergers (including the potential for an American/US Airways merger) or bankruptcies that may occur during the Projection Period are not likely to negatively impact passenger activity levels at the Airport due to its high percentage of O&D passengers.
- New airline alliances, should they develop, will be restricted to code sharing and joint frequent flyer programs, and should not reduce airline competition at the Airport.
- For these analyses, and similar to the assumptions underlying the FAA's nationwide projections, it is assumed that no major security or terrorist incidents will occur during the Projection Period that negatively impact aviation demand.

It is important to note that the projections of aviation activity discussed below are intended for financial feasibility purposes, and reflect a conservative, yet reasonably realistic view of future activity levels at the Airport. As presented in the following sections, the activity projections provided herein for the Airport are more conservative when compared to the nationwide projections prepared by the FAA in March 2012. The FAA's annual forecasts for the nation are prepared for federal budgeting and planning purposes and, therefore, can result in higher activity projections than those prepared by Feasibility Consultants for studies such as this report.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified, and any projection is subject to uncertainties. As a result, neither the projections of Airport activity reflected in this report nor the projection process should be viewed as precise. Actual future Airport activity levels may differ substantially from projections presented herein because of unforeseen events.

2.6.1 PROJECTED ENPLANED PASSENGERS

Table 2-25 presents historical and projected enplaned passengers at the Airport. Specific assumptions and points regarding projected enplaned passengers for the Near-Term (FY 2013 through 2015) and the Longer-Term (FY 2016 through FY 2018) are discussed below.

Table 2-25 Enplaned Passenger Projections - LAX

FISCAL YEAR	DOMESTIC ENPLANED PASSENGERS				INTERNATIONAL ENPLANED PASSENGERS				TOTAL ENPLANED PASSENGERS	
	MAJORS/ NATIONALS	REGIONALS/ COMMUTERS	TOTAL	ANNUAL % CHANGE	U.S.	FOREIGN	TOTAL	ANNUAL % CHANGE	TOTAL	ANNUAL % CHANGE
					FLAG CARRIERS	FLAG CARRIERS				
Historical										
2000	23,370,480	1,510,247	24,880,727	-	1,705,862	6,645,133	8,350,995	-	33,231,722	-
2001	23,421,360	1,539,395	24,960,755	0.3%	1,801,060	7,078,154	8,879,214	6.3%	33,839,969	1.8%
2002	19,202,331	1,581,486	20,783,817	(16.7%)	1,369,295	5,978,549	7,347,844	(17.2%)	28,131,661	(16.9%)
2003	18,567,188	1,873,916	20,441,104	(1.6%)	1,332,111	5,937,113	7,269,224	(1.1%)	27,710,328	(1.5%)
2004	19,254,785	1,987,075	21,241,860	3.9%	1,423,386	6,414,601	7,837,987	7.8%	29,079,847	4.9%
2005	20,169,841	1,973,601	22,143,442	4.2%	1,604,210	6,800,599	8,404,809	7.2%	30,548,251	5.0%
2006	19,986,545	2,044,152	22,030,697	(0.5%)	1,657,549	6,966,900	8,624,449	2.6%	30,655,146	0.3%
2007	20,131,051	2,243,282	22,374,333	1.6%	1,765,060	6,664,077	8,429,137	(2.3%)	30,803,470	0.5%
2008	19,791,301	2,636,078	22,427,379	0.2%	1,902,462	6,812,498	8,714,960	3.4%	31,142,339	1.1%
2009	18,670,480	1,992,111	20,662,591	(7.9%)	1,503,705	6,162,723	7,666,428	(12.0%)	28,329,019	(9.0%)
2010	19,022,194	2,105,416	21,127,610	2.3%	1,523,708	6,351,824	7,875,532	2.7%	29,003,142	2.4%
2011	19,634,367	2,517,357	22,151,724	4.8%	1,777,167	6,351,680	8,128,847	3.2%	30,280,571	4.4%
2012	20,209,286	2,810,292	23,019,578	3.9%	1,930,501	6,569,045	8,499,546	4.6%	31,519,124	4.1%
Projected										
2013	20,633,700	2,907,300	23,541,000	2.3%	2,017,400	6,739,800	8,757,200	3.0%	32,298,200	2.5%
2014	21,025,700	3,002,300	24,028,000	2.1%	2,090,000	6,888,100	8,978,100	2.5%	33,006,100	2.2%
2015	21,404,200	3,095,300	24,499,500	2.0%	2,156,900	7,025,900	9,182,800	2.3%	33,682,300	2.0%
2016	21,816,200	3,186,300	25,002,500	2.1%	2,221,600	7,152,400	9,374,000	2.1%	34,376,500	2.1%
2017	22,151,700	3,275,300	25,427,000	1.7%	2,274,900	7,274,000	9,548,900	1.9%	34,975,900	1.7%
2018	22,482,800	3,363,300	25,846,100	1.6%	2,324,900	7,390,400	9,715,300	1.7%	35,561,400	1.7%
Compound Annual Growth Rate										
2000 - 2012	(1.2%)	5.3%	(0.6%)		1.0%	(0.1%)	0.1%		(0.4%)	
2012 - 2015	1.9%	3.3%	2.1%		3.8%	2.3%	2.6%		2.2%	
2015 - 2018	1.7%	2.8%	1.8%		2.5%	1.7%	1.9%		1.8%	
2012 - 2018	1.8%	3.0%	1.9%		3.1%	2.0%	2.3%		2.0%	

SOURCES: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc. (projected), August 2012
PREPARED BY: Ricondo & Associates, Inc., August 2012.

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2.6.1.1 Projected Near-Term Enplaned Passengers—FY 2013 Through FY 2015

For projecting Near-Term enplaned passengers at the Airport for FY 2013, a “scheduled departing seats” methodology was utilized. In this approach, airline schedule information provided from Official Airline Guide, Inc. data was analyzed, as well as service announcements and industry information regarding seating capacity for FY 2013 to project future Airport activity for FY 2013.

Based on discussions with Official Airline Guide, Inc., scheduled airline seat data can be considered reliable from three to six months in the future. The quality of scheduled data represented for future months farther out than six months tends to be understated, as airlines are still in the planning/design process for intermediate and future schedules. During this timeframe, airlines are still determining where to fly, frequencies, flight times, aircraft assignments, and routes. As a result, R&A limited the scheduled departing seat analysis to the first half of FY 2013 in comparison to a similar period in FY 2012.

As discussed earlier, domestic enplaned passengers at the Airport increased at a CAGR of 3.7 percent between FY 2009 and FY 2012, a strong recovery from the 7.9 percent decrease in FY 2009 from FY 2008 levels. The increase in domestic enplaned passengers during this period can be attributed to increased scheduled seat capacity at the Airport. Domestic scheduled seats decreased 8.9 percent in FY 2009 from FY 2008 levels. In FY 2010, domestic scheduled seats remained at FY 2009 levels, and then increased 4.0 percent in FY 2011 and 3.4 percent in FY 2012 from the previous year’s level.

Scheduled domestic departing seats for the first half of FY 2013 indicate a continued increase in capacity at the Airport, although at a lower rate than that experienced in the recovery years FY 2010 through FY 2012. As such, domestic enplaned passengers at the Airport are expected to increase from 23.0 million in FY 2012 to 23.5 million in FY 2013, an annual increase of 2.3 percent (compared to the annual growth of 3.9 percent in FY 2012 from FY 2011 levels).

The severity of the economic recession worldwide during the FY 2008/FY 2009 period resulted in decreased international passenger activity at the Airport in FY 2009 from FY 2008 levels (a 12.0 percent decrease during this period). Similar to domestic activity, a strong recovery in international activity occurred at the Airport thereafter, as international enplaned passengers increased at a CAGR of 3.5 percent between FY 2009 and FY 2012. The increase in international enplaned passengers during this period can also be attributed to increased scheduled seat capacity at the Airport. International scheduled seats decreased 11.8 percent in FY 2009 from FY 2008 levels. In FY 2010, domestic scheduled seats remained at FY 2009 levels, and then increased 3.1 percent in FY 2011 and 3.9 percent in FY 2012 from the previous year’s level.

Scheduled international departing seats for the first half of FY 2013 also indicate a continued increase in capacity at the Airport. As such, international enplaned passengers at the Airport are expected to increase from 8.5 million in FY 2012 to 8.8 million in FY 2013, an annual increase of 3.0 percent (compared to the annual growth of 4.6 percent in FY 2012 from FY 2011 levels).

With expectations of continued recovery from the recession of FY 2008/FY 2009, total enplaned passengers are projected to increase further in FY 2014 and FY 2015 at annual growth rates of 2.2 percent and 2.0 percent, respectively, reaching approximately 33.7 million in FY 2015.

2.6.1.2 Longer-Term Projected Enplaned Passengers—FY 2016 through FY 2018

For projecting Longer-Term enplaned passengers at the Airport, several methodologies were utilized and assessed for reasonableness:

- **Market Share Approach.** In this methodology, judgments are made as to how and to what extent the Airport's rate of growth will differ from that projected for the nation by the FAA. As discussed previously, the FAA's forecasts are prepared for federal budgeting and planning purposes and, as a result, are not as conservative as forecasts typically prepared for bond financial feasibility studies or for financial planning purposes. On a macro scale, the U.S. projection provides a growth base reflecting how industry traffic in general is anticipated to grow in the future. The growth rate used for the Airport can be reflected as an increase or decrease in its future share of the market. For projected domestic activity, this approach was used individually for American, United, and Southwest (airlines with the highest share of domestic enplaned passengers at the Airport in FY 2012), as well as collectively for the remaining domestic airlines. A similar approach was used for projecting international activity individually for U.S. airlines and foreign flag carriers.
- **Socioeconomic Regression Approach.** Statistical linear regression modeling is used in this methodology, with local socioeconomic factors as the independent variable and enplaned passengers as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, per capita income, and employment.
- **Trend Analysis.** In this methodology, an equation is developed based on historical time series data that is used to calculate projections of activity. The only variable used in developing projections with trend analysis is time (year).

As shown on Table 2-24, the market share approach was the ultimate methodology of choice for developing the Longer-Term projections of enplaned passengers, with the other two approaches used as a comparison benchmark and as a test for reasonableness. To provide for a more conservative projection than that prepared by the FAA for nationwide activity, it was assumed that long-term growth at the Airport would increase at rates below that of the nation (i.e., a decreasing market share of U.S. traffic).

Based on points and assumptions discussed below, and following the expected increase in passenger activity at the Airport through FY 2015, total enplaned passengers at the Airport are projected to increase from 33.7 million in FY 2015 to 35.6 million in FY 2018, resulting in a CAGR of 2.0 percent between FY 2012 (base year) and FY 2018, compared to 2.8 percent projected nationwide by the FAA during this same period.

Longer-Term projections of individual components of total activity at the Airport are discussed below:

- With the expected shifting of certain air service by the legacy carriers, regional/commuter domestic enplaned passengers are projected to continue to increase at a higher rate than the domestic major/national enplaned passengers (CAGRs of 3.0 percent and 1.8 percent, respectively, between FY 2012 and FY 2018).
- It is expected that certain legacy carriers will continue to re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international

enplaned passengers by U.S. flag carriers are projected to increase at a higher rate than international enplaned passengers by foreign flag carriers (CAGRs of 3.1 percent and 2.0 percent, respectively, between FY 2012 and FY 2018).

2.6.2 PROJECTED OPERATIONS

Table 2-26 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, other air taxi operators, and military. Based on expectations of continued recovery in passenger airline capacities, total operations at the Airport are expected to increase from 610,585 operations in FY 2012 to 662,510 operations in FY 2018, a CAGR of 1.4 percent during this period.

It is expected that passenger airline operations will increase from 559,287 operations in FY 2012 to 609,840 in FY 2018, a CAGR of 1.5 percent during this period. In general, the passenger airline projections were developed based on historical relationships among enplaned passengers, load factors, and average seating capacities of aircraft utilized at the Airport. Specifically:

- Average seats for domestic majors/nationals are projected to increase approximately 0.25 to 0.30 seats per year during the Projection Period, from 160.3 seats in FY 2012 to 162.0 seats in FY 2018, similar to average seat levels immediately prior to September 11.
- Average seats for regionals/commuters are projected to increase approximately 0.50 seats per year, from 50.9 seats in FY 2012 to 53.9 seats in FY 2018. It is expected that a continued shifting from the smaller 50-seat regional jets to the larger 70- to 90-seat regional jets will occur at the Airport to accommodate certain shifting of legacy carrier traffic to these carriers.
- Average seats for international carriers are projected to increase approximately 1.25 to 1.45 seats per year, from 228.2 seats in FY 2012 to 236.2 seats in FY 2018. This relatively high growth in seats is primarily due to the expected initiation of service by new generation aircraft (i.e., A-380 and B-787) at the Airport during the Projection Period.
- Combined load factors for domestic majors/nationals, regionals/commuters, and international carriers are projected at 79 to 81 percent during the Projection Period, relatively consistent with load factor assumptions used by the FAA in its nationwide projections (approximately 83 percent between FY 2012 and FY 2018).

General aviation activity at the Airport has been relatively constant in recent years, as growth in this activity has occurred primarily at outlying airports within the Air Trade Area due to cost and delay considerations at the Airport for these operators. As a result, general aviation activity at the Airport is projected to remain at its average level between FY 2011 and FY 2012 (approximately 18,600 operations) each year during the Projection Period. It is expected that the majority of general aviation traffic at the Airport will be corporate/business travel during the Projection Period.

All-cargo activity at the Airport, which has been relatively stable between FY 2009 and FY 2012 at approximately 19,350 operations during this period, is expected to increase moderately from 19,874 operations in FY 2012 to 20,470 operations in FY 2018. This increase represents a CAGR of 0.5 percent during this period.

Table 2-26 Operations Projections - LAX

YEAR	DOMESTIC		INTERNATIONAL	INTERNATIONAL	TOTAL	GENERAL AVIATION	ALL CARGO	OTHER		AIRPORT TOTAL	ANNUAL % CHANGE
	MAJORS/NATIONALS	REGIONALS/COMMUTERS	U.S. FLAG CARRIERS	FOREIGN FLAG CARRIERS	PASSENGER AIRLINES			AIR TAXI	MILITARY		
Historical											
2000	409,720	186,710	36,974	74,516	707,920	18,292	36,756	16,388	2,552	781,908	-
2001	423,184	183,842	40,766	78,744	726,536	17,787	36,110	13,728	1,968	796,129	1.8%
2002	331,630	158,412	38,708	66,650	595,400	15,188	31,694	12,818	2,315	657,415	(17.4%)
2003	322,238	162,950	21,752	71,834	578,774	16,379	25,834	18,208	2,239	641,434	(2.4%)
2004	325,854	150,086	20,772	74,376	571,088	14,709	25,344	22,740	2,806	636,687	(0.7%)
2005	326,252	153,880	26,286	80,808	587,226	14,040	27,100	22,605	2,852	653,823	2.7%
2006	319,258	154,092	25,580	81,476	580,406	16,116	26,272	25,582	2,488	650,864	(0.5%)
2007	318,210	159,182	28,372	79,364	585,128	15,624	25,232	35,037	2,488	663,509	1.9%
2008	320,172	181,244	27,690	80,706	609,812	18,239	22,174	26,798	2,758	679,781	2.5%
2009	299,087	128,026	21,626	73,044	521,783	15,758	19,440	2,447	2,561	561,989	(17.3%)
2010	285,246	134,000	21,660	73,300	514,206	19,514	18,951	6,804	2,908	562,383	0.1%
2011	280,275	158,600	24,960	72,360	536,195	18,681	19,124	9,193	2,445	585,638	4.1%
2012	314,703	147,450	26,111	70,725	558,989	18,546	19,874	10,472	2,704	610,585	4.3%
Projected											
2013	319,800	151,200	26,980	71,640	569,620	18,600	19,970	10,300	2,700	621,190	1.7%
2014	324,200	154,600	27,640	72,300	578,740	18,600	20,070	10,430	2,700	630,540	1.5%
2015	328,400	158,000	28,200	72,840	587,440	18,600	20,170	10,560	2,700	639,470	1.4%
2016	332,600	161,200	28,720	73,240	595,760	18,600	20,270	10,700	2,700	648,030	1.3%
2017	336,000	164,400	29,100	73,560	603,060	18,600	20,370	10,800	2,700	655,530	1.2%
2018	339,200	167,400	29,420	73,820	609,840	18,600	20,470	10,900	2,700	662,510	1.1%
Compound Annual Growth Rate											
2000 - 2012	(2.2%)	(1.9%)	(2.9%)	(0.4%)	(1.9%)	0.1%	(5.0%)	(3.7%)	0.5%	(2.0%)	
2012 - 2015	1.4%	2.3%	2.6%	1.0%	1.7%	0.1%	0.5%	0.3%	(0.0%)	1.6%	
2015 - 2018	1.1%	1.9%	1.4%	0.4%	1.3%	0.0%	0.5%	1.1%	0.0%	1.2%	
2012 - 2018	1.3%	2.1%	2.0%	0.7%	1.5%	0.0%	0.5%	0.7%	(0.0%)	1.4%	

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

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

Activity by other air taxi operators is also expected to increase moderately from 10,472 operations in FY 2012 to 10,900 operations in FY 2018, a CAGR of 1.2 percent during this period.

Future military activity at the Airport will be influenced by U.S. Department of Defense policy, which largely dictates the level of military activity at an airport. Military activity at the Airport is projected to remain constant at approximately 2,700 operations each year during the Projection Period, comparable to its five-year average activity level between FY 2008 and FY 2012.

2.6.3 PROJECTED PASSENGER AIRLINE AND ALL-CARGO LANDED WEIGHT

Table 2-27 presents historical and projected passenger airline and all-cargo carrier landed weight at the Airport. As shown, passenger airline landed weight is projected to increase from 45,892,179 thousand pounds in FY 2012 to 51,307,954 thousand pounds in FY 2018, a CAGR of 1.9 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 4,143,160 thousand pounds in FY 2012 to 4,438,655 thousand pounds in FY 2018, a CAGR of 1.2 percent during this period. In general, the increases in landed weight for both groups are expected as a result of anticipated use of larger aircraft and/or increased operations at the Airport during the Projection Period.

Table 2-27 Landed Weight Projections (thousand pounds) - LAX

(thousand pounds)

FISCAL YEAR	DOMESTIC MAJORS/ NATIONALS	REGIONALS/ COMMUTERS	INTERNATIONAL U.S. FLAG CARRIERS	INTERNATIONAL FOREIGN FLAG CARRIERS	TOTAL PASSENGER AIRLINES ^{1/}	ALL CARGO CARRIERS	AIRPORT	ANNUAL % CHANGE
Historical								
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884	-
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663	2.6%
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225	(14.9%)
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008	(3.1%)
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943	(0.4%)
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891	1.3%
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198	(0.8%)
2007	26,677,762	2,954,684	2,843,496	14,845,477	47,321,419	4,964,390	52,285,809	0.9%
2008	26,179,246	3,639,478	2,732,947	15,235,494	47,787,165	4,311,780	52,098,945	(0.4%)
2009	24,392,691	2,701,756	2,121,612	13,766,773	42,982,832	3,735,976	46,718,808	(10.3%)
2010	24,465,008	2,902,972	2,062,511	14,050,708	43,481,199	3,890,090	47,371,289	1.4%
2011	25,064,080	3,233,809	2,281,928	13,913,599	44,493,416	3,954,394	48,447,810	2.3%
2012	25,790,799	3,526,713	2,454,785	14,119,882	45,892,179	4,143,160	50,035,339	3.3%
Projected								
2013	26,313,363	3,654,361	2,563,336	14,428,356	46,959,416	4,191,017	51,150,433	2.2%
2014	26,805,420	3,775,344	2,653,552	14,688,239	47,922,555	4,239,987	52,162,542	2.0%
2015	27,289,384	3,898,034	2,735,382	14,925,850	48,848,650	4,289,236	53,137,886	1.9%
2016	27,772,406	4,017,447	2,814,407	15,136,424	49,740,683	4,338,763	54,079,446	1.8%
2017	28,187,464	4,138,466	2,880,608	15,331,728	50,538,267	4,388,570	54,926,836	1.6%
2018	28,594,834	4,256,007	2,941,567	15,515,546	51,307,954	4,438,655	55,746,608	1.5%
Compound Annual Growth Rate								
2000 - 2012	(2.7%)	3.1%	(3.0%)	0.5%	(1.5%)	(3.5%)	(1.7%)	
2012 - 2015	1.9%	3.4%	3.7%	1.9%	2.1%	1.2%	2.0%	
2015 - 2018	1.6%	3.0%	2.5%	1.3%	1.7%	1.1%	1.6%	
2012 - 2018	1.7%	3.2%	3.1%	1.6%	1.9%	1.2%	1.8%	

NOTE:

1/ Passenger airline landed weight reflected for FY 2013 through FY 2018 is greater than passenger landed weight reflected on the bottom of Table 4-8, which excludes certain passenger airline landed weight the Department treats as cargo landed weight.

SOURCES: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2012.
PREPARED BY: Ricondo & Associates, Inc., August 2012.

3. Airport Facilities and Capital Program

This chapter presents a review of existing Airport facilities, a discussion of the Series 2012 Projects, and a description of other planned capital improvements at the Airport.

3.1 Existing Airport Facilities

The Airport is located approximately 15 miles southwest of downtown Los Angeles and occupies approximately 3,673 acres of land, consisting of the Central Terminal Area (CTA), airfield facilities, air cargo facilities, and ancillary facilities. The Airport is generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the South by Imperial Highway, and on the west by the Pacific Ocean. Existing facilities at the Airport are described in the following paragraphs.

3.1.1 AIRFIELD FACILITIES

The existing airfield consists of four parallel air carrier runways configured in two pairs. The north airfield complex includes outboard Runway 6L-24R (8,925 feet) and inboard Runway 6R-24L (10,285 feet). The south airfield complex includes outboard Runway 7R-25L (11,095 feet) and inboard Runway 7L-25R (12,091 feet). All runways are 150 feet wide, except for Runway 7R-25L, which is 200 feet wide. For approaches during Instrument Flight Rules (IFR) conditions, instrument landing systems are installed on all four runways.

Primary runway use is arrival operations on the outboard runways and departure operations on the inboard runways. Simultaneous approaches to the outboard and inboard runways are conducted only in west flow during Visual Flight Rules (VFR) using visual approach procedures. All four runways are capable of accommodating fully loaded widebody aircraft, such as the Boeing 747 and 787, and the Airbus 340 and 380. Air traffic control procedures and airfield geometry govern where and how Airbus 380 aircraft operate at the Airport.

A taxiway network to facilitate the movement of aircraft between the runways and the CTA and other Airport facilities serves both sets of parallel runways. The north and south airfield complexes are separated by the CTA, aircraft maintenance hangar facilities, the fuel farm, and remote aircraft gates, all of which are located along an east-west spine through the Airport.

Lighting for the entire flight area, including lighting for the four runways and all connecting taxiways, approach lights, and obstruction lights, is provided on a 24-hour basis.

3.1.2 TERMINAL FACILITIES

There are nine passenger terminals at the Airport that accommodate domestic and international passenger activity. Although many of the terminals are physically connected and share a common U-shaped, two-level enplaning/deplaning roadway system, they function as independent terminals with separate ticketing, baggage, security checkpoints, and passenger processing systems. The terminals share a common aircraft gate access system, which is comprised of a single taxi lane between terminal piers, requiring considerable airline cooperation to minimize aircraft arrival and departure delays.

The combined area of all nine passenger terminals is approximately 4.7 million square feet. Each of the nine terminals is briefly described below:

- **Terminal 1** is used for domestic operations and comprises approximately 369,200 square feet on three levels. Tenants of this facility include Air Tran Airways, Southwest Airlines, and US Airways.
- **Terminal 2** is used by 15 airlines, including Aero Mexico, Air Canada, Air China, Air France, Air New Zealand, Alitalia, Arkfly, Hawaiian Airlines, KLM, LACSA, Sun Country, TACA, Virgin Atlantic, Volaris, and WestJet, for domestic and international use. The building is comprised of approximately 496,800 square feet on three levels. In addition, there is a mezzanine level with airline clubs and offices.
- **Terminal 3** is used by four airlines (JetBlue, Spirit Airlines, Virgin Australia, and Virgin America) primarily for domestic operations, although Virgin Australia operates international departures. This terminal is comprised of approximately 327,500 square feet and includes two levels and a mezzanine with an airline club and offices.
- **Terminal 4** is leased by American for both domestic and international operations at many of its gates. American Eagle also operates out of Terminal 4. The terminal is comprised of approximately 589,700 square feet and includes two levels and a mezzanine.
- **Terminal 5** is leased by Delta and also used by Virgin Australia (international arrivals) and Allegiant Air, and includes approximately 637,800 square feet. The terminal includes three levels (departure, ticketing, and arrival) and many of the gates in Terminal 5 are capable of both domestic and international operations.
- **Terminal 6** is used by Alaska Airlines, Delta, United Airlines, Allegiant Air (split operations between Terminals 5 and 6), Frontier, and Copa, for domestic and international operations. The two levels comprise approximately 475,800 square feet.
- **Terminals 7 and 8** are leased by United for domestic and international operations, and encompass approximately 759,200 square feet, consisting of two pier concourses supported by a single ticketing area and a split baggage claim facility, arranged on three levels with a mezzanine in the satellite.
- **Tom Bradley International Terminal (TBIT)** encompasses approximately 1,070,700 square feet and is the major international terminal serving both foreign flag and U.S. carriers. This terminal is comprised of four levels and is used by approximately 30 airlines providing international service at the Airport.

3.1.3 PUBLIC PARKING FACILITIES

As reflected on **Table 3-1**, approximately 19,000 public parking spaces are available at the Airport, including approximately 8,700 parking spaces in eight parking garages in the CTA. Approximately 7,300 public parking spaces are also provided in an economy-rate, remote surface parking lot (Lot C, located at 96th Street and Sepulveda Boulevard). Approximately 2,700 public parking spaces are provided in the Park One surface parking lot located adjacent to Terminal 1. To help reduce vehicle traffic congestion in the CTA, the Airport also provides a 77-space cell phone waiting lot (located at 96th Street near Lot C) where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside. Free shuttle service to the terminals is provided 24 hours per day from Lot C. Lot C also contains the Los Angeles County Metropolitan Transportation Authority Bus Center, which connects public bus systems with the courtesy shuttle bus service provided by the Airport. In addition to the public parking spaces discussed above, approximately 11,500 parking spaces are available in various parking lots for Airport employees.

3.1.4 RENTAL CAR FACILITIES

Ten rental car companies operating at the Airport under a concession agreement with the Department (see Section 4.6.2 of the Report for more detail) provide free shuttle service between the Airport and their off-Airport locations and are permitted to pick up and drop off their customers directly from the airline terminals. A number of other off-Airport rental car companies (not under a concession agreement) pick up rental car customers at the Off-Airport Rental Car Terminal (located at Lot C).

3.1.5 CARGO FACILITIES

Based on data obtained from the Airports Council International (ACI) for CY 2011, the Airport ranked 13th worldwide and 5th nationwide in total cargo handled with approximately 1.7 million enplaned and deplaned tons. The cargo areas at the Airport comprise 1.9 million square feet of building space in 25 buildings on 175 acres of land used for cargo-related purposes; approximately 92 percent of this space is leased. Four million square feet is developed for cargo use in the immediate vicinity of the Airport. The City owns all of the cargo-related property at the Airport although the tenants own some buildings located on the property.

The Airport cargo areas are generally oriented around three primary areas, including the 98-acre "Cargo City" (also known as "Century Cargo Complex"), the 57.4-acre "Imperial Cargo Complex," and a number of terminals on the south side of the Airport comprising the "South Cargo Area." Improvements and enhancements by tenants and the Department have been made continually at the Century Cargo Complex, the Airport's first air cargo area. America, United, Virgin Atlantic, Asiana, Alaska, British Airways, Southwest, and US Airways utilize this facility. The Imperial Cargo Complex has also undergone extensive development by domestic and international carriers. Major tenants include Lufthansa, Japan Airlines, Korean Air, Federal Express, China Airlines, Delta and Air Canada.

Table 3-1 Airport Parking

PARKING FACILITY	PARKING SPACES	LOCATION
PUBLIC PARKING		
CTA Parking Garages	8,727	Central Terminal Area
Lot C	7,300	96th St. and Sepulveda Blvd.
Park One ^{1/}	2,728	Adjacent to Terminal 1
Cell Phone Lot	77	Adjacent to Lot C
Total Public Parking	18,832	
EMPLOYEE PARKING		
CTA	420	Central Terminal Area
Lot D	1,944	6101 Westchester Parkway
Lot E	5,068	5555 West 111th. Street
Lot F (parking garage)	1,700	6075 Avion Drive
Jenny Lot (anticipated to open April 2013)	2,000	Jenny Street
Lot A, Lot IC, Lot IT	423	Century Blvd.-Lot A; Aviation Blvd.-Lot IC; Imperial Highway -Lot IT.
Total EmployeeParking	11,555	

NOTE:

1/ Parking spaces in the Park One lot are provided subject to a lease with Park 'N Fly. See Section 4.6.1 of the Report for more information.

SOURCE: City of Los Angeles, Department of Airports, October 2012.

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

Each Cargo complex at the Airport has a unique landside access system. The primary access for the Airport's cargo areas is provided from three arterial roadways: Century Boulevard, Aviation Boulevard, and Imperial Highway. Parking areas are generally adjacent to each cargo building. To accommodate the truck activity, each cargo building has designated truck docks. Many of these docks are used for storage and other nonloading/unloading activities.

3.1.6 ANCILLARY FACILITIES

Ancillary facilities support the aviation-related activities at the Airport. The facilities identified as ancillary are categorized as General Aviation, Ground Service, Federal Aviation Administration, Transportation Security Administration (TSA), Airline Administration and Maintenance, Los Angeles World Airports (the Department), Flight Kitchens, Fuel, and Other Ancillary Facilities.

- **General Aviation.** Two fixed base operators (FBOs), Landmark Aviation and Atlantic Aviation, operate at the Airport, encompassing approximately 14 acres. They provide a full array of services to the general aviation community, such as refueling, light maintenance and pilot lounges.
- **Ground Service.** Several ground service companies operate at the Airport providing a variety of services, employing some 2,400 employees and occupying approximately nine acres.
- **Federal Aviation Administration (FAA).** The FAA occupies the 277-foot Airport Traffic Control Tower (ATCT) and handles all flight arrivals and departures as well as ground movement.
- **Transportation Security Administration (TSA).** The TSA occupies the sixth floor of the former control tower.
- **Airline Administration and Maintenance.** These hangars and support facilities are concentrated in six primary airline complexes at the Airport:
 - Delta/United Airlines
 - American Airlines (2)
 - United Airlines
 - Federal Express
 - US Airways
- **The Department.** The Department maintains facilities occupying approximately 30 acres at the Airport, consisting of maintenance yard, warehouse, inspection office, administration offices, a telecommunication center and executive offices in the former control tower.
- **Flight Kitchen.** Two catering companies operate flight kitchens at the Airport, including Gate Gourmet and LSG Sky Chefs.
- **Fuel.** Fuel is transported into the Airport's bulk storage fuel farm facility via underground pipelines from several petroleum refineries in the South Bay area. The bulk storage fuel farm at the Airport encompasses approximately 20 acres on the north side of World Way West. Six petroleum refineries provide fuel to the Airport, and five principal companies store and deliver fuel to aircraft at the Airport for a combined total of over 130 million gallons per month.

- **Central Utility Plant.** The existing Central Utility Plant (CUP), constructed in 1961, is located west of the ATCT in the CTA, and includes a network of approximately 18 miles of piping that serves the CTA, including terminals and concourses, Department administration facilities, and the Theme Building. In addition to providing hot water and chilled water to the closed loop piping systems that heat and cool these facilities, the adjacent, associated cogeneration plant provides co-generated electrical power back to the City's electrical grid. The cogeneration facility became operational in 1985. As described in Section 3.5, a new CUP is currently being constructed at the Airport.
- **Other Ancillary Facilities.** Other ancillary and support facilities at the Airport include the U.S. Post Office, Aircraft Rescue and Firefighting, Airport Police Bureau, and the U.S. Coast Guard.

3.2 Summary of Capital Planning

Capital planning at the Airport operates within a series of adopted, comprehensive land use plans and procedures, namely a LAX Master Plan, a LAX Plan and a LAX Specific Plan. Please refer to the "CAPITAL PLANNING" section of the front portion of the Official Statement for the Series 2012 Bonds for a more detailed discussion. The Department approaches its capital development with a strategic focus on delivering facilities that will support the Airport's position as a premier international gateway airport and maintain a reasonable cost structure for the airlines operating at the Airport. Department management reviews and assesses the Capital Program annually on a formal basis, and continuously on a less formal basis, in light of many factors, including but not limited to: improved information regarding the condition and/or requirements of new and existing facilities; improved cost estimates for contemplated projects; new opportunities for investment or acquisition that arise from time to time; current and forecast traffic levels, and; changes within the industry that may influence the cost of the Capital Program. Department Management's analysis of these factors and other information may result in changes to timing or scope of contemplated projects and the addition or removal of projects from the Capital Program.

In July 2012, the Department released a Preliminary LAX Specific Plan Amendment Study (LAX SPAS Report) and a draft environmental impact report (the LAX SPAS Draft EIR), copies of which are available on the Department's website. The LAX SPAS Draft EIR identified and evaluated nine alternatives for the Yellow Light Projects, the environmental impacts of each and mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan Program EIR along with other required components of an environmental impact report pursuant to CEQA. The LAX SPAS Report summarizes the concept development process for the nine alternatives, identifies potential amendments to the LAX Specific Plan that would be needed to implement any of the nine alternatives, and provides certain security and financial information for comparison purposes.

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

alternative would not be started until after the Projection Period (and would be considered "Future Projects" as described below).

As discussed further in Chapter 4 of the Report, specific funding source decisions are driven by the Capital Program and are made on the basis of project specific considerations and market factors and are made within the context of the Department's strategic objectives for managing the Airport's long term capital structure.

For purposes of the Report, the Airport's Capital Program is organized into the following categories:

- **The Series 2012 Projects.** Includes capital projects to be funded, in part, with Series 2012 Bond proceeds. The capital and operating costs, and any estimated revenue impacts, associated with the Series 2012 Projects **have been included** in the financial analysis incorporated in the Report (see Chapter 4).
- **Other Incorporated Projects.** Includes future capital projects other than the Series 2012 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in the Report, and are expected by the Department to be completed during the Projection Period (through FY 2018). These projects are referred to in the report as the Other Incorporated Projects. The capital and operating costs, and any estimated revenue impacts, associated with the Other Incorporated Projects **have been included** in the financial analysis incorporated in the Report (see Chapter 4). As described in Chapter 4, debt associated with the Other Incorporated Projects is incorporated in the analysis using assumptions that reflect the Department's strategic approach to managing its long-term funding plan.
- **Ongoing Projects.** Includes capital projects currently underway that have already been funded. The capital and operating costs, and any estimated revenue impacts associated with the Ongoing Projects **have been included** in the Report.

There are other potential future projects at the Airport that the Department may consider (referred to as Future Projects) that are not part of the current Capital Program and **are NOT reflected** in the Report because: (1) the scope, timing, cost, or approvals for these projects are uncertain; (2) environmental reviews are not yet completed or are not expected to be completed within the Projection Period; or (3) construction of these projects is not expected to be started during the Projection Period. The Department will only undertake Future Projects, or portions thereof, as demand at the Airport warrants, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by a reasonable level of Airport user fees or other discrete funding sources such as grants, PFCs, CFCs, Department funds or third party funds.

3.3 The Series 2012 Projects

The Series 2012 Projects are Airport projects that will be funded in part with the proceeds of the Series 2012 Bonds and include Terminal 5 and Terminal 6 improvement projects. **Table 3-2** presents estimated costs for the Series 2012 Projects and the Other Incorporated Projects and Ongoing Projects discussed below in Section 3.4.

As described in more detail below, the Series 2012 Projects will modernize Terminals 5 and 6 (with new in-line bag systems, federal facilities, passenger security checkpoints, ticketing/check-in lobbies, boarding bridges, and information displays, among other things) and improve terminal efficiency and the overall passenger experience.

The Series 2012 Projects are estimated to cost approximately \$519.2 million. Certain expenditures associated with the Series 2012 Projects have already been made. Sources of funding for the Series 2012 Projects are described in Section 4.7 of the Report. The financial impacts of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects are incorporated in the Report.

The Series 2012 Projects are described as follows:

- **Terminal 6 Improvement Project.** This project consists of improvements made as part of the modernization of Terminal 6, including a new in-line baggage screening system, renovated ticketing/check-in lobby with kiosks for check-in and bag-check, new boarding areas, a new passenger lounge, new gate information displays, and renovated U.S. Customs and Border Protection facilities to accommodate international passengers. As reflected on Table 3-2, the Terminal 6 Improvement project is estimated to cost approximately \$245.0 million.
- **Terminal 5 Improvement Project.** This project consists of improvements made as part of the modernization of Terminal 5, including a new in-line baggage screening system, a new outbound baggage system, renovated U.S. Customs and Border Protection facilities to accommodate international passengers, renovated passenger security screening checkpoints, renovated ticketing/check-in lobby, renovated baggage claim areas, and the replacement of 13 passenger boarding bridges. This project also includes the refunding of approximately \$46.9 million of Subordinate Commercial Paper notes previously issued by the Department for the refunding of certain Regional Airports Improvement Corporation bonds issued to finance and refinance certain improvements in Terminal 5. As reflected on Table 3-2, the Terminal 5 Improvement Project is estimated to cost approximately \$274.2 million.

Table 3-2 Summary of Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects--Estimated Costs

		ESTIMATED PROJECT COSTS ^{1/}
SERIES 2012 PROJECTS		
Terminal 6 Improvement Project		\$ 244,997,000
Terminal 5 Improvement Project		274,242,000
Total Series 2012 Projects	[A]	\$ 519,239,000
OTHER INCORPORATED PROJECTS ^{2/}		
Terminal Projects		
Terminal Improvement Projects ^{3/}		\$ 1,440,675,000
Midfield Satellite Concourse - Phase 1		638,000,000
Terminal 4/TBIT Connector Building		175,000,000
Other Terminal Related Improvements ^{4/}		50,445,000
	[b1]	\$ 2,304,120,000
Airfield and Apron Projects		
Noise Mitigation and Soundproofing		\$ 405,000,000
West Maintenance Facility Pad and Infrastructure		195,000,000
Runway Safety Area Improvements		93,237,000
Runway 25R, Taxiway B&C		73,206,000
Midfield Satellite Concourse - Phase 1 Aprons		60,500,000
Other Airfield and Apron Projects ^{5/}		200,068,000
	[b2]	\$ 1,027,011,000
Landside, IT, and Infrastructure Projects		
Landside Projects (Parking and Roadway Improvements)		\$ 358,481,000
Information Technology (IT) Projects		76,822,000
Infrastructure Projects		26,000,000
	[b3]	\$ 461,303,000
Total Other Incorporated Projects	[B]=[b1]+[b2]+[b3]	\$ 3,792,434,000
ONGOING PROJECTS ^{6/}		
Terminal Projects		
Bradley West Terminal Project		\$ 1,538,888,000
Central Utility Plant		423,835,000
Elevators and Escalators Replacements		240,035,000
Fire Life Safety System Upgrades - Terminals 1 & 2		4,256,000
	[c1]	\$ 2,207,014,000
Airfield and Apron Projects		
Taxilane S		\$ 140,532,000
Taxilane T		156,284,000
Bradley West Aprons		126,109,000
Construction Support Facilities		9,475,000
	[c2]	\$ 432,400,000
Total Ongoing Projects	[C]=[c1]+[c2]	\$ 2,639,414,000
TOTAL SERIES 2012 PROJECTS, OTHER INCORPORATED PROJECTS, AND ONGOING PROJECTS	= [A+B+C]	\$ 6,951,087,000

NOTES:

- 1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts
- 2/ Other Incorporated Projects are future projects that are anticipated to be completed during the Projection Period.
- 3/ Includes the renovation and modernization of terminal facilities, as well as improvements to baggage screening systems, concessions, bathrooms, and other facilities with various terminals.
- 4/ Includes a concessions enabling project, buyout of a First Class lounge, improvements to the Commuter Terminal, relocation of a passenger boarding bridge, and a project to provide aircraft ground power
- 5/ Includes rehabilitation of Runways 24R and 25L, Taxilane D-10 reconstruction, Airport Operation Areas (AOA) perimeter fence enhancements, and other airfield and apron improvements
- 6/ Ongoing Projects include certain projects already underway that have been funded and do not require future bond proceeds:

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

3.4 Other Incorporated Projects

As described in Section 3.2, Other Incorporated Projects include future projects expected by the Department to be completed during the projection period (through FY 2018), and that are generally defined in terms of timing and cost, have been internally reviewed for financial feasibility, and are moving through the applicable approval level environmental review and approval processes and being discussed with relevant tenants. As shown on Table 3-2, preliminary cost estimates for the Other Incorporated Projects total approximately \$3.8 billion. Sources of funding for the Other Incorporated Projects are described in Section 4.7 of the Report. The estimated financial impacts of the Other Incorporated Projects **are incorporated in the Report**.

The Department intends to undertake the Other Incorporated Projects for reasons including, but not limited to: increasing operational efficiency and capacity; modernizing Airport facilities and systems; improving the overall passenger experience at the Airport; complying with FAA design standards; enhancing passenger and aircraft safety; and maintaining existing Airport pavements and facilities. Brief descriptions of the Other Incorporated Projects are provided below.

Other Incorporated Projects--Terminal Projects

- **Terminal Improvement Projects.** These projects include improvements to all nine terminals at the Airport. Specific projects include: terminal renovations; construction of in-line baggage screening systems; passenger boarding bridge replacements; purchase and installation of preconditioned air units; various utility improvements including sewer lines and electrical panel replacements; new bag claim devices; and other general terminal improvements. As reflected on Table 3-2, these projects are estimated to cost approximately \$1.4 billion.
- **Midfield Satellite Concourse – Phase 1.** Phase 1 of the Midfield Satellite Concourse, to be located west of TBIT, includes construction of a northern section of aircraft gates. This project is estimated to cost approximately \$638 million.
- **Terminal 4/TBIT Connector Building.** This terminal improvement project will be a multi-level, multi-purpose facility providing secure passenger connectivity between Terminal 4 and TBIT; a checked baggage inspection system for Terminal 4; an arriving international passenger security screening checkpoint near the exit from the TBIT FIS facility; a passenger lounge and bus bay for airside bus connections to other terminals; and a public plaza area adjacent between the upper-level roadway linking Terminal 4 and TBIT. This project is estimated to cost \$175.0 million.
- **Other Terminal Improvements.** These improvements include aircraft ground power, concessions, and ADA accessibility improvements. Also included is a program reserve for future terminal improvements. These improvements are estimated to cost approximately \$50.4 million.

Other Incorporated Projects--Airfield and Apron Projects

- **Noise Mitigation and Soundproofing.** The Department is currently implementing an Airport Residential Soundproofing Program (RSP) for aircraft noise impacted areas surrounding the Airport. The program includes installation of acoustic modifications to lessen the effects of aircraft noise in impacted homes adjacent to the Airport. In addition, the Department is managing a Voluntary

Residential Acquisition and Relocation Program, under which the Department is in the process of acquiring residences in the Manchester Square and Belford Areas in lieu of soundproofing. This project is estimated to cost approximately \$405.0 million.

- **West Maintenance Facility Pad and Infrastructure.** This project entails the construction of approximately 21 acres of aircraft apron and 21 acres of grading for proposed hanger and aircraft parking improvements. This project also includes associated utilities and demolition of existing facilities. This project is estimated to cost approximately \$195.0 million.
- **Runway Safety Area Improvements.** This project includes improvements to the Runway Safety Area (RSA) on the west end of Runway 7L/25R, to meet FAA standards. This project will also expand the west end of Runway 7L/25R by approximately 850 feet. This project includes the demolition of certain sections of taxiways, construction of new runway and taxiway pavement, associated utilities, pavement markings and striping, lighting, and navigational aids. This project also includes improvements to RSAs on the west ends of Runways 24L and 24R. Total RSA improvements are estimated to cost approximately \$93.2 million.
- **Runway 25R and Taxiway B East End Rehabilitation and Taxiway C Extension.** This project includes the rehabilitation of the east end of Runway 25R/7L and Taxiway B. This project also includes extension of the east end of Taxiway C. This project is estimated to cost approximately \$73.2 million.
- **Midfield Satellite Concourse – Phase 1 Aprons.** This project includes the construction of aircraft parking aprons associated with Phase 1 of the Midfield Satellite Concourse. This project is estimated to cost approximately \$60.5 million.
- **Other Airfield and Apron Improvements.** These improvements include amounts for pavement rehabilitation, perimeter fencing, and certain taxiway improvements. These improvements are estimated to cost approximately \$200.1 million.

Other Incorporated Projects—Landside, Infrastructure, and Information Technology Projects

- **Landside, Information Technology, and Infrastructure Projects.** These projects include the purchase of certain property (Skyview Property) adjacent to the Airport including a surface parking lot and two office buildings; the repair and replacement of structural expansion joints on the second level roadway in the CTA; restoration of coastal dunes; construction of a 1,900-space parking lot; other parking improvements; and various information technology (IT) projects including closed-circuit television improvements, IT infrastructure improvements, and airport control tower computer system improvements. These projects are estimated to cost approximately \$461.3 million.

3.5 Ongoing Projects

As described in Section 3.2, Ongoing Projects include capital projects currently underway that have already been funded. The capital and operating costs, and any estimated revenue impacts associated with the Ongoing Projects **have been incorporated** in the Report. As shown on Table 3-2, the total cost of the Ongoing Projects is approximately \$2.6 billion.

A brief description of the Ongoing Projects is provided below. Collectively, the Ongoing Projects are expected to be completed within budget estimates. Information provided below regarding anticipated completion dates and spending to date is from the August 31, 2012 Program Status Report for the Airport.

Ongoing Projects--Terminal Projects

- **Bradley West Terminal Project.** The existing TBIT facility, including the central core and north and south concourses, occupies approximately one million square feet. The ultimate expanded and improved facility will incorporate certain areas of the existing TBIT facility (as described below), expand the existing TBIT core, and construct new north and south concourses. The expanded and improved facility is estimated to encompass a total of approximately two million square feet. The central core of TBIT currently provides for passenger processing (i.e., ticketing, baggage check/claim, security screening, concessions, etc.). As part of the Bradley West Terminal Project, the central core would be improved and enlarged to provide additional inspection counters, baggage claim units, security processing areas, and U.S. Customs and Border Protection administrative areas. Other improvements would include renovations to the existing TBIT ticket counter area and airline ticket office area, the addition of new concessions areas, expansion of the meeter/greeter area, additional restrooms, and additional general circulation area. This project would improve the existing TBIT building area, as well as construct new building area west of the existing central core that will connect to the new concourses described below. The new north and south concourses will connect to the new and expanded terminal core described above. New and longer concourses would replace the existing TBIT north and south concourses, providing larger passenger hold areas and improved concessions, airline lounges, passenger corridors, administrative offices, and support space. The twelve gates that currently exist along the east side of TBIT would be replaced by approximately nine new gates on the west side of the new concourses. It is anticipated that many of the new gates will be specifically designed to accommodate new-generation aircraft such as the Airbus 380, Boeing 747-8 and Boeing 787, with features like multiple passenger loading bridges for each aircraft and larger passenger lounges and holdrooms. The Bradley West Terminal Project also includes the addition of secured walkways connecting Terminals 3 and 4 to TBIT so passengers with connecting flights do not have to exit the terminals and go through security screening again. This project is estimated to cost approximately \$1.5 billion. One new gate has already opened and two additional gates are expected to be opened by the end of the first quarter of CY 2013. The Department estimates that a total of 11 gates will be operational by the end of September 2013; a total of 16 gates will be operational by the end of September 2014; and all gates will be operational by the end of June 2015. As of August 31, 2012, approximately \$982.0 million of the total \$1.5 billion estimated budget had been spent.
- **Central Utility Plant (CUP).** This project replaces the existing, outdated CUP with new systems to provide heat/steam and chilled water for space conditioning in terminal and concourse areas, and includes a new cogeneration system that would use heat/steam from the CUP to generate electricity. The project involves replacement of the existing cooling towers, construction of an underground thermal energy storage tank at the site of the existing CUP, electrical upgrades to include a new electrical substation, a retrofit of the existing Los Angeles Department of Water and Power substation, a new Facility Management System, as well as demolition of the existing CUP facilities. In conjunction with replacement of the CUP, this project includes the construction of a utility tunnel between the new CUP building and the existing tunnel sections at each terminal, as well as the replacement of

both chilled and hot water piping. The project will also include replacement of fans, coils, dampers, motors, and other mechanical equipment within mechanical rooms in the terminals. This project is estimated to cost approximately \$423.8 million and is expected to be completed in FY 2014. As of August 31, 2012, approximately \$174.0 million of the total \$423.8 million estimated budget had been spent.

- **Elevators and Escalators Replacements.** This project includes upgrade and replacement of all aging elevators, escalators and moving walkways at the airport, which have exceeded their useful life expectancy. This project is estimated to cost approximately \$240.0 million. The first phase of replacements has been completed and the second phase is now underway. Completion of the second phase is anticipated in FY 2016. As of August 31, 2012, approximately \$67.0 million of the total \$240.0 million estimated budget has been spent.
- **Fire Life Safety System Upgrades (Terminals 1 and 2).** This project replaces existing and outdated fire life safety systems in Terminals 1 and 2 with new systems that will bring those terminals into full compliance with Los Angeles Fire Department and ADA requirements. This project is estimated to cost approximately \$4.3 million and is expected to be completed in December 2012.

Ongoing Projects--Airfield and Apron Projects

- **Taxilane S.** This project consists of the construction of a 3,785-foot long taxilane plus a connector taxiway to connect Taxiway B on the south and Taxiway E on the north. Taxilane S will be constructed as part of a 400-foot wide concrete strip which will be the first part of the future dual taxilane/taxiway system between the future Midfield Satellite Concourse and TBIT. This project is estimated to cost approximately \$140.5 million. This project is substantially complete and all taxiways are open and in operation.
- **Taxilane T.** This project consists of the construction of a 3,166-foot long taxilane to connect Taxiway C on the south and Taxiway D on the north. Taxilane T will be constructed as part of a 300-foot wide concrete strip which will be the second part of the future dual taxilane/taxiway system replacing existing Taxiways Q and S, west of TBIT. This project is estimated to cost approximately \$156.3 million and is expected to be completed in FY 2015. As of August 31, 2012, approximately \$32.0 million of the total \$156.3 million estimated budget had been spent.
- **Bradley West Aprons.** The Bradley West Aprons Project is associated with the Bradley West Terminal Project described above. On the west side of the proposed concourses associated with the Bradley West Project, new apron areas will be constructed along the length of the concourses to accommodate new aircraft gates. On the east side of the new concourses, the project includes demolition of the existing concourses at the Tom Bradley International Terminal (TBIT) and the construction of new apron areas to accommodate aircraft gates along the east side of the new concourses. The Bradley West Aprons Project is estimated to cost approximately \$126.1 million.
- **Construction Support Facilities.** This project includes the construction of new sections of aircraft parking ramp, security fencing, and other improvements related to construction efforts at the Airport. This project is estimated to cost approximately \$9.5 million and is expected to be completed by June 30, 2013.

It should be noted that in addition to the Other Incorporated Projects and Ongoing Projects discussed above, there are other projects at the Airport that are smaller in terms of estimated cost and more routine in nature relative to the projects listed on Table 3-2. These other projects (1) are not being funded with Series 2012 Bonds, (2) are not expected to be funded with future Bonds, and (3) are not estimated to have an impact on Airport operating expenses or revenues, and therefore are not reflected in the Report.

4. Financial Analysis

This chapter examines the financial structure of the Airport and the financial implications of the Series 2012 Projects, the Other Incorporated Projects, and Ongoing Projects; presents debt service, operating expense, and revenue projections; and presents projections of debt service coverage, airline rates and charges, and other key financial measures.

4.1 Financial Structure

This section discusses the City Charter, accounting practices employed by the Department, and the cost center structure utilized for airline rate-setting purposes.

4.1.1 CITY CHARTER

The City adopted a new City Charter that became effective July 1, 2000. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for use of the Airport System.

Section 609 of the City Charter confers upon the Department the power to borrow money for any lawful purpose relating to the Department. Bonds so issued do not constitute or evidence indebtedness of the City. The Department has no taxing power. As of November 1, 2012, there were five series of Senior Bonds outstanding (Series 2008A, 2008B, 2009A, 2010A, and 2010D), with a combined principal amount outstanding of approximately \$2.661 billion. As of November 1, 2012, there were six series of Subordinate Obligations outstanding (Series 2008C, 2009C, 2009D, 2009E, 2010B, and 2010C), with a combined principal amount outstanding of approximately \$782.6 million. Additionally, pursuant to the Subordinate Indenture, the Department is authorized to issue up to \$500 million aggregate principal amount of its Subordinate Commercial Paper Notes, however, as of the date of the Report, the Department has decided to limit its Subordinate Commercial Paper Note issuances to the total credit support provided by various letter of credit banks (\$350 million). As of November 1, 2012, the Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately \$272.1 million.

In 2000, the voters of the City approved Charter Amendment No. 8 relating to the Airport Revenue Fund. This change in the City Charter provided the Department with additional flexibility to account separately for the

income and expenses of each airport under its control. The City Council adopted two ordinances, the LAX Ordinance and the Ontario Ordinance, to implement Charter Amendment 8, which resulted in the creation of the LAX Revenue Account and the Ontario Revenue Account.

4.1.2 ORGANIZATION AND AIRPORT ACCOUNTING

The Airport is owned and operated by the City, acting through the Department. The City, acting through the Department, also operates and maintains LA/Ontario International Airport (LA/ONT) and Van Nuys Airport (VNY). The Department also maintains property that is not currently used for airport purposes, known as LA/Palmdale Regional Airport (together with the Airport, LA/ONT, and VNY, the Airport System). The Department is under the management and control of a seven-member Board appointed by the Mayor. An Executive Director administers the Department and reports to the Board.

Each of the airports in the Airport System is accounted for separately by the Department. Currently, the operation of LA/ONT is financially self-sustaining, requiring no revenues from the General Fund of the City or other airports in the Airport System, though LAX revenues could be used at LA/ONT if necessary. Any revenue shortfalls associated with the operation of VNY are included as a requirement in the landing fee for the Airport (LAX), as discussed in Section 4.9.2.

The Airport is reported as a single enterprise fund and maintains its records on the accrual basis of accounting. The accounting and financial reporting policies of the Department conform to generally accepted accounting principles for local governmental units set forth by the Government Accounting Standards Board (GASB) as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges.

Operation and Maintenance (O&M) Expenses at the Airport are categorized into Cost Centers. Cost Centers include those areas or functional activities used for the purposes of accounting for the financial performance of the Airport. There are five direct revenue-producing Cost Centers and two indirect Cost Centers included in the Airport's financial structure. The Cost Centers included in the Airport's financial structure are described in greater detail below:

4.1.2.1 Direct Cost Centers

The five direct revenue-producing Cost Centers are as follows:

- Terminal Cost Center. The Terminal Cost Center is comprised of all passenger terminal buildings, other related and appurtenant facilities, and associated land, whether owned, operated, or maintained by the Department. Facilities include the passenger terminal buildings located in the CTA, passenger terminal buildings located outside the CTA, associated concourses, holdrooms, passenger tunnels, and all other facilities that are integral parts of the passenger terminal buildings.

- Apron Cost Center. The Apron Cost Center is comprised of the land and paved areas primarily adjacent to passenger terminal buildings, but also includes remote areas that provide for the exclusive and non-exclusive parking, loading, and unloading of passenger aircraft. The Apron Cost Center does not include aprons associated with general aviation, cargo, or aircraft maintenance facilities.
- Airfield Cost Center. The Airfield Cost Center is comprised of the land and facilities that support air navigation and flight activities, including aircraft access to, and egress from, apron areas. Land and facilities include runways, taxiways, approach and clear zones, navigation and related easements, infield areas, safety areas, and landing and navigational aids.
- Aviation Cost Center. The Aviation Cost Center is comprised of the land and facilities related to air cargo, general aviation, fixed base operator (FBO) operations, aircraft fueling, aircraft maintenance, airline services, and other aviation related activities.
- Commercial Cost Center. The Commercial Cost Center is comprised of the land and facilities not located in passenger terminal buildings that are provided for non-aeronautical commercial and industrial activities, including for example, public automobile parking, car rental service centers, golf course, the Theme Building, and the Proud Bird restaurant.

4.1.2.2 Indirect Cost Centers

The two indirect Cost Centers are as follows:

- General Administration Cost Center. The General Administration Cost Center includes the general administrative and support costs related to providing, maintaining, operating, and administering the Airport that cannot be directly allocated to cost centers.
- Access Cost Center. The Access Cost Center includes the costs of providing, maintaining, operating, and administering facilities and services for on-Airport and off-Airport ground access for vehicles and pedestrians, including airside and landside access, and Airport access generally. It also includes the costs of increasing, preserving, or managing the throughput capacity of the Airport's access facilities; that is the volume of, and rate at which, users can be accommodated.

4.2 Senior Indenture

Pursuant to the terms of the Master Trust Indenture, dated as of April 1, 1995, as subsequently amended and supplemented (and referred to in the Report as the Senior Indenture), the Department may issue Los Angeles International Airport Revenue Bonds (referred to in the Report as Senior Bonds) secured by Net Pledged Revenues and by certain funds and accounts held by the Senior Trustee under the Senior Indenture.

Articles II, IV and V of the Senior Indenture establish the requirements for the Department to issue Senior Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Senior Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these

financial analyses. Key provisions of the Senior Indenture as they pertain to the Report are summarized below. The capitalized terms used in this Section 4.2 are used as defined in the Senior Indenture.

4.2.1 KEY SENIOR INDENTURE DEFINITIONS

“LAX Revenues” means, generally, for any given period, except to the extent specifically excluded, all income, receipts, earnings, and revenue, received by the Department from the Airport, as determined in accordance with generally accepted accounting principles. LAX Revenues also include all income, receipts, and earnings from the investment of amounts held in the LAX Revenue Account, any Construction Fund (if allowed pursuant to a Supplemental Senior Indenture), the Reserve Fund, any Debt Service Reserve Fund, and earnings on the Maintenance and Operation Reserve Fund which are attributable to the Airport.

“Pledged Revenues” means LAX Revenues except for the following, which are specifically excluded:

- Ad valorem taxes and interest earnings thereon received by the Department;
- Any gifts, grants, and other income, including the interest earnings thereon, which by their terms cannot be used to pay debt service;
- Insurance proceeds or funds received as a result of condemnation, including the interest thereon, which by their terms cannot be used to pay debt service;
- Any Transfer (as defined below); and
- LAX Special Facilities Revenue, including interest earnings thereon.

The following amounts are also excluded from Pledged Revenues unless otherwise pledged under the terms of a Supplemental Senior Indenture:

- Swap Termination Payments, including the interest earnings thereon;
- Facilities Construction Credits;
- LAX Passenger Facility Charge (PFC) collections, including the interest earnings thereon;
- LAX rental car customer facility charge (CFC) collections, including the interest earnings thereon;
- All revenues of the Airport System that are not LAX Revenues;
- Released LAX Revenues; and
- Interest earnings on any Construction Fund (unless provided for in a Supplemental Senior Indenture).

“LAX Maintenance and Operation Expenses” or **“LAX M&O Expenses”** means for any given period, the total operation and maintenance expenses of the Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of the Airport payable from moneys other than Pledged Revenues.

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

Senior "Aggregate Annual Debt Service" generally means the aggregate debt service due on the Senior Bonds in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Senior Bonds (e.g. variable rate obligations). For purposes of meeting the Senior Rate Covenant, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service. Additionally, for purposes of meeting the Senior Additional Bonds test described below, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Senior Trustee and are set aside exclusively to be used to pay such debt service. The Department expects to use PFCs to pay for a portion of the debt service on Senior Bonds (including certain PFCs irrevocably committed by the Department through FY 2014).

"Transfer" means for any fiscal year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such fiscal year in the LAX Revenue Account (after all required deposits and payments under the Senior Indenture have been made as of the last day of the immediately preceding fiscal year).

4.2.2 ADDITIONAL SENIOR BONDS

Section 2.11 of the Senior Indenture provides that as a condition to the issuance of any additional series of Senior Bonds, there shall first be delivered to the Senior Trustee either:

- a) a certificate, dated as of a date between the date of pricing of the Senior Bonds being issued and the date of delivery of such Senior Bonds, prepared by an Authorized Board Representative showing that the Net Pledged Revenues, together with any Transfer, for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service with respect to all outstanding Senior Bonds, calculated as if the proposed series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or
- b) a certificate, dated as of a date between the date of pricing of the Senior Bonds being issued and the date of delivery of such Senior Bonds, prepared by a Consultant showing that:
 - (1) the Net Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series of Senior Bonds or the establishment of a Senior Program, were at least equal to 125% of the sum of the Senior Aggregate Annual Debt Service due and payable with respect to all outstanding Senior Bonds (not including the proposed series of Senior Bonds or the proposed Senior Program Bonds) for such Fiscal Year or other applicable period; and
 - (2) for the period from and including the first full Fiscal Year following the issuance of such proposed series of Senior Bonds during which no interest on such series of Senior Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such series of Senior Bonds, or (B) the third full Fiscal Year during which no interest on such series of Senior Bonds is expected to be paid from the proceeds thereof, the estimated Net Pledged Revenues, together with any estimated Transfer, for each such Fiscal Year,

will be at least equal to 125% of the Senior Aggregate Annual Debt Service for each such Fiscal Year with respect to all outstanding Senior Bonds, Unissued Senior Program Bonds and the proposed series of Senior Bonds (calculated as if the proposed series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then outstanding).

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

At the time of issuance of the Series 2012 Senior Bonds, the Department expects to deliver a certificate as described in (a) above.

4.2.3 SENIOR RATE COVENANT

The Department covenants in Section 5.04 of the Senior Indenture (the Senior Rate Covenant) that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that Net Pledged Revenues together with any Transfer in each Fiscal Year will be equal to at least 125% of Senior Aggregate Annual Debt Service on the outstanding Senior Bonds for that Fiscal Year. The amount of any Transfer taken into account shall not exceed 25% of Senior Aggregate Annual Debt Service on the outstanding Senior Bonds in such fiscal year.

4.2.4 PFC REVENUES USED TO PAY DEBT SERVICE

Pursuant to the Senior Indenture, the Department may, for any period, elect to use PFC Revenues to pay the principal of and interest on Senior Bonds issued to finance approved PFC projects. Pursuant to the Senior Indenture, the definition of Senior Aggregate Annual Debt Service excludes debt service on Senior Bonds paid with PFC revenues for purposes of meeting the Senior Rate Covenant.

As described in more detail below in Section 4.6.6, the Department expects to use certain available PFC revenues (including certain PFC revenues irrevocably committed by the Department through FY 2014) to pay a portion of the debt service associated with (1) the Tom Bradley International Terminal (TBIT) Interior Improvements Project (funded in part with proceeds of the Series 2008A Senior Bonds and the Series 2009A Senior Bonds); (2) the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and the Series 2010D Senior Bonds); and (3) certain future terminal projects.

4.3 Subordinate Indenture

Pursuant to the terms of the Master Subordinate Trust Indenture, dated as of December 1, 2002, as subsequently amended and supplemented (and referred to in the Report as the Subordinate Indenture), the Department may issue Los Angeles International Airport Subordinate Revenue Bonds (referred to in the Report as Subordinate Bonds) and Los Angeles International Airport Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity – AMT), Series C (Federally Taxable) and

Series D (Private Activity – Non-AMT) (referred to in the Report as Subordinate Commercial Paper Notes) secured by Subordinate Pledged Revenues and by certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture.

Articles II, IV and V of the Subordinate Indenture establish the requirements for the Department to issue Subordinate Bonds and Subordinate Commercial Paper Notes, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Subordinate Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key aspects of the Subordinate Indenture as they pertain to the Report are summarized below. The capitalized terms used in this Section 4.3 are defined in the Subordinate Indenture.

4.3.1 KEY SUBORDINATE INDENTURE DEFINITIONS

“Subordinate Pledged Revenues” means, for any given period, Pledged Revenues for such period, less LAX Maintenance and Operations Expenses (defined previously in Section 4.2.1) for such period, less Senior Aggregate Annual Debt Service (defined previously in Section 4.2.1) on the Senior Bonds for such period, less any required deposits to the Senior Reserve Fund(s) for such period.

Subordinate “Aggregate Annual Debt Service” generally means the aggregate debt service due on the Subordinate Bonds and the Subordinate Commercial Paper Notes in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Subordinate Bonds and the Subordinate Commercial Paper Notes (e.g. variable rate obligations). For purposes of meeting the Subordinate Rate Covenant, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service. For purposes of meeting the Subordinate Additional Bonds test described below, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Subordinate Trustee and are set aside exclusively to be used to pay such debt service. The Department expects to use a certain amount of PFCs to pay for a portion of the debt service on Senior Bonds (including certain PFCs irrevocably committed by the Department through FY 2014), however, the Department does not expect to use any PFCs to pay debt service on outstanding Subordinate Bonds or any additional Subordinate Bonds expected to be issued during the Projection Period.

4.3.2 ADDITIONAL SUBORDINATE BONDS

Section 2.11 of the Subordinate Indenture provides that as a condition to the issuance of any Series of Subordinate Bonds, there shall first be delivered to the Subordinate Trustee either:

- (a) a certificate, dated as of a date between the date of pricing of the Subordinate Bonds being issued and the date of delivery of such Subordinate Bonds (both dates inclusive), prepared by an Authorized Board Representative showing that the Subordinate Pledged Revenues, together with any Transfer, for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds were at least equal to

- 115% of Subordinate Maximum Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and the proposed series of Subordinate Bonds calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding; or
- (b) a certificate, dated as of a date between the date of pricing of the Subordinate Bonds being issued and the date of delivery of such Subordinate Bonds (both dates inclusive), prepared by a Consultant showing that:
- (i) the Subordinate Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series Subordinate Bonds or the establishment of a Subordinate Program, were at least equal to 115% of the sum of the Subordinate Aggregate Annual Debt Service due and payable with respect to all outstanding Subordinate Bonds (not including the proposed series of Subordinate Bonds or the proposed Subordinate Program Obligations) and Subordinate Commercial Paper Notes for such Fiscal Year or other applicable period; and
 - (ii) for the period from and including the first full Fiscal Year following the issuance of such proposed series of Subordinate Bonds during which no interest on such series of Subordinate Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such series of Subordinate Bonds, or (B) the third full Fiscal Year during which no interest on such series of Subordinate Bonds is expected to be paid from the proceeds thereof, the estimated Subordinate Pledged Revenues, together with any estimated Transfer, for each such Fiscal Year, will be at least equal to 115% of the Subordinate Aggregate Annual Debt Service for each such Fiscal Year with respect to all outstanding Subordinate Bonds, Subordinate Commercial Paper Notes, Unissued Subordinate Program Obligations and the proposed series of Subordinate Bonds calculated as if the proposed series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding.

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

4.3.3 SUBORDINATE RATE COVENANT

The Department currently covenants in Section 5.04 of the Subordinate Indenture (the Subordinate Rate Covenant) that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that during each fiscal year Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes. The

amount of any Transfer taken into account shall not exceed 15% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes in such fiscal year.

4.3.4 PFC REVENUES USED TO PAY DEBT SERVICE ON SUBORDINATE BONDS

Pursuant to the Subordinate Indenture, the Department may, for any period, elect to use PFC revenues to pay principal and interest associated with approved PFC projects. Pursuant to the Subordinate Indenture, for purposes of meeting the Subordinate Rate Covenant, the definition of Subordinate Aggregate Annual Debt Service excludes debt service in an amount equal to principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid with PFC revenues. The Department does not have any current plans to use any PFC revenues to pay debt service associated with any of its outstanding Subordinate Bonds or Subordinate Commercial Paper Notes.

4.4 Financing Plan

As discussed in Chapter 3, the Department's capital development efforts are organized for the purposes of the Report into the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects. Projects are categorized based on a range of considerations including timing, demand levels, and certainty and stage in the project approval process. The Series 2012 Projects reflect those projects to be funded, in part, with Series 2012 Bond proceeds. Other Incorporated Projects include future projects other than the Series 2012 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in the Report, and are expected by the Department to be completed during the Projection Period. Ongoing Projects include certain projects already underway that have been funded and do not require additional bond proceeds. The financial impacts of the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects have been analyzed and incorporated in the Report.

The Department's funding or finance plan is driven by overall policy objectives and more specific financing strategies for nearer term and more certain projects. The Department's long term goals for funding its capital requirements include:

- developing over time an appropriate mix of senior and subordinated debt and of fixed and floating rate debt, and the potential incorporation of the use of derivatives;
- maintaining strong credit ratings and active senior and subordinate liens;
- using variable rate debt in a judicious and prudent manner, taking into account outstanding debt balances, cash on hand and market conditions;
- using PFCs, CFCs, and other sources of funds in a manner that optimizes a balance of leverage and pay-as-you-go approaches;
- considering alternative funding approaches such as off-balance sheet financings; and
- funding individual projects with a mix of funding sources based on market conditions, Airport objectives and the facts and circumstances at the time funding is required.

Given the financial strength of the Department and the wide range of funding sources available, the Department has a great deal of flexibility in developing specific funding approaches that will both accommodate project needs and preserve the Department's ability to meet its debt service obligations. The balance of this Section 4.6 discusses funding available to the Department and how these sources are incorporated into the financial analysis of the impacts of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects.

- The Department intends to finance the Series 2012 Projects with TSA grants, internal Department funds, other funds (tenant funds), the net proceeds of the Series 2012 Bonds, and the net proceeds of certain future bonds.
- The Department expects to finance Other Incorporated Projects with TSA grants, FAA AIP grants, internal Department funds, Terminal Renewal and Improvement Fund amounts (pursuant to Terminal Rate Agreements described in section 4.7.2 of this chapter), PFC funding, other funds (tenant funds), and the net proceeds of additional future senior and subordinate revenue bonds. Subordinate Commercial Paper Notes may be used for Other Incorporated Projects and refunded in the future with additional bonds, however, any such use of commercial paper is not assumed or reflected in these analyses.
- Ongoing Projects have been funded primarily with prior bond proceeds, as well as internal Department funds, and PFC funding, and certain other funds (including Department Funds restricted for use on the Central Utility Plant).

Table 4-1 presents the estimated funding sources for the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects discussed previously in Chapter 3. As shown on Table 4-1, the Series 2012 Projects are estimated to cost approximately \$519.2 million; the Other Incorporated Projects are estimated to cost approximately \$3.8 billion, and the Ongoing Projects are estimated to cost approximately \$2.6 billion. The financial impacts of the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects are reflected in the Report.

A description of estimated funding sources for the Series 2012 Projects, the Other Incorporated Projects, and the Ongoing Projects is presented in greater detail in the following paragraphs.

4.4.1 TSA GRANTS

As reflected on Table 4-1, the Department expects to use approximately \$47.4 million of TSA grant funds in connection with the Terminal 5 and Terminal 6 Projects as part of the Series 2012 Projects. The remainder of the \$194.3 million total of expected TSA grant amounts for the Airport will be used to fund the installation of explosive detection systems and other security projects at other terminals in the future, as reflected in the Terminal Improvement Project on Table 4-1 (under Other Incorporated Projects—Terminal Projects). For purposes of the Report, it has been assumed that the receipt of TSA grants reflected on Table 4-1 will not be impacted by any potential federal spending reductions that may be required pursuant to the Federal Budget Control Act of 2011 (which is summarized in Section 2.5.7 of the Report and discussed in more detail in the Official Statement for the Series 2012 Bonds).

Table 4-1 Summary of the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects -- Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

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

NOTES:

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

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

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4.4.2 FAA AIRPORT IMPROVEMENT PROGRAM (AIP) GRANTS

The FAA Airport Improvement Program (AIP) provides Federal discretionary and entitlement grants for eligible airport projects. The entitlement funds are based upon airport passenger enplanement and cargo activity, with entitlement and discretionary funding subject to annual Congressional appropriations levels. AIP grants are distributed to airport operators on a reimbursement basis. As shown on Table 4-1, the Department expects to use \$195.5 million of AIP discretionary grants for in connection with various apron and airfield projects included in the Other Incorporated Projects and the Ongoing Projects. For purposes of the Report, it has been assumed that the receipt of AIP grants reflected on Table 4-1 will not be impacted by any potential federal spending reductions that may be required pursuant to the Federal Budget Control Act of 2011 (which is summarized in Section 2.5.7 of the Report and discussed in more detail in the Official Statement for the Series 2012 Bonds).

4.4.3 DEPARTMENT FUNDS

As reflected on Table 4-1, the Department expects to use approximately \$152.9 million of Department funds for the Series 2012 Projects; approximately \$1.1 billion of Department funds for Other Incorporated Projects; and approximately \$178.6 million of Department funds for Ongoing Projects. Department funds reflected on Table 4-1 include Terminal Renewal and Improvement Fund amounts estimated to be used for future terminal projects (generated pursuant the proposed Terminal Rate Agreements described in Section 4.7.2 of the Report).

The use of Department funds as reflected on Table 4-1 was based on an internal Department requirement that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to annual LAX Maintenance and Operation Expenses.

4.4.4 OTHER FUNDS

Other Funds include grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other/third party (airline tenant) funding. Approximately \$26.7 million in airline tenant funding is anticipated to be used to fund the Series 2012 Projects, and approximately \$81.1 million and \$39.7 million are expected to be used on the Other Incorporated Projects and the Ongoing Projects, respectively.

4.4.5 PASSENGER FACILITY CHARGES

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

The Department received its first approval from the FAA to impose a PFC in April 1993, and began collecting a \$3.00 PFC per eligible enplaned passenger on July 1, 1993. The Department subsequently received FAA approval to increase its PFC level to \$4.50 per eligible enplaned passenger and began collecting at the \$4.50 level on August 1, 2003. Pursuant to FAA regulations, the current \$4.50 PFC level collected by the Department results in a 75 percent reduction in AIP passenger entitlement grants.

The Department is currently authorized by the FAA, pursuant to eight PFC application approvals, to impose and use approximately \$2.5 billion of PFC revenues (at the \$4.50 PFC level) for various projects at the Airport. Through June 30, 2012, the Department had collected approximately \$1.7 billion of its total approved collection authority for the Airport and had spent approximately \$986 million on approved projects.

As shown on Table 4-1, the Department expects to use approximately \$640.6 million of PFC funds for Other Incorporated Projects and Ongoing Projects (including noise mitigation, soundproofing, the Central Utility Plant, elevators and escalators replacements, the Bradley West Core and Concourses, among other projects).

The Department expects to use certain available PFC revenues to pay a portion of the debt service associated with (1) the Tom Bradley International Terminal (TBIT) Interior Improvements Project (funded in part with proceeds of the Series 2008A Senior Bonds and the Series 2009A Senior Bonds); (2) the Bradley West Terminal Project (funded in part with the proceeds of the Series 2010A Senior Bonds and the Series 2010D Senior Bonds); and (3) certain future terminal projects. The use of PFC revenues to pay portions of debt service associated with the TBIT and Bradley West projects has already been approved by the Federal Aviation Administration (FAA), and LAWA expects to submit future PFC applications for future terminal projects. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year.

4.4.6 SERIES 2012 BOND PROCEEDS

Bond proceeds are assumed to be the remaining source of funding for the Series 2012 Projects. As reflected on Table 4-1, approximately \$252.2 million of Series 2012 Bond proceeds are expected to be used to fund costs of the Series 2012 Projects.

Table 4-2 presents a listing of estimated sources and uses of funds for the proposed Series 2012 Bonds. The assumptions, estimated sources and uses of funds, and debt service for the proposed Series 2012 Bonds were provided by the Department and its financial advisors, using information regarding the estimated cost and timing of the Series 2012 Projects and the estimated receipt of TSA grants and other funds reflected on Table 4-1.

Debt service estimates for the proposed Series 2012 Bonds are based on the following assumptions:

- Approximately \$237.3 million of Series 2012 Bonds will be issued to fund a portion of the costs of the Series 2012 Projects.
- An original issue premium of approximately \$25.8 million.

Table 4-2 Estimated Sources and Uses of Funds -- Series 2012 Bonds

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

NOTE:

1/ Includes refunding of Subordinate Commercial Paper Notes.

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, October 2012.

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

- The Series 2012 Bonds are structured with maturities 2013 through 2037 so that overall debt service is approximately level. The overall interest rate is assumed to be 4.00 percent.
- A portion of the proceeds of the Series 2012 Bonds will fund a deposit to the Senior Reserve Fund, which is a common reserve fund and is required to be funded at an amount equal to the least of (a) 10 percent of the principal amount of all Senior Bonds, (b) Senior Maximum Annual Debt Service, or (c) 125 percent of Senior Average Annual Debt Service for all Senior Bonds.

4.4.7 FUTURE SERIES BOND PROCEEDS

As reflected on Table 4-1, approximately \$521.0 million of future Subordinate Bond proceeds and \$1.7 billion of future Senior Bond proceeds (for a total of approximately \$2.3 billion) are expected to be used to fund a portion of the estimated costs of the Other Incorporated Projects.

Table 4-3 reflects future bond issues expected to be issued during the Projection Period (subsequent to the issuance of the Series 2012 Bonds)—including Series 2013 bonds, Series 2014 bonds, Series 2015 bonds, and series issued after Series 2015 bonds. Table 4-3 reflects both future bond principal (broken into Senior Bonds and Subordinated Bonds) and bond proceeds used to pay project costs, and which key projects are assumed to be funded with future bond issues.

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

- Future bonds issued to pay for a portion of future Terminal Projects and Infrastructure and Other Projects were assumed to be Senior Bonds.
- Future bonds (subsequent to the Series 2012 Bonds) were assumed to be issued with 25-year to 30-year terms and an overall interest rate of 6.00 percent. Future bonds are assumed to be issued with approximately level debt service.
- Parity debt service reserves equal to the Maximum Annual Debt Service for either the outstanding Senior Bonds or the outstanding Subordinate Bonds are funded with bond proceeds.
- Interest on the future bonds is capitalized through the estimated project completion date using a capitalized interest investment rate of 1.0 percent.

Table 4-4 presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2012 Bonds, and future additional Senior Bonds (as reflected on Table 4-3) for FY 2010 through FY 2018. As discussed in earlier sections of this chapter, pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant, principal of and/or interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service. Table 4-4 reflects PFC revenues expected to be used by the Department each year to pay a portion of Senior Bond debt service (see Section 4.2.4 for more information). The actual amount of PFC revenues that the Department will ultimately use to pay debt service may vary from year to year.

Table 4-3 Expected Future Bond Issues (After Issuance of Series 2012 Bonds) ^{1/}

	FUTURE 2013 BONDS	FUTURE 2014 BONDS	FUTURE 2015 BONDS	FUTURE BONDS AFTER 2015	TOTAL FUTURE BONDS
Bond Principal					
Senior Bonds	\$ 130,400,000	\$ 597,565,000	\$ 473,930,000	\$ 707,650,000	\$ 1,909,545,000
Subordinate Bonds	14,895,000	310,325,000	116,880,000	134,835,000	576,935,000
Total Expected Future Bond Principal	\$ 145,295,000	\$ 907,890,000	\$ 590,810,000	\$ 842,485,000	\$ 2,486,480,000
Bond Proceeds Used to Pay Project Costs					
Senior Bond Proceeds	\$ 113,943,000	\$ 547,123,000	\$ 422,651,000	\$ 657,492,000	\$ 1,741,209,000
Subordinate Bond Proceeds	14,000,000	277,750,000	106,750,000	122,450,000	520,950,000
Total Expected Bond Proceeds Used to Pay Project Costs	\$ 127,943,000	\$ 824,873,000	\$ 529,401,000	\$ 779,942,000	\$ 2,262,159,000

	FUTURE 2013 BONDS	FUTURE 2014 BONDS	FUTURE 2015 BONDS	FUTURE BONDS AFTER 2015
Key Projects Funded with Expected Future Bonds				
<u>Funded from Senior Bond Proceeds:</u>				
Terminal Improvement Projects	•	•	•	•
Terminal 4/TBIT Connector Building		•		
Terminal 5 Improvement Project		•		
Midfield Satellite Concourse - Phase 1			•	•
<u>Funded from Subordinate Bond Proceeds:</u>				
Runway 25R, Taxiway B&C		•	•	
Runway Safety Area Improvements		•	•	
West Maintenance Facility Pad and Infrastructure		•		

NOTE:

1/ Debt service associated with expected future bond issues shown here is reflected on Table 4-4.

SOURCES: City of Los Angeles, Department of Airports and Public Resources Advisory Group, October 2012.

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

Table 4-4 (1 of 2) Debt Service

Net of Capitalized Interest
 Fiscal Years Ending June 30

	ACTUAL		ACTUAL		ACTUAL		PROJECTED			
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	
Existing Senior Bond Debt Service										
Series 2002A ^{1/}	\$ 1,624,633	\$ 1,624,633	\$ 1,624,633	\$ 1,624,633	\$ 1,624,633	\$ 2,819,633	\$ 8,100,638	\$ 8,098,325	\$ 8,096,325	
Series 2003B ^{2/}	15,943,850	16,184,100	16,181,350	6,762,044	-	-	-	-	-	
Series 2008A	-	40,421,025	40,420,275	40,423,075	40,364,325	39,903,400	39,701,900	40,434,263	40,500,688	
Series 2008B	1,434,000	1,435,500	1,434,250	1,435,250	1,433,250	1,433,250	-	-	-	
Series 2009A	5,707,280	17,807,766	18,482,875	20,972,875	21,028,275	21,487,275	21,693,275	20,959,525	20,896,025	
Series 2010A	-	-	-	-	43,522,537	63,846,000	61,883,250	61,893,400	61,891,200	
Series 2010D	-	1,622,156	7,609,250	9,359,523	32,515,011	52,202,525	51,589,025	51,725,225	51,877,125	
Subtotal - Existing Senior Bond Debt Service	[A] \$ 24,709,763	\$ 79,095,180	\$ 85,752,633	\$ 80,577,399	\$ 140,488,030	\$ 181,692,083	\$ 182,968,088	\$ 183,110,738	\$ 183,261,363	
Future Senior Bond Debt Service										
Proposed Series 2012 Senior Bonds	\$ -	\$ -	\$ -	\$ 6,138,050	\$ 18,581,250	\$ 18,992,750	\$ 19,601,750	\$ 19,461,500	\$ 19,307,000	
Future 2013 Bonds	-	-	-	-	1,434,370	2,966,765	9,821,527	10,442,149	10,442,149	
Future 2014 Bonds	-	-	-	-	-	12,592,899	41,263,335	43,648,889	46,623,088	
Future 2015 Bonds	-	-	-	-	-	-	11,682,648	18,075,440	34,369,608	
Other Future Bonds	-	-	-	-	-	-	-	9,049,055	43,040,217	
Subtotal - Future Senior Bond Debt Service	[B] \$ -	\$ -	\$ -	\$ 6,138,050	\$ 20,015,620	\$ 34,552,414	\$ 82,369,259	\$ 100,677,034	\$ 153,782,062	
Total Senior Lien Debt Service	[C]=[A]+[B] \$ 24,709,763	\$ 79,095,180	\$ 85,752,633	\$ 86,715,449	\$ 160,503,650	\$ 216,244,496	\$ 265,337,347	\$ 283,787,771	\$ 337,043,425	
Less: PFC Revenues used to pay Debt Service	[D] \$ -	\$ (19,000,000)	\$ (25,176,000)	\$ (34,403,945)	\$ (99,970,135)	\$ (89,891,630)	\$ (134,881,612)	\$ (166,561,737)	\$ (199,562,814)	
SENIOR AGGREGATE ANNUAL DEBT SERVICE ^{3/}	[E]=[C]+[D] \$ 24,709,763	\$ 60,095,180	\$ 60,576,633	\$ 52,311,504	\$ 60,533,515	\$ 126,352,866	\$ 130,455,735	\$ 117,226,034	\$ 137,480,610	
Allocation to Direct Cost Centers										
Terminal	\$ 14,707,709	\$ 47,357,281	\$ 47,844,386	\$ 42,978,339	\$ 53,418,538	\$ 117,821,372	\$ 118,869,051	\$ 105,636,137	\$ 125,886,684	
Apron	422,499	428,082	424,127	251,166	141,971	252,802	608,998	609,084	609,222	
Airfield	2,404,531	2,429,905	2,438,983	1,382,579	680,201	1,112,401	2,213,470	2,214,149	2,215,054	
Aviation	1,913,583	1,931,444	1,926,826	1,082,611	495,800	880,304	2,343,363	2,343,175	2,343,130	
Commercial	4,542,397	7,221,258	7,215,356	6,202,128	5,606,862	6,095,842	6,420,853	6,423,489	6,426,520	
Subtotal - Total LAX Debt Service	\$ 23,990,719	\$ 59,367,969	\$ 59,849,679	\$ 51,896,823	\$ 60,343,372	\$ 126,162,723	\$ 130,455,735	\$ 117,226,034	\$ 137,480,610	
Exclusions	-	-	-	-	-	-	-	-	-	
Other Airports	719,044	727,211	726,954	414,682	190,143	190,143	-	-	-	
Senior Aggregate Annual Debt Service	= [E] \$ 24,709,763	\$ 60,095,180	\$ 60,576,633	\$ 52,311,504	\$ 60,533,515	\$ 126,352,866	\$ 130,455,735	\$ 117,226,034	\$ 137,480,610	

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Table 4-4 (2 of 2) Debt Service

Net of Capitalized Interest
Fiscal Years Ending June 30

		ACTUAL	ACTUAL	ACTUAL	PROJECTED					
		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Existing Subordinate Bond Debt Service										
Series 2002 C1 ^{4/}	\$	44,655	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2002 C2 ^{4/}		29,211	-	-	-	-	-	-	-	-
Series 2003A ^{4/}		36,758	-	-	-	-	-	-	-	-
Series 2008C		15,980,149	15,983,399	15,982,305	15,980,768	15,978,368	15,983,368	15,980,199	15,983,199	15,978,386
Series 2009C		3,786,553	13,843,401	17,155,075	19,606,380	19,606,380	19,606,380	27,911,380	27,766,597	27,617,064
Series 2009D		630,810	4,829,831	5,857,586	8,357,750	8,356,750	8,352,750	-	-	-
Series 2009E		2,757,074	4,796,175	4,791,225	4,792,300	4,792,500	4,792,300	4,791,500	4,790,950	4,792,750
Series 2010B		-	-	-	715,250	1,430,500	6,071,063	6,734,000	6,734,000	6,734,000
Series 2010C		-	777,440	1,465,331	2,047,393	4,186,661	4,186,661	4,186,661	4,186,661	4,186,661
Commercial Paper ^{5/}		613,223	418,809	256,832	9,574,717	16,424,430	2,126,575	-	-	-
Subtotal - Existing Subordinate Bond Debt Service	[F]	\$ 23,878,433	\$ 40,649,055	\$ 45,508,354	\$ 61,074,558	\$ 70,775,589	\$ 61,119,096	\$ 59,603,740	\$ 59,461,406	\$ 59,308,861
Future Subordinate Bond Debt Service										
Future 2013 Bonds	\$	-	\$ -	\$ -	\$ -	669,827	1,081,808	1,081,808	1,081,808	1,081,808
Future 2014 Bonds		-	-	-	-	-	786,532	19,252,068	21,143,054	22,709,647
Future 2015 Bonds		-	-	-	-	-	-	3,482,396	6,350,328	8,343,904
Other Future Bonds		-	-	-	-	-	-	-	-	8,348,498
Subtotal - Future Subordinate Bond Debt Service	[G]	\$ -	\$ -	\$ -	\$ -	669,827	1,868,341	23,816,272	28,575,190	40,483,858
SUBORDINATE AGGREGATE ANNUAL DEBT SERVICE										
	[H]=[F]+[G]	\$ 23,878,433	\$ 40,649,055	\$ 45,508,354	\$ 61,074,558	\$ 71,445,415	\$ 62,987,437	\$ 83,420,012	\$ 88,036,596	\$ 99,792,719
Allocation to Direct Cost Centers										
Terminal	\$	3,375,333	\$ 5,214,984	\$ 5,048,057	\$ 10,917,911	\$ 15,300,348	\$ 6,152,818	\$ 4,791,500	\$ 4,790,950	\$ 4,792,750
Apron		475	-	-	885,505	1,722,555	6,192,934	19,121,172	20,495,677	27,379,765
Airfield		20,410,453	35,434,071	40,460,297	47,065,286	50,638,597	50,151,758	59,507,340	62,749,969	67,620,204
Aviation		5,769	-	-	859,835	1,474,958	190,972	-	-	-
Commercial		10,403	-	-	1,028,461	1,764,218	228,424	-	-	-
Subtotal - Total LAX Debt Service		\$ 23,802,432	\$ 40,649,055	\$ 45,508,354	\$ 60,756,998	\$ 70,900,675	\$ 62,916,906	\$ 83,420,012	\$ 88,036,596	\$ 99,792,719
Exclusions		44,655	-	-	-	-	-	-	-	-
Other Airports		31,346	-	-	317,559	544,740	70,531	-	-	-
Subordinate Aggregate Annual Debt Service	[H]	\$ 23,878,433	\$ 40,649,055	\$ 45,508,354	\$ 61,074,558	\$ 71,445,415	\$ 62,987,437	\$ 83,420,012	\$ 88,036,596	\$ 99,792,719
TOTAL DEBT SERVICE	[E]=[H]	\$ 48,588,196	\$ 100,744,235	\$ 106,084,987	\$ 113,386,062	\$ 131,978,930	\$ 189,340,303	\$ 213,875,747	\$ 205,262,630	\$ 237,273,330

NOTES:

- 1/ The Department recently defeased the Series 2002A Senior Bonds with commercial paper. For purposes of this report, the defeasance has not been reflected.
- 2/ The Department recently defeased the Series 2003B Senior Bonds with commercial paper. See Commercial Paper debt service in Existing Subordinate Bond Debt Service section of this table.
- 3/ As defined in the Senior Indenture, for purposes of meeting the Senior Rate Covenant, Senior Aggregate Annual Debt Service is net of PFC Revenues used to pay Senior Debt Service.
- 4/ Subordinate Series 2002 C2 Bonds and Series 2003A Bonds were defeased on March 1, 2010 with Department Funds (cash). Subordinate Series 2002 C1 Bonds were refunded with the Series 2009E Bonds.
- 5/ Commercial paper outstanding as of November 1, 2012 is approximately \$272.1 million. The Department's current commercial paper authorization is \$500 million, however, as of the date of this Report, the Department has decided to limit its Commercial Paper issuances to the total credit support provided by various letter of credit banks (\$350 million). Outstanding commercial paper is expected to be repaid with future bond proceeds. Commercial paper debt service reflected in this table includes debt service associated with the defeasance of the Series 2003B Senior Bonds.

SOURCES: City of Los Angeles, Department of Airports for existing Debt Service, and Public Resources Advisory Group for Future Debt Service, October 2012.

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

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As shown in Table 4-4, Senior Aggregate Annual Debt Service is estimated to increase from approximately \$60.6 million in FY 2012 to approximately \$137.5 million in FY 2018.

Table 4-4 also presents estimates of Subordinate Aggregate Annual Debt Service, future additional Subordinate Bonds, and Subordinate Commercial Paper Notes. Subordinate Aggregate Annual Debt Service is estimated to increase from \$45.5 million in FY 2012 to approximately \$99.8 million in FY 2018. At this time, the Department does not expect to use PFC revenues to pay for debt service on the outstanding Subordinate Bonds, or expected future Subordinate Bonds.

4.5 LAX Maintenance & Operation Expenses

LAX M&O Expenses are captured within the SAP accounting system used by the Department. SAP provides the LAX M&O Expense data that is used in the preparation of the annual financial statements and the tracking of budgeted expenses to actual expenses by division. As such, LAX M&O Expenses are tracked within the SAP system in a number of classifications, including by cost center, cost element, and business area.

LAX M&O Expenses are budgeted for each of the Department's Direct Divisions and Administrative Divisions. For rate-setting purposes, LAX M&O Expenses by division are allocated to the various Airport cost centers described previously in Section 4.1.2. Within each division, LAX M&O Expenses are also further categorized by detailed cost elements, including:

- Salaries and benefits;
- Contractual services;
- Administrative Services;
- Materials and Supplies;
- Utilities;
- Advertising and Public Relations; and
- Other Operating Expenses.

LAX M&O Expenses for the Airport, as defined in the Senior Indenture, increased from \$466.7 million in FY 2007 to \$578.1 million in FY 2012 (unaudited actual), representing a CAGR of 4.4 percent.

Table 4-5 presents actual LAX M&O Expenses at the Airport for actual FY 2010 through projected FY 2018. Projected LAX M&O Expenses are based on budgeted FY 2013 LAX M&O Expenses, equal to approximately \$605.7 million.

As shown on Table 4-5, operating expenses allocable to other airports operated by the Department are excluded from LAX M&O Expenses.

Table 4-5 LAX Maintenance and Operation Expenses ^{1/}

Fiscal Years Ending June 30

	ACTUAL		UNAUDITED	BUDGET	PROJECTED				
	FY 2010	FY 2011	ACTUAL FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
BY TYPE OF EXPENSE									
Salaries and Benefits	\$ 314,871,770	\$ 323,522,117	\$ 337,411,173	\$ 338,074,465	\$ 373,563,188	\$ 392,241,097	\$ 415,652,452	\$ 436,435,625	\$ 466,398,206
Contractual Services	141,324,000	143,683,968	162,070,857	176,737,392	195,290,262	205,054,975	217,293,623	228,158,405	243,821,675
Administrative Services	2,377,225	3,196,984	5,894,968	3,869,400	4,275,870	4,489,014	4,757,314	4,995,280	5,338,444
Materials and Supplies	32,649,733	32,697,860	35,986,303	44,066,200	48,691,510	51,126,986	54,178,135	56,886,742	60,792,879
Utilities	28,829,283	29,605,830	30,663,788	34,294,699	37,894,434	39,789,905	42,164,401	44,272,421	47,311,692
Advertising and Public Relations	6,933,710	6,219,419	3,186,401	4,000,484	4,420,508	4,641,534	4,918,060	5,164,613	5,518,744
Other Operating Expenses	12,224,082	10,604,664	12,941,784	15,528,253	17,158,665	18,015,899	19,091,894	20,045,688	21,422,423
LAX M&O EXPENSES BEFORE ADJUSTMENTS	\$ 539,209,804	\$ 549,530,841	\$ 588,155,274	\$ 616,570,892	\$ 681,294,437	\$ 715,359,409	\$ 758,055,879	\$ 795,958,773	\$ 850,604,062
ADJUSTMENTS ^{2/}	(11,406,879)	(9,996,729)	(10,056,275)	(10,831,912)	(11,373,508)	(11,942,183)	(12,539,292)	(13,166,257)	(13,824,570)
LAX M&O EXPENSES	\$ 527,802,925	\$ 539,534,112	\$ 578,099,000	\$ 605,738,980	\$ 669,920,929	\$ 703,417,226	\$ 745,516,587	\$ 782,792,516	\$ 836,779,492
Annual % change	1.6%	2.2%	7.1%	4.8%	10.6%	5.0%	6.0%	5.0%	6.9%
Compound annual growth rate FY 2012 to FY 2018									6.4%
Equipment and Vehicles	476,680	2,180,060	1,206,484	6,336,058	7,000,861	7,351,504	7,789,779	8,179,518	8,740,594
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	\$ 528,279,605	\$ 541,714,172	\$ 579,305,484	\$ 612,075,038	\$ 676,921,790	\$ 710,768,730	\$ 753,306,366	\$ 790,972,034	\$ 845,520,086
SUMMARY BY COST CENTER									
Terminal	\$ 252,879,434	\$ 262,086,670	\$ 270,191,439	\$ 300,939,382	\$ 349,724,710	\$ 367,210,796	\$ 392,571,586	\$ 412,200,515	\$ 447,810,991
Apron	26,329,540	28,199,496	25,392,818	26,753,030	31,912,088	33,507,693	35,183,078	36,942,231	38,789,343
Airfield	107,524,423	115,686,094	125,911,263	135,179,984	141,794,550	148,884,278	156,328,492	164,144,916	172,352,162
Aviation	46,500,475	44,865,436	44,305,499	49,539,126	51,933,011	54,529,662	57,256,145	60,118,952	63,124,899
Commercial	79,071,380	74,113,961	74,996,573	80,356,971	84,240,070	88,452,074	92,873,678	97,519,412	102,394,332
Exclusions / Other	15,974,354	16,762,515	38,507,892	19,306,544	17,316,360	18,183,228	19,092,389	20,047,008	21,049,359
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	\$ 528,279,605	\$ 541,714,172	\$ 579,305,484	\$ 612,075,038	\$ 676,920,790	\$ 710,767,730	\$ 753,305,366	\$ 790,973,034	\$ 845,521,086

NOTES:

1/ Pursuant to the Senior Indenture.

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

SOURCES: City of Los Angeles, Department of Airports, October 2012; Ricondo & Associates, Inc., October 2012.

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

Projections of future LAX M&O Expenses are based on an assumed 5.0 percent annual base growth rate for all categories of LAX M&O Expenses to account for the anticipated impacts of inflation, staffing and operational requirements, and activity increases.

The Department expects that the Other Incorporated Projects and the Ongoing Projects, specifically the Bradley West terminal projects, the T4/TBIT Connector Building, and the Midfield Satellite Concourse – Phase 1, will result in additional increases in Terminal LAX M&O Expenses in FY 2014, FY 2016, and FY 2018 (as reflected on Table 4-5). Estimated LAX M&O Expenses associated with these terminal projects were developed based on preliminary estimates of increased total terminal square footage and current LAX M&O Expenses associated with terminal facilities. Expenses associated with increased space were discounted to account for higher efficiency in newer facilities (e.g., lower utility costs).

As shown on Table 4-5, total LAX M&O Expenses are projected to increase from \$578.1 million in FY 2012 to \$836.8 million in FY 2018, representing a CAGR of 6.4 percent.

Details of the O&M Expense projections by expense category are described below.

4.5.1 SALARIES AND BENEFITS

M&O Expenses for Salaries and Benefits include expenses associated with wages, salaries, and employee benefits, regular overtime, and health subsidies. As shown in Table 4-5, salaries and benefits represented the single largest expense category in FY 2012, accounting for approximately 57.4 percent of LAX M&O Expenses (before adjustments). As a municipal organization, the Department's employee and labor relations are governed by Civil Service rules and regulations, the Charter and the City Administrative Code, as well as various separate labor agreements between management and unions. As shown in Table 4-5, total salaries and benefit expenses are projected to increase from \$337.4 million in FY 2012 to \$466.4 million in FY 2018, representing a CAGR of 5.5 percent. This increase is a result of the base M&O Expense growth rate along with increases related to future facilities.

4.5.2 CONTRACTUAL SERVICES

Contractual services expenses include expenses associated with various contractual obligations such as parking lot operations, engineering and consulting contracts, security services, fire services, legal services, and other miscellaneous contracts. Contractual services represented the second largest expense category in FY 2012, accounting for 27.6 percent of LAX M&O Expenses (before adjustments). As shown in Table 4-5, contractual expenses are projected to increase from \$162.1 million in FY 2012 to \$243.8 million in FY 2018, representing a CAGR of 7.0 percent. This increase is a result of the base M&O Expense growth rate along with increases related to future facilities.

4.5.3 ADMINISTRATIVE SERVICES

Administrative Services expenses include expenses associated with training, travel, tuition reimbursement, memberships, and other miscellaneous administrative expenses. As shown in Table 4-5, administrative services expenses are budgeted to decrease from \$5.9 million in FY 2012 to \$3.9 million in FY 2013, with an increase to \$5.3 million projected by FY 2018.

4.5.4 MATERIALS AND SUPPLIES

Expenses associated with materials and supplies include various items such as custodial supplies, furniture and equipment, materials and parts for maintenance and repair of facilities, communication supplies, and other miscellaneous materials and supplies. Materials and supplies expenses accounted for 6.1 percent of LAX M&O Expenses (before adjustments) in FY 2012. As shown in Table 4-5, expenses for materials and supplies are projected to increase from \$36.0 million in FY 2012 to \$60.8 million in FY 2018.

4.5.5 UTILITIES

Utility expenses include electrical, water, gas, and telephone expenses, and account for 5.2 percent of LAX M&O Expenses (before adjustments) in FY 2012. As shown in Table 4-5, utility expenses are projected to increase from \$30.7 million in FY 2012 to \$47.3 million in FY 2018.

4.5.6 ADVERTISING AND PUBLIC RELATIONS

Advertising and Public Relations expenses include expenses associated with media, public relations, marketing services, costumer services, and advertising. The Advertising and Public Relations budget is used to support plans to market the Airport System at local, U.S. and international trade shows and conferences, and to support marketing activities undertaken by the Los Angeles Convention and Visitors Bureau. Other campaigns include efforts to promote the Airport System as safe, secure, and user friendly. Advertising and public relations expenses are projected to increase from \$3.2 million in FY 2012 to \$5.5 million in FY 2018.

4.5.7 OTHER OPERATING EXPENSES

Other operating expenses include expenses not classified in the other expense categories, and include expenses such as insurance, litigation, lease expenses, and other miscellaneous expenses. Other operating expenses accounted for 2.2 percent of total M&O Expenses in FY 2012. As shown in Table 4-5, other operating expenses are projected to increase from \$12.9 million in FY 2012 to \$21.4 million in FY 2018.

4.6 Airport Revenues Other than Airline Terminal, Landing, and Apron Fees

Table 4-6 presents Airport revenues other than airline terminal, landing, and apron fees (hereinafter referred to as “nonairline revenues”) for actual FY 2010, actual FY 2011, actual FY 2012 (preliminary), and projected FY 2013 through FY 2018.

Nonairline revenues at the Airport are grouped into four primary categories, including:

- Aviation Revenues (excluding airline terminal rentals, landing fees, and apron fees);
- Concession Revenues;
- Airport Sales and Services Revenues; and
- Miscellaneous Revenues.

Table 4-6 Summary of Airport Revenues Other Than Airline Terminal Rentals, Landing Fees, and Apron Fees

Fiscal Years Ending June 30

	ACTUAL		UNAUDITED		PROJECTED				
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Aviation Revenues ^{1/}									
Building Rent - Other than Passenger Terminals ^{2/}	\$ 31,537,244	\$ 49,629,463	\$ 51,232,295	\$ 52,769,264	\$ 54,624,649	\$ 57,317,142	\$ 60,863,485	\$ 62,080,755	\$ 64,122,370
Land Rentals ^{3/}	52,554,714	87,224,752	80,628,781	81,862,000	86,235,434	90,703,475	93,171,640	95,760,066	98,425,410
Plane Parking	729,146	630,920	870,608	846,000	883,212	926,718	971,433	1,016,254	1,062,364
Fuel Fees	104,511	146,903	163,959	159,000	165,994	174,170	182,574	190,998	199,664
Other Aviation Revenue ^{4/}	4,342,583	5,022,803	4,737,380	7,100,000	7,412,299	7,777,422	8,152,689	8,528,849	8,915,825
TOTAL AVIATION REVENUES	\$ 89,268,198	\$ 142,654,841	\$ 137,633,023	\$ 142,736,264	\$ 149,321,588	\$ 156,898,928	\$ 163,341,822	\$ 167,576,923	\$ 172,725,634
Annual % change		59.8%	-3.5%	3.7%	4.6%	5.1%	4.1%	2.6%	3.1%
Concession Revenues									
Auto Parking	\$ 64,661,504	\$ 66,575,360	\$ 69,945,316	\$ 69,168,000	\$ 72,097,679	\$ 75,046,248	\$ 78,124,828	\$ 81,076,779	\$ 84,082,692
Car Rental	56,752,079	58,647,288	64,361,109	67,979,000	71,553,000	75,209,000	79,062,000	82,854,000	86,768,000
Bus, Limo & Taxi	14,157,741	15,450,684	18,270,030	17,657,000	18,585,320	19,535,062	20,535,814	21,520,700	22,537,387
Duty Free	26,338,058	36,742,790	45,434,269	48,160,000	67,807,000	73,231,000	78,292,000	82,473,000	87,311,000
Food & Beverage	31,108,837	36,578,800	32,955,613	34,151,000	47,114,337	50,483,553	52,812,132	55,076,306	60,198,160
Gifts & News	16,713,332	17,998,377	17,282,137	20,786,000	28,427,807	30,460,721	31,088,524	31,630,594	34,572,100
Terminal Advertising	13,675,560	17,419,166	17,432,841	20,132,000	27,178,200	27,993,546	28,833,352	29,698,353	30,589,304
Foreign Exchange	6,381,000	6,533,000	6,571,667	6,343,000	8,563,050	8,819,942	9,084,540	9,357,076	9,637,788
Telecommunications	1,629,758	1,713,800	975,441	1,315,000	1,315,000	1,315,000	1,315,000	1,315,000	1,315,000
Other Concession Revenue ^{5/}	5,493,442	5,535,460	5,538,342	5,633,000	7,041,250	7,252,488	7,470,062	7,694,164	7,924,989
TOTAL CONCESSION REVENUES	\$ 236,911,311	\$ 263,194,725	\$ 278,766,765	\$ 291,324,000	\$ 349,682,642	\$ 369,346,559	\$ 386,618,251	\$ 402,695,971	\$ 424,936,420
Annual % change		11.1%	5.9%	4.5%	20.0%	5.6%	4.7%	4.2%	5.5%
Airport Sales and Services									
Airfield Bus	\$ 1,223,821	\$ 1,289,965	\$ 1,534,409	\$ 1,906,000	\$ 1,981,861	\$ 2,057,857	\$ 2,137,024	\$ 2,212,336	\$ 2,288,735
Accommodations	243,011	260,454	80,854	170,000	176,766	183,544	190,606	197,323	204,137
Other Sales & Services	353,284	365,878	575,136	375,000	381,563	388,240	395,034	401,947	408,981
TOTAL AIRPORT SALES & SERVICES	\$ 1,820,117	\$ 1,916,297	\$ 2,190,399	\$ 2,451,000	\$ 2,540,190	\$ 2,629,641	\$ 2,722,664	\$ 2,811,606	\$ 2,901,853
Annual % change		5.3%	14.3%	11.9%	3.6%	3.5%	3.5%	3.3%	3.2%
Miscellaneous Revenues									
Miscellaneous Revenues	\$ 1,135,675	\$ 1,496,511	\$ 1,224,424	\$ 1,374,000	\$ 1,442,700	\$ 1,514,835	\$ 1,590,577	\$ 1,670,106	\$ 1,753,611
Build America Bond federal subsidy (Series 2009C) ^{6/}	3,088,005	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,862,233	6,711,809	6,556,222
Build America Bond federal subsidy (Series 2010C) ^{6/}	-	777,440	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331	1,465,331
TOTAL MISCELLANEOUS	\$ 4,223,680	\$ 9,136,184	\$ 9,551,988	\$ 9,701,564	\$ 9,770,264	\$ 9,842,399	\$ 9,918,141	\$ 9,847,246	\$ 9,775,165
Annual % change		116.3%	4.6%	1.6%	0.7%	0.7%	0.8%	-0.7%	-0.7%
TOTAL NONAIRLINE REVENUES	\$ 332,223,306	\$ 416,902,047	\$ 428,142,176	\$ 446,212,829	\$ 511,314,684	\$ 538,717,527	\$ 562,600,878	\$ 582,931,745	\$ 610,339,072
Annual % change		25.5%	2.7%	4.2%	14.6%	5.4%	4.4%	3.6%	4.7%
Compound annual growth rate FY 2012 to FY 2018									6.1%

NOTES:

- 1/ Other than Airline Terminal Rentals, Landing Fees, and Apron Fees.
- 2/ Revenues for building rent other than passenger terminals increased substantially in FY 2011 as a result of increased rates.
- 3/ Includes revenues associated with the Park One Property. Land rentals increased substantially in FY 2011 as a result of increased land rental rates.
- 4/ Includes TSA revenue and other aviation fees.
- 5/ Includes luggage carts and ATM revenue.
- 6/ For purposes of this report, no reduction for Build America Bond credits has been assumed in connection with potential federal sequestration.

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

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In FY 2012, nonairline revenues accounted for approximately \$428.1 million, or 50.1 percent, of total Pledged Revenues.

In general, projections of nonairline revenues were based on a review of historical trends, budgeted FY 2013 revenues, the anticipated impacts of inflation, impacts related to the Series 2012 Projects and Other Incorporated Projects, new concession agreements, current and assumed future lease provisions (described herein), and projected growth in Airport activity. Specific points concerning these projections are discussed in the following sections.

Between FY 2002 and FY 2012, nonairline revenues grew from \$217.6 million to \$428.1 million, representing a CAGR of 7.0 percent. As shown on Table 4-6, nonairline revenues are projected to increase from \$428.1 million in FY 2012 to \$610.3 million in FY 2018, a CAGR of 6.1 percent.

4.6.1 AVIATION REVENUES

Aviation Revenues at the Airport (excluding airline terminal rentals, landing fees, and apron fees) consist primarily of building rentals other than passenger terminal rentals (referred to as Building Rentals), land rentals, plane parking fees, fuel fees, and other aviation revenues. Aviation Revenues increased from \$68.4 million in FY 2002 to \$137.6 million in FY 2012, representing a CAGR of 7.2 percent. Aviation Revenues are projected to increase to \$172.7 million in FY 2018, representing a CAGR of 3.9 percent for FY 2012 to FY 2018—primarily from expected growth in building and land rentals discussed below.

Specific details regarding key Aviation Revenues are discussed below.

- Building Rentals are generated from the air freight terminal, hangar rentals, and maintenance facilities, as well as other miscellaneous shops and storage facilities, pursuant to agreements between tenants and the Department. Between FY 2002 and FY 2010, Building Rentals remained relatively flat, as many facilities remained under 30-year leases. In FY 2011, Building Rentals increased substantially as a result of new leases, increased rates, and additional facilities being leased. Building Rentals increased from \$28.5 million in FY 2002 to \$51.2 million in FY 2012, representing a CAGR of 6.0 percent. Starting in FY 2013 and continuing over the next several years, the Department expects that agreements associated with a series of cargo facilities will be renewed at current rates, resulting in increases in Building Rentals. Building Rental revenues are projected to increase from approximately \$51.2 million in FY 2012 to approximately \$64.1 million in FY 2018, representing a CAGR of 3.8 percent.
- Land rental revenues at the Airport are derived from ground rent charged to various manufacturing and service companies, governmental agencies, transportation companies, and other tenants. Rental rates for ground areas vary depending on the land classification, including airline maintenance area, airline cargo area, nonairline industrial area, and central terminal area. Rates are generally adjusted every five years, reflecting a return on the fair market value of the land. The fair market value of land is determined through a third party appraisal of the property. Between FY 2002 and FY 2012, land rental revenues grew at a CAGR of 7.9 percent. Land rental revenues increased from \$52.6 million in FY 2010 to approximately \$87.2 million in FY 2011, an approximate 67.3 percent increase, primarily as a result of increased rates and FY 2011 being the first full Fiscal Year of the Department receiving

revenues associated with the Park One property. Land rental revenues decreased by approximately \$6.6 million in FY 2012 as a result of land associated with certain demolished hangars no longer being rented. Approximately \$8.5 million of FY 2013 land rental revenues is associated with a Park 'N Fly sublease for the Park One property (which expires December 31, 2012 with three 5-year renewal options which could extend the lease through December 31, 2027). For purposes of the Report it was assumed that the Park 'N Fly sublease is extended through the Projection Period. Land rental revenues are projected to increase from approximately \$80.6 million in FY 2012 to approximately \$98.4 million in FY 2018, representing a CAGR of 3.4 percent.

- Plane parking and fuel fees at the Airport are derived from aircraft parking fees and fueling fees assessed to the airlines operating at the Airport. Plane parking and fuel fees represent less than 1.0 percent of total Aviation Revenues, and vary from year to year based on a variety of factors, including fuel prices. Plane parking and fuel fee revenues are projected to increase from approximately \$1.0 million in FY 2012 to approximately \$1.3 million by FY 2018.
- The Department does not currently impose any ground handling fees on third party and airline ground handling services operating at the Airport, and no such ground handling fees are planned to be implemented (or were assumed) during the Projection Period.

4.6.2 CONCESSION REVENUES

Concession revenues at the Airport consist of a number of revenue sources, and are comprised primarily of auto parking, car rental, ground transportation fees (bus, limo, and taxi), food and beverage, gift and news, duty free, and other concession revenues. Generally, future concession revenues were projected based on historical trends, budgeted FY 2013 revenues, future Airport passenger activity, assumed inflation, assumed impacts of the Bradley West Core and Concourse projects (referred to herein as the Bradley West Project), and current and assumed future lease terms and provisions.

Between FY 2002 and FY 2012, concession revenues increased from \$148.0 million in FY 2002 to \$278.8 million in FY 2012, representing a CAGR of 6.5 percent. Enplaned passengers between FY 2002 and FY 2012 grew at a CAGR of 1.1 percent.

As shown on Table 4-6, Concession revenues are projected to increase from \$278.8 million in FY 2012 to approximately \$424.9 million in FY 2018, representing a CAGR of 7.3 percent. Details regarding key concession revenues are discussed below.

- The auto parking facilities at the Airport are operated for the Department by New South Parking under a management contract that expires in May 2014. Parking rates at the Airport were last changed in November 2009 and are currently \$30.00 maximum per day for Central Terminal Area garages (at \$3.00 for the first hour and \$2.00 for each additional 30 minutes) and \$12.00 per day in Lot C. Parking rates include a 10.0 percent parking occupancy tax.

A number of off-Airport parking operators provide facilities that compete with parking services offered by the Department. Generally, these off-Airport parking operators raise or lower their parking rates in conjunction with rates charged by the Department for Airport parking facilities. For purposes of the Report, it was assumed that (1) the current effect of off-Airport competition on the demand for

Airport parking facilities would not change materially during the Projection Period and (2) parking facilities at the airport would be operated under similar contract terms following the completion of the current parking management contract in May 2014 through the Projection Period.

Auto parking revenues, the largest source of concession revenues at the Airport, were approximately \$69.9 million in FY 2012, accounting for 25.1 percent of total concession revenues. Parking revenues increased at a CAGR of 4.6 percent between FY 2002 and FY 2012.

Parking transactions in the Central Terminal Area remained relatively flat from FY 2010 to FY 2012 at approximately 5.9 million (or, approximately 0.30 transactions per O&D passenger). Total parking revenues per transaction grew from approximately \$10.16 in FY 2010 to approximately \$11.41 in FY 2012 (a 12.3 percent increase). For purposes of projecting public parking revenues, it was assumed that (1) the number of parking transactions per O&D passenger would remain constant through FY 2018 and (2) the amount of parking revenues per transaction would increase 1.0 percent per year. Currently, the Department has no specific plans to increase parking rates in the near future. As shown on Table 4-6, parking revenues are projected to increase from approximately \$69.9 million in FY 2012 to approximately \$84.1 million in FY 2018, representing a CAGR of 3.1 percent.

- The Department has entered into agreements with 10 rental car companies that expire in January 2015. These agreements provide for a concession fee equal to the greater of (1) 10.0 percent of gross rental car receipts or (2) a MAG. The MAG shall be equal to the greater of amounts specified in the agreements or 90.0 percent of the concession fees paid to LAWA during the previous year, but never less than the current MAG set under the agreement, as amended. Historically, rental car companies have paid the Department 10.0 percent of gross revenues as these amounts have been higher than the MAG. In FY 2013, MAGs with these agencies total approximately \$57.2 million, and the Department's FY 2013 budget estimates approximately \$68.0 million in FY 2013 concession fees will be received from rental car companies.

Car rental revenues to the Department (referred to as car rental revenues hereafter) increased from approximately \$34.4 million in FY 2002 to approximately \$64.4 million in FY 2012, representing a CAGR of 6.5 percent. Car rental revenues on a per O&D enplaned passenger basis increased at a CAGR of 5.3 percent between FY 2002 and FY 2012.

Projections of car rental revenues were based on the assumption that the business terms of the future rental car agreements (subsequent to January 2015) will be similar to terms in the current agreements, and, more specifically, that car rental revenues per O&D enplaned passenger will increase 3.0 percent annually for FY 2014 to FY 2018. Car rental revenues are projected to increase from approximately \$64.4 million in FY 2012 to approximately \$86.8 million in FY 2018, representing a CAGR of 5.1 percent.

The Department currently collects a rental car customer facility charge (CFC) but CFC collections are not included in the definition of Pledged Revenues and are not incorporated in the Report.

- Ground transportation at the Airport is currently provided by a number of operators including limousine, charter bus, taxi, and various commercial courtesy vehicle operators. In general, revenues generated from limousine, bus, and taxi operators is derived from per trip fees assessed to the operators, and vary based on the type of operator and vehicle. Trip fees at the Airport were increased in November 2010. As shown on Table 4-6, bus, limo, and taxi revenues increased from

approximately \$14.2 million in FY 2010 to approximately \$15.5 million in FY 2011 and \$18.3 million in FY 2012 (representing a 9.1 percent increase in FY 2011 and an 18.2 percent increase in FY 2012). Projections of bus, limo, and taxi revenues assume a 3.0 percent annual increase from the FY 2013 budget amount. As shown on Table 4-6, bus, limo, and taxi revenues are projected to increase from approximately \$17.7 million in FY 2013 to approximately \$22.5 million in FY 2018.

- Duty Free revenues at the Airport are generated from the sale of duty free merchandise at the Airport. The duty free operator at the Airport is DFS Group L.P. (DFS), which has been the duty free concessionaire at the Airport since 1982. In August 2012, after the completion of a competitive process, the Airport Commission awarded DFS a new duty free contract through ten years after the date the Bradley West primary core area of TBIT opens for passenger travel as determined by the Department's Executive Director. The Department has the right to extend the DFS contract for three 1-year options. The agreement with DFS Group L.P. provides that DFS pay the Department the greater of (1) a minimum annual guarantee (MAG) or (2) a concession fee based on the application of certain percentages to gross sales of various categories of products plus 10.0 percent of any gross sales over \$175.0 million. The MAG is equal to the greater of (1) \$30.0 million to be increased based on the consumer price index, (2) a percentage of the prior year payment (unless international enplaned passengers at the airport have decreased below certain thresholds), or (3) commencing in the third year of the DFS agreement, \$6.25 per international enplaned passenger, subject to annual consumer price index increases.

Between FY 2002 and FY 2012, duty free revenues increased at a CAGR of 6.6 percent. Duty free revenues on a per international enplaned passenger basis, grew at a CAGR of 5.4 percent for the same period. Duty free revenues were approximately \$45.4 million in FY 2012 and are projected to increase to \$48.2 million in FY 2013 and \$67.8 million in FY 2014 as a result of both the terms of the new duty free agreement and the opening of Bradley West. Duty free revenue projections were based on an average of future gross sales estimates provided to the Department by various duty free bidders assuming approximately 30.0 percent of gross sales is received by the Department. On a per international enplaned passenger basis, duty free revenues to the Department are assumed to increase from approximately \$5.50 in FY 2013 to approximately \$7.50 in FY 2014. Duty free revenues are projected to increase from approximately \$45.4 million in FY 2012 to approximately \$87.3 million in FY 2018, representing a CAGR of 11.5 percent.

- The Department has entered into two terminal commercial manager concession agreements with Westfield Concession Management, LLC (Westfield), for concession development at TBIT, Terminals 1, 2, 3 and 6 and the LAX Theme Building (the Westfield Concession Agreements). Pursuant to the Westfield Concession Agreements, Westfield serves as a developer and manager of retail, specialty retail, food and beverage and other passenger services in the applicable terminals and space, including selecting concessionaires, subject to Department approval. Under the Westfield Concession Agreements, Westfield is required to develop concession and related spaces, market and promote the concessionaires, negotiate and administer contracts with each concessionaire, and monitor and manage concessionaire performance. The term of each Westfield Concession Agreement is 17 years, comprised of a two year development period and a 15 year operational period and both Westfield Concession Agreements are scheduled to expire on June 30, 2029. Under the Westfield Concession Agreements, Westfield and its concessionaires are required to make certain capital investments to

related premises. The Department is to receive from Westfield the greater of an aggregate MAG of approximately \$34.7 million or percentage rent comprised of base percentage rent (a percentage of Westfield's revenues less certain allowances for improvements and management fees) and contingent percentage rent (a certain percentage of Westfield's revenues in excess of certain benchmarks). Beginning in January 2014, each MAG is subject to increase based on the consumer price index and a percentage of the prior year's percentage rent and to decrease based on certain reductions in passenger enplanements. See assumptions below regarding projections of food and beverage revenues and gifts and news revenues.

The Department has also entered into concession agreements with a number of food and beverage concessionaires for concessions at Terminals 4, 5, 7, 8 and the commuter facilities at LAX (the Food and Beverage Concession Agreements). The Food and Beverage Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a MAG or a percentage of gross receipts. The aggregate MAG under the Food and Beverage Concession Agreements is approximately \$12.9 million. Under the Food and Beverage Concession Agreements, each concessionaire is required to make certain capital investments to related premises. The Food and Beverage Concession Agreements are scheduled to terminate in June 2021 and 2023. See assumptions below regarding projections of food and beverage revenues.

The Department has also entered into concession agreements with a number of retail concessionaires for concessions at Terminals 4, 5, 7 and 8 at LAX (the Retail Concession Agreements). The Retail Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a MAG or a percentage of gross receipts. The aggregate MAG under the Retail Concession Agreements is approximately \$7.5 million. Under the Retail Concession Agreements, each concessionaire is required to make certain capital investments to related premises. See assumptions below regarding projections of gifts and news revenues.

Food and beverage revenues received by the Department increased from approximately \$17.3 million in FY 2002 to approximately \$33.0 million in FY 2012, representing a CAGR of 6.7 percent. Food and beverage revenues on a per enplaned passenger basis increased at a CAGR of 5.5 percent between FY 2002 and FY 2012. Projections of food and beverage revenues were based on the assumption that food and beverage revenues per enplaned passenger will increase 2.5 percent annually with an additional increase in FY 2014 for the new contracts described above and for new and improved terminal facilities at the Airport (such as Bradley West and the planned modernization of other terminals included in the Series 2012 Projects and the Other Incorporated Projects)--food and beverage revenues per enplaned passenger are assumed to increase from approximately \$1.10 in FY 2013 to approximately \$1.40 in FY 2014. Food and beverage revenues are projected to increase from approximately \$33.0 million in FY 2012 to approximately \$60.2 million in FY 2018.

Gifts and News revenues received by the Department increased from approximately \$15.1 million in FY 2002 to approximately \$17.3 million in FY 2012, representing a CAGR of 1.4 percent. Gifts and News revenues on a per enplaned passenger basis have remained flat between FY 2002 and FY 2012 (at a CAGR of 0.21 percent). Projections of Gifts and News revenues were based on the assumption that gifts and news revenues per enplaned passenger will remain constant with an additional increase in FY 2014 for the new contracts described above and for new and improved terminal facilities at the Airport (such as Bradley West and the planned modernization of other terminals included in the Series

2012 Projects and the Other Incorporated Projects)—gifts and news revenues per enplaned passenger are assumed to increase from approximately \$0.65 in FY 2013 to approximately \$0.85 in FY 2014. Gifts and news revenues are projected to increase from approximately \$17.3 million in FY 2012 to approximately \$34.6 million in FY 2018.

- The Department began collecting advertising revenues in April 2007, under an agreement between the Department and JCDecaux Airport, Inc. The agreement's expiration date of April 2013 was recently extended through April 7, 2014 with three 1-year extension options. JCDecaux pays the Department the greater of a MAG or 70 percent of gross sales.

The Department has also commenced a competitive process to identify and select a Terminal Media Operator for LAX. The scope of the Terminal Media Operator concession has not been determined by the Department but may include, among other things, traditional airport advertising, sponsorship, electronic media management and maintenance in the Terminals, digital activation sales and promotions, enhanced Wi-Fi services and digital passenger information and navigation services.

Advertising revenues received by the Department are expected to increase starting in FY 2014 following the expected implementation of the Terminal Media Operator in TBIT/Bradley West and in other terminals in FY 2015 to FY 2018. Advertising revenues to the Department were approximately \$17.4 million in FY 2012 and are budgeted to increase to \$20.1 million in FY 2013. Advertising revenues are projected to increase to approximately \$27.2 million in FY 2014 and then increase gradually to \$30.6 million by FY 2018.

- Other concession revenues shown on Table 4-6 include revenues from luggage carts, ATMs, and telecommunications. These other concession revenues were approximately \$5.5 million in FY 2012 and are projected to increase to approximately \$7.9 million in FY 2018.

4.6.3 AIRPORT SALES AND SERVICES REVENUES

Airport sales and services revenues at the Airport include revenue derived from various sales and services provided by the Department to its tenants and users, including van pool fees, accommodations, utilities, airfield bus service, ID badges, and other sales and services. Airport sales and services revenues have varied year to year and increased approximately 14.3 percent in FY 2012. In FY 2012, Airport sales and services revenues represented less than 1.0 percent of total FY 2012 Nonairline Revenues. Airport sales and services revenues are projected to increase from approximately \$2.2 million in FY 2012 to approximately \$2.9 million in FY 2018.

4.6.4 MISCELLANEOUS REVENUES

Miscellaneous revenues at the Airport include Build America Bond tax credits, revenue from refunds and reimbursements, litigation settlements, sale of property and equipment, tickets and impound fees, and other miscellaneous revenues. In FY 2012, miscellaneous revenues were approximately \$9.6 million, representing approximately 2.2 percent of total FY 2012 Nonairline Revenues. Miscellaneous revenues are projected to remain relatively flat between FY 2012 and FY 2018, increasing from \$9.6 million in FY 2012 to \$9.8 million in FY 2018. For purposes of the Report, it was assumed that Build America Bond tax credits would not be decreased during the Projection Period pursuant to potential cuts to federal programs as part of the Federal Budget Control Act of 2011 (see Section 2.5.7 of the Report for more information).

4.7 Airline Revenues

Projections of airline terminal rentals, landing fees, and apron fees incorporated in the Report are calculated pursuant to the methodologies contained in the LAX Passenger Terminal Tariff (the Airport Terminal Tariff), terminal Rate Agreements (the Rate Agreements), prior terminal leases, and the Air Carrier Operating Permit. The following sections present greater detail with regard to each specific document and relevant rate calculations.

4.7.1 LAX PASSENGER TERMINAL TARIFF

Airlines and businesses involved in aeronautical activities other than governmental activities or concessions (each, an Aeronautical User) use terminal space at the Airport under the terms of the LAX Passenger Terminal Tariff (the Airport Terminal Tariff) unless the Aeronautical User is party to a lease. The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. After consultation with airline representatives regarding the Department's rates and charges, on September 17, 2012, the Board approved certain changes to the Airport Terminal Tariff, as described below, which will become effective on January 1, 2013, in all terminals at the Airport, provided however, that the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space used by Aeronautical Users. All references herein to the Airport Terminal Tariff are to the Airport Terminal Tariff as it will become effective January 1, 2013. Under the Airport Terminal Tariff, Aeronautical Users are required to pay to the Department:

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

4.7.2 TERMINAL RATE AGREEMENT

In connection with the negotiation of the terms of the Airport Terminal Tariff, to resolve certain pending and potential future litigation regarding the Department's rate setting methodology, and to provide phase-in of the new terminal rates and charges for airlines, the Department has offered the airlines a Rate Agreement. The Department expects that most airlines will execute Rate Agreements. Airlines that do not enter into a

Rate Agreement will not participate in the discounts, fixed charges and credits for concession revenues described below. See Section 4.7.4 below regarding assumptions incorporated in the projection of terminal rentals during the Projection Period.

Pursuant to the Rate Agreements, the applicable airlines (a "Signatory Airline") consent and waive rights to challenge the application of the Airport Terminal Tariff terminal rate methodology approved by the Board in September 2012. Under the Rate Agreement, the rates and charges under the Airport Terminal Tariff are phased in over five years, with the initial Terminal Buildings Rate set at \$75.00 per rentable square foot for calendar year 2013. In calendar years 2014 through 2017 the calculated Terminal Buildings Rate will be discounted by 20 percent, 15 percent, 10 percent and 5 percent, respectively (for example, in CY 2014, if the calculated rate is hypothetically \$100.00, then the Terminal Buildings Rate charged under the Rate Agreement would be \$80.00). After calendar year 2017, the Terminal Building Rate will be charged pursuant to the Airport Terminal Tariff without discount.

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

Beginning in calendar year 2014, the Department will provide Signatory Airlines a credit for a portion of the concession revenues generated in the terminals at the Airport. Pursuant to formulas stated in the Rate Agreement, a portion of terminal concession revenues (referred to as Tier One Terminal Buildings Revenue Sharing) will be applied by the Signatory Airlines to reduce amounts owed in connection with the Terminal Buildings Rate (and all rates derived from it) and a portion (referred to as Tier One FIS Concession Revenue) will be applied to reduce amounts owed in connection with the FIS rate.

Under the Rate Agreement, the Department is required to establish a Terminal Renewal and Improvement Fund (the "TRIF"). The TRIF is required to be funded from annual net revenues in the Terminal cost center from the application of the Airport Terminal Tariff. Amounts deposited in the TRIF are required to be used by the Department to fund, together with debt and grant funding, terminal related capital improvements. Deposits into the TRIF may not exceed \$125.0 million annually or a maximum unused fund balance amount of \$500.0 million. These limits are subject to annual Consumer Price Index increases. The Department is permitted to collect and amortize charges associated with capital projects funded from TRIF deposits, however, such collection and amortization is required to be deferred for five years after the projects are placed in service.

Under the Rate Agreement, beginning in calendar year 2014, 50 percent of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above are required to be deposited in a Revenue Sharing Fund. The remaining excess funds may be used by the Department for any lawful purpose. Amounts deposited in the Revenue Sharing Fund are required to be distributed to the Signatory Airlines as a credit against amounts due to the Department.

4.7.3 TERMINAL LEASES

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

Tariff Terminal Leases

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

Non-Tariff Terminal Leases

The Department has entered into leases for the use of certain terminal space at the Airport with Continental Airlines (now merged with United Airlines) and Delta with cost recovery of operation and maintenance charges similar to the rates and charges under the Airport Terminal Tariff, but with other cost recovery terms on a base rate with negotiated increases. These leases expire in December 2017.

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

4.7.4 ASSUMPTIONS FOR PROJECTION OF AIRLINE TERMINAL RENTALS

For purposes of the financial projections incorporated in the Report, the following assumptions regarding airline terminal rental payments were incorporated:

- (1) All airlines will pay terminal rentals subject to their existing leases or the Airport Terminal Tariff rate methodology through December 2012 (before changes recently adopted for the Airport Terminal Tariff become effective on January 1, 2013);

Beginning January 1, 2013:

- (2) American Airlines will continue to pay rents pursuant to its prior lease (throughout the Projection Period);
- (3) all other airlines will pay rents for certain terminal space based on the Rate Agreement (at rates lower than those to be charged under the Airport Terminal Tariff);

- (4) Air Canada and Hawaiian Airlines will also continue to pay certain fixed rent amounts through June 2013 for certain terminal space pursuant to prior leases; and
- (5) United Airlines and Delta will also continue to pay for certain terminal space (in Terminal 6) pursuant to prior leases expiring in CY 2017.

It should be noted that certain airlines are assumed to pay for certain amounts of space under prior terminal leases and certain amounts of space under the Rate Agreement.

The final resolution of the ongoing negotiations and/or legal matters related to terminal rentals at the Airport (as discussed in sections above) could result in terminal rental revenues different than as reflected in the Report for the Projection Period based on the assumptions above. However, the assumptions above provide a reasonable basis for purposes of projecting Terminal rents and charges during the Projection Period.

4.7.5 PROJECTED AIRLINE TERMINAL RENTALS

Table 4-7 presents a summary of projected airline terminal payments based on assumptions outlined above in Section 4.7.4. As shown on Table 4-7, terminal rents are charged on a CY basis. At the bottom of Table 4-7, projected airline terminal rentals are also reflected on a FY basis for purposes of being incorporated into the overall Airport financial projections (which are completed on a FY basis).

Table 4-7 reflects the various types of terminal fees estimated to be paid by airlines, as well as Tier One Terminal Buildings Revenue Sharing and Tier One FIS Concession Revenue amounts described above in Section 4.7.2. As shown on Table 4-7, total airline terminal payments are projected to increase from approximately \$229.8 million in calendar year 2013 to approximately \$545.8 million in calendar year 2018. On a Fiscal Year basis, airline terminal payments are projected to increase from approximately \$275.3 million in FY 2014 to approximately \$495.5 million in FY 2018, representing a CAGR of 15.8 percent.

4.7.6 AIR CARRIER OPERATING PERMIT

Airlines at the Airport operate under a 10-year Air Carrier Operating Permit (with a 10-year extension option) for the use of Landing and Apron Facilities at the Airport. The Air Carrier Operating Permit can be terminated with a 30-day notice from the airlines or the Department. The Operating Permit sets forth various terms and conditions related to the use of Landing and Apron Facilities, including, but not necessarily limited to, insurance requirements, indemnification provisions, and responsibility for the use and disposal of hazardous substances. Section 4.7.7 below describes how landing and apron fees are calculated by the Department and discusses current and projected landing and apron fees. For purposes of the Report, it has been assumed that any Air Carrier Operating Permits expiring during the Projection Period will be renewed under the same general business terms.

4.7.7 AIRLINE LANDING AND APRON FEES

Table 4-8 presents the calculation of Landing Fee and Apron Fee requirements and rates for FY 2013 through FY 2018, under the Landing Fee and Apron Fee rate methodologies contained in the Operating Permit. Landing and Apron Fees at the Airport are established using a cost-based, or compensatory methodology, and are calculated for each fiscal year based upon budgeted costs. At the end of each fiscal year, Landing and Apron Fees are settled with the airlines for any variances between actual and budgeted costs.

Table 4-7 Summary of Airline Terminal Payments

Calendar Years (with Fiscal Year Total)

	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
Terminal Buildings Rents						
Demised Premises	\$ 88,419,000	\$ 137,014,650	\$ 178,184,503	\$ 195,045,347	\$ 215,461,379	\$ 288,223,932
Common Use Holdroom Fees	20,135,000	40,613,000	49,489,000	53,968,000	58,908,000	78,328,000
Bag Claim Fees	5,704,000	8,578,000	10,453,000	11,399,000	12,442,000	16,544,000
Outbound Bag System Fees	11,568,000	17,396,000	21,198,000	23,116,000	25,232,000	33,550,000
Common Use Ticket Counter Fees	1,260,000	1,895,000	2,309,000	2,518,000	2,748,000	3,654,000
Tier One Terminal Buildings Revenue Sharing	-	(97,650)	(11,341,503)	(13,103,347)	(13,837,379)	(14,496,932)
	<u>\$ 127,086,000</u>	<u>\$ 205,399,000</u>	<u>\$ 250,292,000</u>	<u>\$ 272,943,000</u>	<u>\$ 300,954,000</u>	<u>\$ 405,803,000</u>
FIS Fees	\$ 61,693,000	\$ 71,022,000	\$ 80,462,000	\$ 113,515,000	\$ 113,574,000	\$ 111,882,000
Tier One FIS Concession Revenue	-	-	-	(19,836,000)	(21,154,000)	(22,253,000)
Terminal Special Charges	18,901,000	19,698,000	23,462,000	24,564,000	25,723,000	26,942,000
Prior Lease Payments	22,131,185	24,701,900	26,784,542	27,632,037	26,107,781	23,400,171
	<u>\$ 229,811,185</u>	<u>\$ 320,820,900</u>	<u>\$ 381,000,542</u>	<u>\$ 418,818,037</u>	<u>\$ 445,204,781</u>	<u>\$ 545,774,171</u>
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Fiscal Year Basis	\$ 214,906,000	\$ 275,316,000	\$ 350,911,000	\$ 399,909,000	\$ 432,012,000	\$ 495,490,000

SOURCES: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc., October 2012.

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

Table 4-8 Landing and Apron Fees

Fiscal Years Ending June 30

	BUDGET			PROJECTED		
	FY 2013 ^{1/}	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Landing Fee						
Operating Expense	\$ 135,179,984	\$ 141,794,550	\$ 148,884,278	\$ 156,328,492	\$ 164,144,916	\$ 172,352,162
Amortization Expense	12,812,901	12,480,376	12,720,874	12,830,146	23,282,946	32,721,949
Senior Lien Debt Service	1,382,579	680,201	1,112,401	2,213,470	2,214,149	2,215,054
Subordinate Lien Debt Service	47,065,286	50,638,597	50,151,758	59,507,340	62,749,969	67,620,204
Credit for Build America Bonds subsidy (Series 2009C)	(6,862,233)	(6,862,233)	(6,862,233)	(6,862,233)	(6,711,809)	(6,556,222)
Credit for Build America Bonds subsidy (Series 2010C)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)	(1,465,331)
Debt Service Coverage ^{2/}	-	-	-	-	-	-
M&O Reserve	1,549,749	3,618,833	1,904,590	2,387,307	2,119,232	3,055,392
Van Nuys Reliever Net Costs	3,830,581	3,891,333	3,834,255	3,774,609	3,712,279	3,647,144
TOTAL AIRFIELD REQUIREMENT	\$ 193,493,516	\$ 204,776,325	\$ 210,280,592	\$ 228,713,800	\$ 250,046,352	\$ 273,590,351
Total Landed Weight (000's) ^{3/}	51,463,746	52,162,542	53,137,886	54,079,446	54,926,836	55,746,608
Landing Fee Rate	\$ 3.77	\$ 3.93	\$ 3.96	\$ 4.23	\$ 4.55	\$ 4.91
Apron Fee						
Operating Expense	\$ 26,753,030	\$ 31,912,088	\$ 33,507,693	\$ 35,183,078	\$ 36,942,231	\$ 38,789,343
Amortization Expense	2,893,177	3,026,424	3,133,035	3,296,643	3,192,520	3,446,594
Senior Lien Debt Service	251,166	141,971	252,802	608,998	609,084	609,222
Subordinate Lien Debt Service	885,505	1,722,555	6,192,934	19,121,172	20,495,677	27,379,765
Debt Service Coverage ^{2/}	-	-	-	-	34,103	812,676
M&O Reserve	306,706	814,450	428,644	537,284	476,952	687,642
TOTAL APRON REQUIREMENT	\$ 31,089,583	\$ 37,617,488	\$ 43,515,108	\$ 58,747,175	\$ 61,750,567	\$ 71,725,243
Passenger Landed Weight (000's) ^{3/4/}	44,863,993	45,194,344	46,067,716	46,908,967	47,661,144	48,387,013
Apron Fee Rate	\$ 0.69	\$ 0.83	\$ 0.94	\$ 1.25	\$ 1.30	\$ 1.48
COMBINED RATE	\$ 4.46	\$ 4.76	\$ 4.90	\$ 5.48	\$ 5.85	\$ 6.39

NOTES:

- 1/ With the exception of Amortization and Debt Service in FY 2013, amounts reflected in this table are as reflected in FY 2013 Budget.
- 2/ Debt service coverage is 0.25x for Senior Lien Debt Service and 0.15x for Subordinate Lien Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculation.
- 3/ Landed weight reflected for FY 2013 is budgeted amount; thereafter it is as projected in this report.
- 4/ Excludes certain passenger airline landed weight treated as cargo airline landed weight for rates and charges purposes. Passenger airline landed weight here is lower than passenger airline landed weight reflected on Table 2-27.

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

The airline Landing Fee is calculated by dividing the total Airfield requirement by the estimated maximum gross landed weight of all airfield users. The total Airfield requirement is calculated based on the following cost components attributable to the Airfield cost center:

- LAX M&O Expenses
- Expenditures for capital items whose cost net of grants, PFCs, and contributed capital is less than \$100,000
- Amortization of capital expenditures whose cost net of grants, PFCs, and contributed capital is \$100,000 or more
- Annual debt service
- Debt service coverage (0.25x) (debt service coverage is included in the rate base for landing fees only to the extent that coverage is greater than amortization costs—e.g., if debt service in the rate base for landing fees was hypothetically \$40 million for a given Fiscal Year, then debt service coverage of 0.25x would be equal to \$10 million, but if amortization expenses were \$10 million or more then no debt service coverage would be included in the rate base)
- Build America Bonds debt service credit (if applicable)
- The O&M Reserve requirement attributable to the Airfield
- The net costs attributable to operating Van Nuys Airport

Because the Department establishes the Landing Fee based on a compensatory methodology using total airline landed weight as a divisor, the Airport does not expose itself to any risk of reduced landing fee revenues that might result from loss of airline service or other such disruptions.

Similarly, the Apron Fee is calculated by dividing the Apron requirement (comprised of the same cost items described above but allocable to the Apron cost center) by the total estimated maximum gross landed weight of the passenger airlines.

As shown in Table 4-8, the Landing Fee is projected to increase from the FY 2013 Budget rate of \$3.77 per thousand pound unit to \$4.91 per thousand pound unit in FY 2018. Overall, Landing Fees are projected to increase from approximately \$193.5 million in FY 2013 to approximately \$273.6 million in FY 2018.

The Apron Fee is projected to increase from the FY 2013 Budget rate of \$0.69 per thousand pound unit to \$1.48 per thousand pound unit in FY 2018. Overall, Apron Fees are projected to increase from approximately \$31.1 million in FY 2013 to approximately \$71.7 million in FY 2018.

The combined Landing and Apron Fee is projected to increase from the FY 2013 Budget rate of \$4.46 per thousand pound unit to \$6.39 per thousand pound unit in FY 2018, representing a CAGR of 7.5 percent.

4.7.8 PASSENGER AIRLINE COST PER ENPLANED PASSENGER

Table 4-9 presents passenger airline cost per enplaned passenger estimated for FY 2010 through FY 2012, and projected for FY 2013 through FY 2018.

Table 4-9 Passenger Airline Cost Per Enplaned Passenger

Fiscal Years Ending June 30

AIRLINE REVENUES	ESTIMATED	ESTIMATED	ESTIMATED	PROJECTED					
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Airline Terminal Rentals	\$ 160,089,050	\$ 171,310,959	\$ 196,707,758	\$ 214,906,000	\$ 275,316,000	\$ 350,911,000	\$ 399,909,000	\$ 432,012,000	\$ 495,490,000
Signatory Airline Landing and Apron Fees	169,022,701	191,205,754	205,418,189	224,583,000	242,394,000	253,796,000	287,461,000	311,797,000	345,316,000
Airline Terminal Rentals and Signatory Airline Landing and Apron Fees	\$ 329,111,751	\$ 362,516,713	\$ 402,125,947	\$ 439,489,000	\$ 517,710,000	\$ 604,707,000	\$ 687,370,000	\$ 743,809,000	\$ 840,806,000
Non-Signatory landing fees	659,850	100,459	506,901	500,000	522,000	548,000	574,000	601,000	628,000
Airline Terminal Rentals, Landing Fees, and Apron Fees	\$ 329,771,601	\$ 362,617,172	\$ 402,632,848	\$ 439,989,000	\$ 518,232,000	\$ 605,255,000	\$ 687,944,000	\$ 744,410,000	\$ 841,434,000
Less: Landing Fees - Cargo	(17,929,617)	(21,153,864)	(20,297,966)	(21,874,000)	(23,100,000)	(23,606,000)	(25,568,000)	(27,873,000)	(30,424,000)
Total Passenger Airline Revenues	\$ 311,841,984	\$ 341,463,308	\$ 382,334,882	\$ 418,115,000	\$ 495,132,000	\$ 581,649,000	\$ 662,376,000	\$ 716,537,000	\$ 811,010,000
Enplaned Passengers	29,003,142	30,280,571	31,519,124	32,298,200	33,006,100	33,682,300	34,376,500	34,975,900	35,561,400
Passenger Airline Cost Per Enplaned Passenger	\$10.75	\$11.28	\$12.13	\$12.95	\$15.00	\$17.27	\$19.27	\$20.49	\$22.81

SOURCES: City of Los Angeles, Department of Airports, September 2012; Ricondo & Associates, Inc., October 2012.

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

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplaned passenger (in future dollars) is estimated to increase from \$12.13 in FY 2012 to \$22.81 in FY 2018. This increase can be attributed to increases in terminal, airfield, and apron-related capital costs (associated with the Series 2012 Projects, Other Incorporated Projects, and Ongoing Projects); assumed growth in base LAX M&O Expenses allocable to airline-related Cost Centers; and incremental LAX M&O Expenses associated with various terminal improvements.

4.8 Application of Pledged Revenues and Debt Service Coverage

Table 4-10 presents projected cash flow and debt service coverage ratios, respectively, for the Airport for FY 2013 through FY 2018. Included in this cash flow are Airline Revenues, other aviation revenues, various nonairline revenues, Investment Earnings, LAX M&O Expenses, Debt Service, O&M Reserve deposits, and capital lease payments. Assumptions included in this table include the following:

- Total Pledged Revenues include investment earnings from available balances in the Airport Revenue Fund and various bond service funds. The interest income from available balances in the PFC Fund and various construction funds is restricted and not included in Pledged Revenues.
- Debt Service Coverage ratios as required by the Indentures are also presented in Table 4-10. Net Pledged Revenues together with any Transfer which shall not exceed 25% of Senior Aggregate Annual Debt Service are required to be at least 1.25 times Senior Aggregate Annual Debt Service and Net Subordinate Pledged Revenues are required to be at least 1.15 times Subordinate Aggregate Annual Debt Service (which includes debt service on Subordinate Commercial Paper Notes). As presented, the Senior Bond debt service coverage ratio exceeds the 1.25 coverage requirement in each year of the Projection Period. In addition, the Subordinate Bond debt service coverage ratio is projected to also exceed the 1.15 coverage ratio requirement in each year of the Projection Period.¹ No Transfers were assumed for purposes of the analysis reflected in the Report.

¹ In Table 4-10, annual debt service presented represents estimated "actual" debt service payments required (rather than Maximum Annual Debt Service associated with certain additional bonds tests) so that cash flow for the Airport can be projected. For actual compliance with tests for the issuance of Bonds, separate certifications and/or Consultant Certifications were developed.

Table 4-10 Airport Cash Flow and Debt Service Coverage

Fiscal Years Ending June 30

		PROJECTED					
		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
PLEGGED REVENUES							
Airline Terminal Rentals, Landing Fees, and Apron Fees	Table 4-9	\$ 439,988,691	\$ 518,231,805	\$ 605,254,406	\$ 687,944,107	\$ 744,409,542	\$ 841,433,470
Aviation Revenues	Table 4-6	142,736,264	149,321,588	156,898,928	163,341,822	167,576,923	172,725,634
Concession Revenues	Table 4-6	291,324,000	349,682,642	369,346,559	386,618,251	402,695,971	424,936,420
Airport Sales & Services	Table 4-6	2,451,000	2,540,190	2,629,641	2,722,664	2,811,606	2,901,853
Miscellaneous Revenues	Table 4-6	9,701,564	9,770,264	9,842,399	9,918,141	9,847,246	9,775,165
Investment Earnings		16,349,731	25,307,258	34,021,314	37,092,127	40,806,721	47,902,039
Total Pledged Revenues	[A]	\$ 902,551,251	\$ 1,054,853,748	\$ 1,177,993,247	\$ 1,287,637,113	\$ 1,368,148,008	\$ 1,499,674,581
LAX M&O EXPENSES	[B]	\$ 605,738,980	\$ 669,920,929	\$ 703,417,226	\$ 745,516,587	\$ 782,792,516	\$ 836,779,492
NET PLEDGED REVENUES	[C]=[A]-[B]	\$ 296,812,271	\$ 384,932,819	\$ 474,576,022	\$ 542,120,526	\$ 585,355,492	\$ 662,895,088
DEBT SERVICE							
Senior Debt Service		\$ 86,715,449	\$ 160,503,650	\$ 216,244,496	\$ 265,337,347	\$ 283,787,771	\$ 337,043,425
Less PFC Revenues Used to Pay Senior Debt Service		(34,403,945)	(99,970,135)	(89,891,630)	(134,881,612)	(166,561,737)	(199,562,814)
Senior Aggregate Annual Debt Service ^{1/}	[D]	\$ 52,311,504	\$ 60,533,515	\$ 126,352,866	\$ 130,455,735	\$ 117,226,034	\$ 137,480,610
Subordinate Aggregate Annual Debt Service	[E]	61,074,558	71,445,415	62,987,437	83,420,012	88,036,596	99,792,719
Senior and Subordinate Aggregate Annual Debt Service	[F]=[D]+[E]	\$ 113,386,062	\$ 131,978,930	\$ 189,340,303	\$ 213,875,747	\$ 205,262,630	\$ 237,273,330
M&O Reserve	[G]	6,795,697	15,960,263	8,399,879	10,528,825	9,346,524	13,475,300
NET FUNDS REMAINING	[H]=[C]-[F]-[G]	176,630,512	236,993,625	276,835,839	317,715,953	370,746,338	412,146,459
DEBT SERVICE COVERAGE							
Senior Bond Debt Service Coverage ^{2/}	= [C] / [D]	5.67	6.36	3.76	4.16	4.99	4.82
SUBORDINATE PLEDGED REVENUES	[I]=[C]-[D]	\$ 244,500,767	\$ 324,399,304	\$ 348,223,156	\$ 411,664,790	\$ 468,129,458	\$ 525,414,478
Subordinate Bond Debt Service Coverage ^{2/}	= [I] / [E]	4.00	4.54	5.53	4.93	5.32	5.27
Total Debt Service Coverage ^{2/}	= [C] / [F]	2.62	2.92	2.51	2.53	2.85	2.79

NOTES:

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

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

SOURCES: City of Los Angeles, Department of Airports, October 2012; Ricondo & Associates, Inc., October 2012.

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

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APPENDIX B
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, 2012 AND 2011

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Los Angeles
International Airport



LAX

Annual Financial Report

Fiscal years ended June 30, 2012 and 2011





Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)

LOS ANGELES INTERNATIONAL AIRPORT

Annual Financial Report
Fiscal Years Ended June 30, 2012 and 2011



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District 11

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District 12

Eric Garcetti
District 13

José Huisar
District 14

Joe Buscaino
District 15

LOS ANGELES WORLD AIRPORTS

Gina Marie Lindsey
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Stephen Martin
Chief Operating Officer

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Michael Feldman
*Deputy Executive Director
Facilities Management*

Roger A. Johnson
*Deputy Executive Director
Airports Development*

Samson Mengistu
*Deputy Executive Director
Administration*

Dominic Nessi
*Deputy Executive Director
Information Management
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Arif Alikhan
*Deputy Executive Director
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*Deputy Executive Director
Comptroller*

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*Deputy Executive Director
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Air Service Marketing

Jess Romo
Airport Manager, ONT/VNY

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Airports Development

Janet Hackney
*Airports Development Contracts
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*Capital Management and
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*Engineering and Facilities
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Facilities Planning

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Nathan Look
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Tony Chen
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Ralph Morones
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Karen Tozer
Procurement Services

Barbara Yamamoto
Project LiftOff/Customer Service

Mary Grady
Public and Media Relations

Bruce Brown
*Risk Management
Liability, Property and OCIP*

James McGuirk
*Risk Management
Workers' Compensation, Safety
and Insurance Compliance*



Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal years ended June 30, 2012 and 2011.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unqualified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2012 and 2011, were fairly presented in conformity with generally accepted accounting principles (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2012. MGO's report is on pages 63 and 64.

MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, and concluded that LAX complied in all material respects with the requirements that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2012. MGO's report is on pages 69 and 70.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 3 through 22.

The financial condition of LAX depends primarily upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area. LAX is the dominant airport in the Air Trade Area, is the sixth busiest airport in the world, and offers more than 565 daily flights to 81 destinations in the U.S. and over 1,000 weekly nonstop flights to 66 international destinations on over 75 carriers.

Passenger and cargo traffic at LAX has shown encouraging growth. Passenger traffic increased by 3.8% in fiscal year 2012 as compared to the prior fiscal year, while air cargo tonnage increased by 0.7% during the same comparative period. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.

Gina Marie Lindsey
Executive Director

Los Angeles World Airports
 (Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Annual Financial Report
Fiscal Years Ended June 30, 2012 and 2011

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

We have audited the accompanying basic financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of LAX's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAX's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

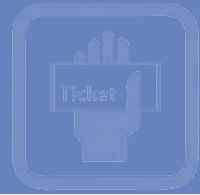
As discussed in Note 1, the financial statements present only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2012 and 2011, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of LAX as of June 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Independent Auditor's Report (continued)



Our audits were conducted for the purpose of forming opinions on the basic financial statements of LAX as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 65 to 68 and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 71 to 72 are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The accompanying Schedules of Funding Progress – Prorated Data for Los Angeles World Airports Defined Benefit Pension Plan and Other Postemployment Benefit Healthcare Plan (Non-GAAP Basis) on page 61 have not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on them.

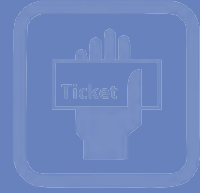
Macias Jini & O'Connell LLP

Los Angeles, California
October 30, 2012



Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011



Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City) and is an enterprise fund comprised of four separate airports. LAWA owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA maintains LA/Palmdale Regional Airport (PMD); however, PMD is not currently certificated by the Federal Aviation Administration.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2012 and 2011. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 23.

Using This Financial Report

LAX's financial report consists of this management's discussion and analysis (MD&A), and the financial statements that follow after the MD&A. The financial statements include:

The *Statements of Net Assets* present information on all of LAX's assets and liabilities at June 30, 2012 and 2011. The difference between the assets and liabilities was reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator whether LAX's financial position is improving or deteriorating.

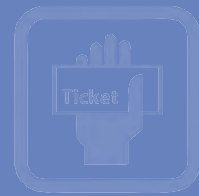
The *Statements of Revenues, Expenses, and Changes in Net Assets* present the results of LAX's operations and information showing the change in net assets during the two fiscal years. These statements can be useful indicators of how LAX recovered its costs through rates and charges. All changes in net assets were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

The *Statements of Cash Flows* relate to the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. Consequently, only transactions that affect LAX's cash and cash equivalents accounts were recorded in these statements. At the end of the statements, a reconciliation is provided to assist in understanding the difference between operating income and cash flows from operating activities.

The *Notes to the Financial Statements* present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of LAX's financial activities.



Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011
 (continued)



Passenger and Other Traffic Activity Highlights

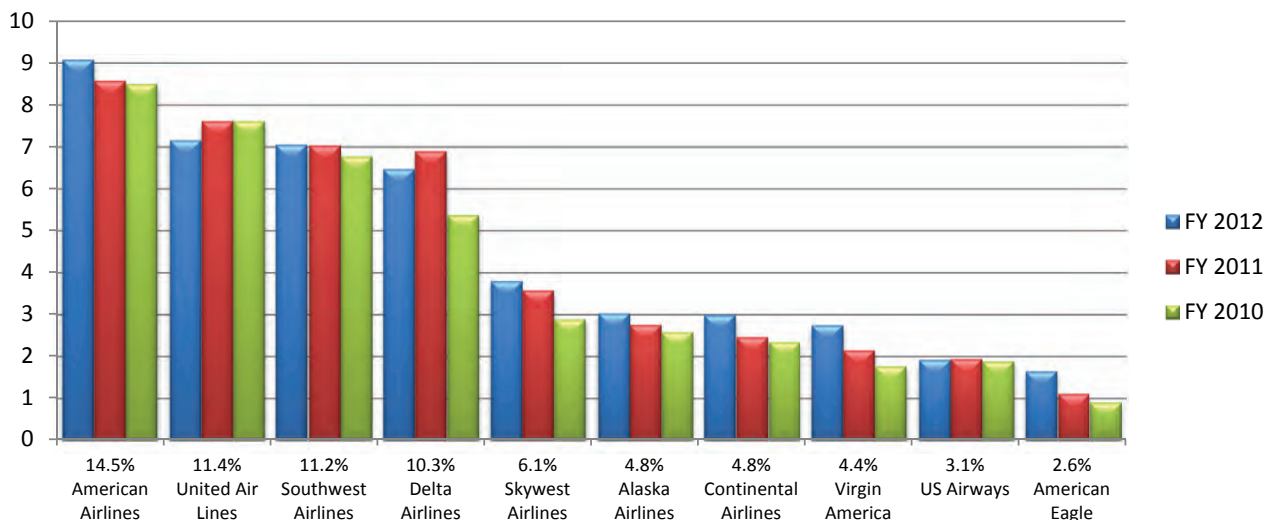
The following table presents a summary of passenger and other traffic for the last three fiscal years:

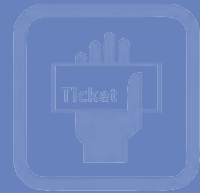
	FY 2012	FY 2011	FY 2010	% Change	
				FY 2012	FY 2011
Total passengers	62,930,683	60,606,560	57,897,845	3.8%	4.7%
Domestic passengers	45,957,270	44,352,850	42,145,783	3.6%	5.2%
International passengers	16,973,413	16,253,710	15,752,062	4.4%	3.2%
Departing passengers	31,519,124	30,280,539	29,003,142	4.1%	4.4%
Arriving passengers	31,411,559	30,326,021	28,894,703	3.6%	5.0%
Passenger flight operations					
Departures	276,980	265,110	256,335	4.5%	3.4%
Arrivals	277,083	265,212	255,999	4.5%	3.6%
Landing weight (thousand lbs)	49,997,632	48,422,352	47,336,942	3.3%	2.3%
Air cargo (tons)					
Mail	90,450	79,831	69,528	13.3%	14.8%
Freight	1,828,409	1,825,420	1,782,004	0.2%	2.4%

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2012 and the comparative passengers for fiscal years 2011 and 2010.

**FY 2012 Top Ten Carriers and Percentage of Market Share
 (passengers in millions)**





Passenger Traffic, Fiscal Year 2012

Passenger traffic increased by 3.8% in fiscal year 2012 as compared to fiscal year 2011. Of the 62.9 million passengers that moved in and out of LAX, domestic passengers accounted for 73%, while international passengers accounted for 27%. American Airlines ferried the most number of passengers at 9.1 million, an increase of 5.8% from the prior fiscal year. American Eagle, ranked tenth with 1.7 million passengers posted a 47.6% increase in passenger traffic. United Air Lines (7.2 million), Southwest Airlines (7.1 million), Delta Airlines (6.5 million), and Skywest Airlines (3.8 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked eleventh overall.

Passenger Traffic, Fiscal Year 2011

Passenger traffic increased by 4.7% in fiscal year 2011 as compared to fiscal year 2010. Of the 60.6 million passengers that moved in and out of LAX, domestic passengers accounted for 73.2%, while international passengers accounted for 26.8%. American Airlines ferried the most number of passengers at 8.6 million, a minimal increase of less than one percent from the prior fiscal year. Delta Airlines, ranked fourth with 6.9 million passengers posted the most increase in passenger traffic of 1.5 million or 28.4%. Skywest Airlines, ranked fifth with 3.6 million passengers also posted an increase of 23.8%. United Air Lines (7.6 million), and Southwest Airlines (7.0 million), were ranked second and third, respectively. Qantas Airlines was the top foreign flag carrier with 1.1 million passengers and was ranked tenth overall.

Flight Operations, Fiscal Year 2012

Landings and takeoffs, excluding cargo, had an increase of 23,741 flights or 4.5% during fiscal year 2012 when compared to fiscal year 2011. Scheduled and commuter flights were up 23,879, while charter flights were down 138. Revenue landing pounds were up 3.3%. The top three carriers in terms of landing pounds were American Airlines, United Air Lines, and Delta Airlines. In total, these three airlines contributed 31.4% of the total revenue pounds.

Flight Operations, Fiscal Year 2011

Landings and takeoffs, excluding cargo, had an increase of 17,988 flights or 3.5% during fiscal year 2011 when compared to fiscal year 2010. Scheduled and commuter flights were up 5,583 and 13,028, respectively, offset by a decrease of 623 charter flights. Revenue landing pounds were higher by 2.3%. The top three carriers in terms of landing pounds were United Air Lines, American Airlines, and Southwest Airlines. In aggregate, these three airlines contributed 32.8% of the total revenue pounds.

Air Cargo Operations, Fiscal Year 2012

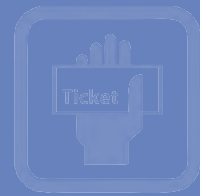
Mail and freight cargo increased by 0.7% in fiscal year 2012 as compared to fiscal year 2011. Mail tonnage was up 10,619 tons while freight tonnage was up 2,989 tons. Domestic cargo was higher by 15,777 tons or 2% while international cargo was lower by 2,169 tons or 0.2%. Federal Express was the top air freight carrier accounting for 20.1% of total freight cargo, followed by Polar Air Cargo with 5.4%. United Air Lines was the top mail carrier accounting for 21.9% of total mail cargo.



Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

(continued)



Air Cargo Operations, Fiscal Year 2011

Mail and freight cargo increased by 2.9% in fiscal year 2011 as compared to fiscal year 2010. Mail tonnage was up 10,303 tons while freight tonnage was up 43,416 tons. Domestic cargo was lower by 1,048 tons or 0.1% while international cargo was higher by 54,767 tons or 5.2%. Federal Express was the top air freight carrier accounting for 20.2% of total freight cargo, followed by Korean Airlines with 5.2%. United Air Lines was the top mail carrier accounting for 22.8% of total mail cargo.

Overview of LAX's Financial Statements

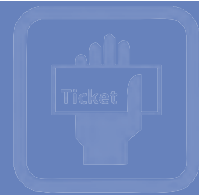
Financial Highlights, Fiscal Year 2012

- Assets exceeded liabilities at June 30, 2012 by \$3.8 billion.
- Bonded debt had a decrease of \$48.6 million.
- Operating revenue totaled \$822.1 million.
- Operating expenses (including depreciation and amortization of \$123.9 million) totaled \$704.1 million.
- Net nonoperating revenue (including passenger facility charges of \$121.4 million) was \$109.8 million.
- Federal and other grants totaled \$59.9 million.
- Net assets increased by \$291.2 million.

Financial Highlights, Fiscal Year 2011

- Assets exceeded liabilities at June 30, 2011 by \$3.5 billion.
- Bonded debt had a net increase of \$1 billion; new issuances totaled \$1.1 billion.
- Operating revenue totaled \$767.8 million.
- Operating expenses (including depreciation and amortization of \$103.3 million) totaled \$644.5 million.
- Net nonoperating revenue (including passenger facility charges of \$117.8 million) was \$103.9 million.
- Federal and other grants totaled \$67.9 million.
- Net assets increased by \$296 million.





Net Assets Summary

A condensed net assets summary for fiscal years 2012, 2011, and 2010 is presented below:

Condensed Net Assets (amounts in thousands)

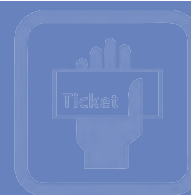
	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2012 increase (decrease)</u>	<u>FY 2011 increase (decrease)</u>
Assets					
Unrestricted current assets	\$ 824,597	\$ 948,107	\$ 774,448	\$ (123,510)	\$ 173,659
Restricted current assets	2,256,270	2,725,618	1,626,842	(469,348)	1,098,776
Capital assets, net	4,819,209	3,925,536	3,410,735	893,673	514,801
Other noncurrent assets	<u>36,522</u>	<u>93,045</u>	<u>480,128</u>	<u>(56,523)</u>	<u>(387,083)</u>
Total assets	<u>7,936,598</u>	<u>7,692,306</u>	<u>6,292,153</u>	<u>244,292</u>	<u>1,400,153</u>
Liabilities					
Current liabilities payable from unrestricted assets	363,612	318,080	341,430	45,532	(23,350)
Current liabilities payable from restricted assets	104,754	158,736	82,757	(53,982)	75,979
Noncurrent liabilities	<u>3,639,852</u>	<u>3,678,263</u>	<u>2,626,690</u>	<u>(38,411)</u>	<u>1,051,573</u>
Total liabilities	<u>4,108,218</u>	<u>4,155,079</u>	<u>3,050,877</u>	<u>(46,861)</u>	<u>1,104,202</u>
Net Assets					
Invested in capital assets, net of related debt	1,965,592	1,600,882	1,534,174	364,710	66,708
Restricted for debt service	379,603	478,067	336,264	(98,464)	141,803
Restricted for capital projects	861,505	771,180	730,468	90,325	40,712
Restricted for operations and maintenance reserve	159,424	137,684	137,684	21,740	--
Restricted for other purposes	919	565	5,641	354	(5,076)
Unrestricted	<u>461,337</u>	<u>548,849</u>	<u>497,045</u>	<u>(87,512)</u>	<u>51,804</u>
Total net assets	<u>\$ 3,828,380</u>	<u>\$ 3,537,227</u>	<u>\$ 3,241,276</u>	<u>\$ 291,153</u>	<u>\$ 295,951</u>



Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

(continued)



Net Assets, Fiscal Year 2012

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2012 and 2011, assets exceeded liabilities by \$3.8 billion and \$3.5 billion, respectively, representing an 8.2% increase or \$291.2 million.

The largest portion of LAX's net assets (\$2 billion or 51.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net assets (\$1.4 billion or 36.6%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of \$461.3 million (12.1%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets decreased by 13%, from \$948.1 million at June 30, 2011 to \$824.6 million at June 30, 2012. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2011) held by the City Treasurer. Unrestricted cash inflows were from operating activities, interest income from investments, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for transfers to fiscal agents for debt service and capital asset acquisitions to be reimbursed by bond funds. In addition, the City temporarily suspended its securities lending program in May 2012 such that the cash collateral for securities lent were returned to the borrowers of securities. As discussed further in Note 3 of the notes to the financial statements (see page 38), LAX participates in the City's securities lending program through the pooled investment fund.

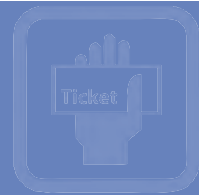
Restricted current assets include cash and investments (including reinvested cash collateral in 2011) held by the City Treasurer for capital projects funded by passenger facility charges (PFC) and customer facility charges (CFC). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFC and CFC capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately \$104 million in fiscal year 2012. Drawdowns from the amounts held by fiscal agents were used for capital improvement expenditures and for bond principal and interest payments. As noted above, the City temporarily suspended its securities lending program.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 22.8%. Ongoing construction and improvements to modernize terminals and facilities were the primary reasons for the increase.

The decrease of \$56.5 million in other noncurrent assets from \$93 million in fiscal year 2011 to \$36.5 million in fiscal year 2012 was due primarily to the sale of long-term securities held by fiscal agents to purchase short-term securities. As previously discussed, drawdowns from amounts held by fiscal agents were used for ongoing capital expenditures.

Current liabilities payable from unrestricted assets had a net increase of \$45.5 million or 14.3%. This is mainly due to the issuance of commercial paper notes for interim financing of the construction activities, increased contract retentions for ongoing capital improvements, and LAX's allocated share of the City Treasury's year-end investment trade. The offsetting decrease in obligations under securities lending transactions resulted from the temporary suspension of the securities lending program as referred to above.





Current liabilities payable from restricted assets had a net decrease of \$54 million or 34%. The current maturities for bonded debt increased by \$6.8 million, the restricted portion of the allocated year-end pending investment trade was \$28 million, and securities lending obligations decreased by \$88.5 million. The City Treasury's year-end pending investment trade is discussed on page 38.

The net decrease in noncurrent liabilities was \$38.4 million or 1%. Accounts with significant fluctuations were noncurrent portion of bonded debt with a decrease of \$55.4 million for scheduled principal maturities, and estimated claims payable with an increase of \$14.9 million due to the increase in the actuarially determined workers' compensation liability at June 30, 2012.

Net Assets, Fiscal Year 2011

As noted earlier, net assets may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2011 and 2010, assets exceeded liabilities by \$3.5 billion and \$3.2 billion, respectively, representing a 9.1% increase or \$296 million.

The largest portion of LAX's net assets (\$1.6 billion or 45.3%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less any related outstanding debt used to acquire those assets. An additional portion of LAX's net assets (\$1.4 billion or 39.2%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of \$548.8 million (15.5%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets increased by 22.4%, from \$774.4 million at June 30, 2010 to \$948.1 million at June 30, 2011. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral) held by the City Treasurer. The increase of \$173.7 million was due primarily to net cash provided by operating activities and LAX's allocated share of the reinvested cash collateral from loaned securities under the City's securities lending program.

Restricted current assets include cash and investments (including reinvested cash collateral) held by the City Treasurer for capital projects funded by passenger facility charges (PFC) and customer facility charges (CFC). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. PFC and CFC capital expenditures were less than collections and interest earnings that resulted to a net incremental increase of approximately \$40.7 million in fiscal year 2011. Revenue bonds were issued during fiscal year 2011 and the amounts held by fiscal agents, invested in short-term securities, to be used for LAX capital expenditures and bond debt service funds increased from \$727.7 million to \$1.72 billion.

LAX's capital assets additions are financed primarily through issuance of revenue bonds. Interim financing of such acquisitions is through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 15.1%. Ongoing construction and improvements at terminals and facilities were the primary reasons for the increase.

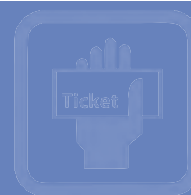
The decrease of \$387.1 million in other noncurrent assets from \$480.1 million in fiscal year 2010 to \$93 million in fiscal year 2011 was due primarily to the sale of long-term securities held by fiscal agents to purchase short-term securities.



Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

(continued)



Current liabilities payable from unrestricted assets had a net decrease of \$23.4 million or 6.8%. Accounts that had significant fluctuations were: contracts and accounts payable, increase of \$44.3 million mainly for timing of payment for construction contracts; commercial paper, sale of \$115 million and redemption of \$147.1 million; obligations under the securities lending program, increase of \$50.2 million; and other current liabilities, payment of prior year's accrual of \$88.7 million to retire third party bonds as part of the LAX2 settlement agreement.

Current liabilities payable from restricted assets increased by \$76 million or 91.8% due primarily to the increases in current maturities of outstanding bonds, accrued bond interest expense, and obligations under the securities lending program.

The net increase in noncurrent liabilities of \$1.052 billion or 40% was due mainly to the issuance of long-term debt to finance ongoing capital projects.

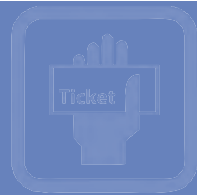
Changes in Net Assets Summary

A condensed summary of LAX's changes in net assets for fiscal years ended 2012, 2011, and 2010 is presented below:

Condensed Changes in Net Assets (amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Operating revenue	\$ 822,090	\$ 767,844	\$ 655,701	\$ 54,246	\$ 112,143
Less- Operating expenses	580,160	541,228	529,552	38,932	11,676
Operating income before depreciation and amortization	241,930	226,616	126,149	15,314	100,467
Less- Depreciation and amortization	123,941	103,300	86,976	20,641	16,324
Operating income	117,989	123,316	39,173	(5,327)	84,143
Other nonoperating revenue, net	109,844	103,892	163,796	5,952	(59,904)
Federal and other grants	59,854	67,939	80,955	(8,085)	(13,016)
Interagency transfers	3,466	804	7,224	2,662	(6,420)
Changes in net assets	291,153	295,951	291,148	(4,798)	4,803
Net assets, beginning of year	3,537,227	3,241,276	2,950,128	295,951	291,148
Net assets, end of year	<u>\$ 3,828,380</u>	<u>\$ 3,537,227</u>	<u>\$ 3,241,276</u>	<u>\$ 291,153</u>	<u>\$ 295,951</u>





Operating Revenue

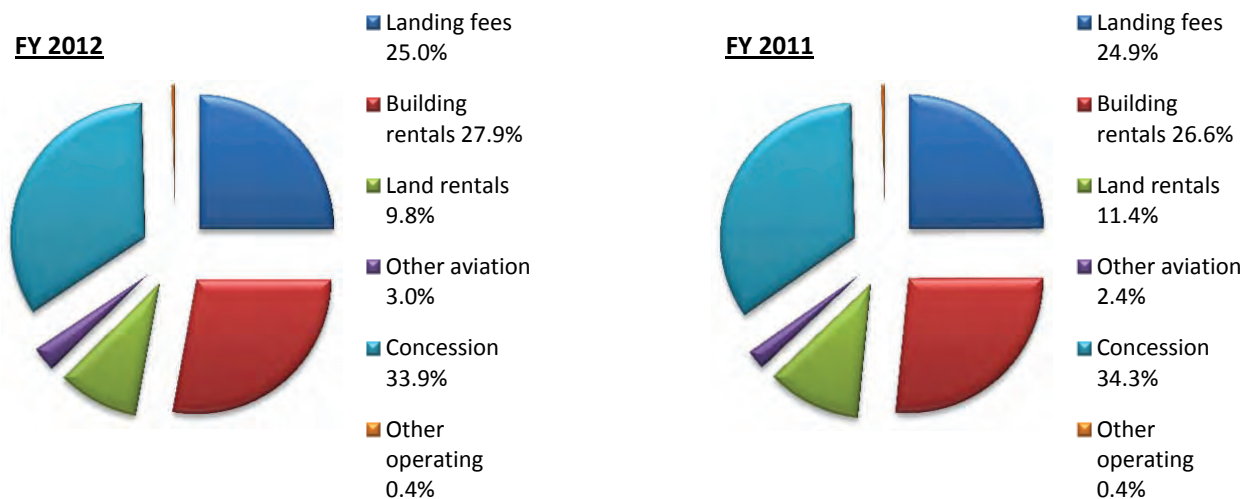
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2012, 2011, and 2010:

Summary of Operating Revenue (amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Aviation revenue					
Landing fees, net of reliever fee	\$ 205,568	\$ 191,307	\$ 169,683	\$ 14,261	\$ 21,624
Building rentals	229,160	204,525	185,138	24,635	19,387
Land rentals	80,629	87,225	52,555	(6,596)	34,670
Other aviation revenue	24,552	18,179	8,458	6,373	9,721
Total aviation revenue	539,909	501,236	415,834	38,673	85,402
Concession revenue	278,767	263,195	236,911	15,572	26,284
Other operating revenue	3,414	3,413	2,956	1	457
Total operating revenue	\$ 822,090	\$ 767,844	\$ 655,701	\$ 54,246	\$ 112,143

Operating Revenue, Fiscal Year 2012

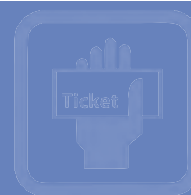
The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2012 and 2011.



Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

(continued)



For the fiscal year ended June 30, 2012, total operating revenue was \$822.1 million, a \$54.2 million or 7.1% increase from the prior fiscal year. The growth in aviation related revenue was \$38.7 million. Non-aviation revenue grew by \$15.6 million mostly from concessions.

As described in the Notes to the Financial Statements (see page 34), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

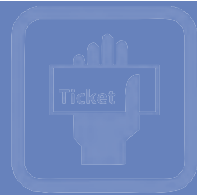
Landing fees for the fiscal years ended June 30, 2012 and 2011 were \$208 million and \$191.3 million, respectively, for an increase of \$16.7 million or 8.7%. The offsetting airport reliever fee paid to VNY in fiscal year 2012 was \$2.4 million. Of the \$16.7 million, \$7.5 million is attributable to increase in landed weight that resulted from gains in passenger and cargo traffic. Increase in landing rates contributed the remaining \$9.2 million as passenger and cargo rates increased by 4.4% and 7.6%, respectively. Corollary to the improvements and refurbishments at the terminals, building rental revenue posted growth of \$24.6 million as new leases and renegotiated leases were signed with the airlines and other tenants. Maintenance and operations charges as a component of the building rental also increased. Land rental rates increased 18% to 20% effective FY 2011, with a retroactive application covering the period November 2008 through June 30, 2010. Additionally, a 17% increase in rental rates for properties 20 acres or less was effective FY 2012. The decline in land rentals of \$6.6 million was the result of offsetting the net retroactive payments of approximately \$14.7 million against the actual year-to-year increase of \$8.1 million. A major factor for the increase in other aviation revenue was related to the increase in terminal use fee from \$5.37 to \$6.56 for each arriving international passenger.

Revenue from concessions was \$278.8 million in fiscal year 2012, a 5.9% growth from fiscal year 2011 figure of \$263.2 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services.

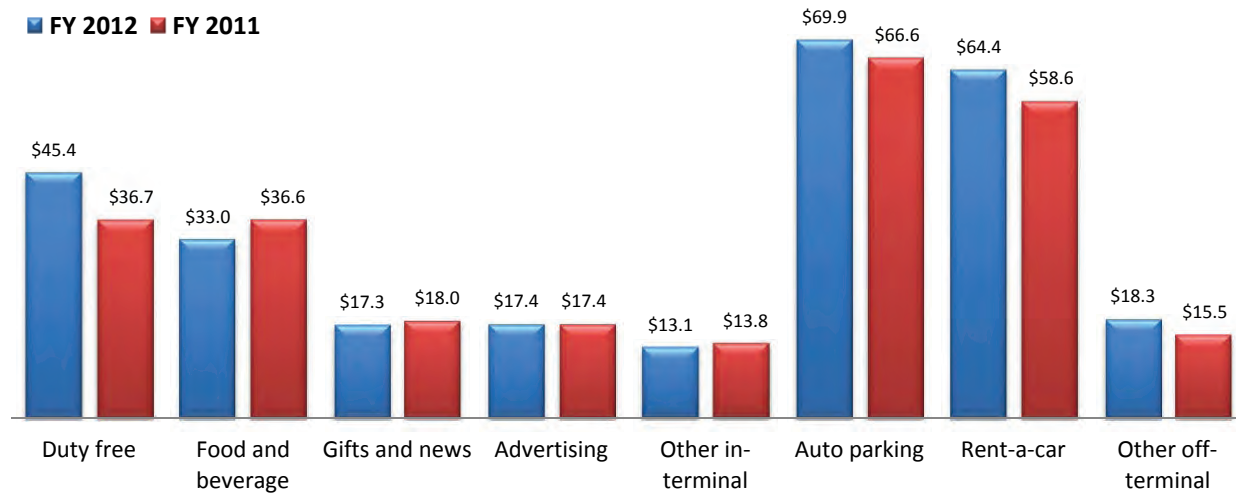
In-terminal concession revenue during fiscal year 2012 had a net increase of \$3.7 million or 3% as compared to fiscal year 2011. Duty free concessions benefited from the increased passenger traffic posting revenue growth of \$8.7 million mostly from sales over the minimum annual guarantee (MAG). The offsetting decrease of \$5 million was due primarily to MAG reductions and waiver credits given to certain food and beverage, retail merchants, and telecommunications concessionaires.

Off-terminal concession revenue in fiscal year 2012 was \$152.6 million as compared to \$140.7 million in fiscal year 2011, an increase of \$11.9 million. Of the \$11.9 million, \$3.4 million was from auto parking and \$5.7 million from rent-a-car (RAC). The increase in sales over MAG for RAC was \$3.4 million, while the increase in MAG was \$2.3 million. MAG for RAC is adjusted annually based on the prior year's activities.



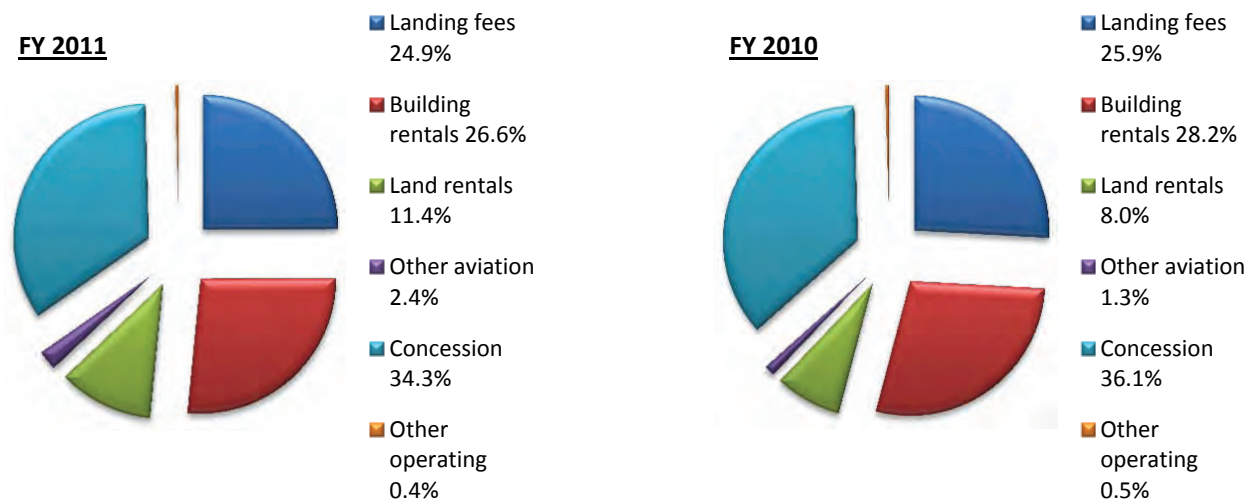


Comparative concession revenue by type for fiscal years 2012 and 2011 are presented in the following chart (amounts in millions).



Operating Revenue, Fiscal Year 2011

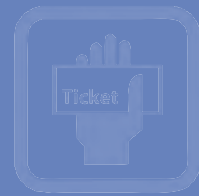
The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2011 and 2010.



Management's Discussion and Analysis (Unaudited)

June 30, 2012 and 2011

(continued)



For the fiscal year ended June 30, 2011, total operating revenue was \$767.8 million, a \$112.1 million or 17.1% increase from the prior fiscal year. The growth in aviation related revenue was \$85.4 million. Non-aviation revenue grew by \$26.7 million mostly from concessions.

As described in the Notes to the Financial Statements (see page 34), landing fees assessed air carriers are computed using the compensatory method. Rates are set initially during the fiscal year based on budgeted operating revenue and expenses. Reconciliation between actual revenue and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

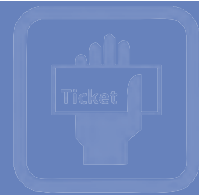
After the year-end adjustment described in the preceding paragraph, revenue from landing fees and building rentals had notable increases in fiscal year 2011 compared to fiscal year 2010. These two aviation-related revenue categories grew by 11% and 10.5%, respectively. Gains in passenger and cargo traffic resulted to an increase in revenue landed weight, in addition, landing rates increased by 8.6% for passenger and 9.6% for cargo. There was no airport reliever fee paid to VNY during the fiscal year. The prior year's airport reliever fee paid to VNY was \$2.6 million. Building rental base rates increase from 2% to 12%. Revenue from land rentals increased to \$87.2 million in fiscal year 2011 from \$52.6 million in fiscal year 2010 mainly from the 18% to 20% increase in rates. Also, land area leased by American Airlines increased. Increase in terminal use fee was the major factor for the increase in other aviation revenue.

Revenue from concessions was \$263.2 million in fiscal year 2011, an 11.1% growth from fiscal year 2010 figure of \$236.9 million. In-terminal concession revenue are rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, and taxi services.

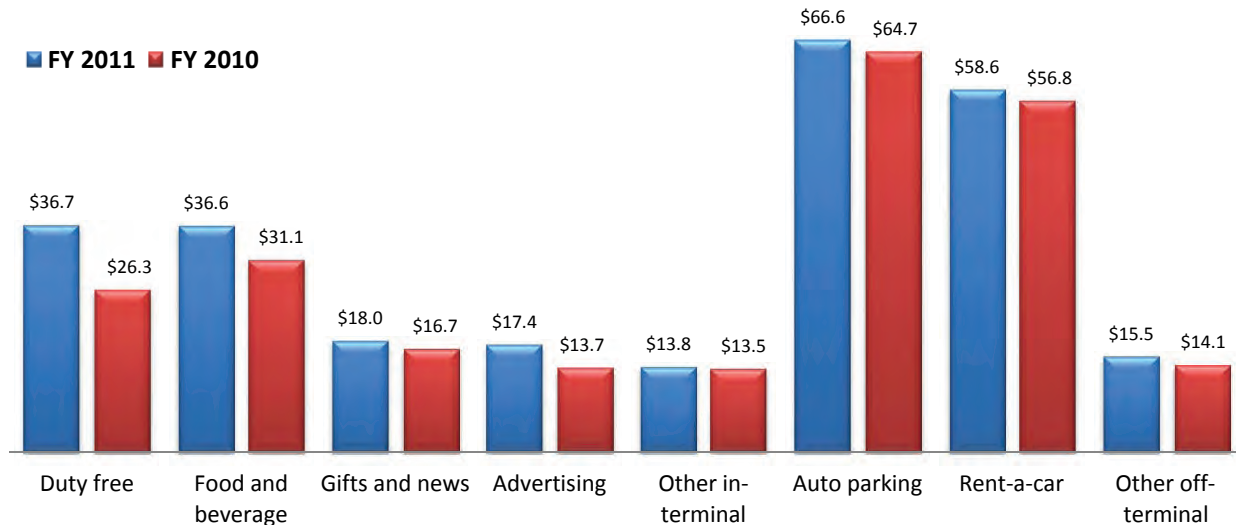
The increase in passenger traffic had a favorable impact on businesses based at the terminals. In-terminal concession revenue during fiscal year 2011 increased by \$21.2 million or 20.9% as compared to fiscal year 2010, with duty free concessions posting the most increase of \$10.4 million. Of the \$21.2 million increase, approximately \$6.8 million was due to increase in the minimum annual guarantee (MAG) and the remainder of \$14.4 million was due to sales over MAG.

Off-terminal concession revenue in fiscal year 2011 was \$140.7 million as compared to \$135.6 million in fiscal year 2010, an increase of \$5.1 million. Of the \$5.1 million, \$1.9 million was from auto parking and another \$1.9 million from rent-a-car (RAC). Increase in sales over MAG for RAC was \$6.8 million but was offset by a \$4.9 million reduction in MAG and other adjustments. MAG for RAC is adjusted annually based on the prior year's activities.





Comparative concession revenue by type for fiscal years 2011 and 2010 are presented in the following chart (amounts in millions).



Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2012, 2011, and 2010. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

Summary of Operating Expenses (amounts in thousands)

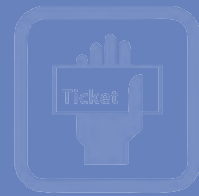
	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Salaries and benefits	\$ 339,551	\$ 323,522	\$ 317,000	\$ 16,029	\$ 6,522
Contractual services	162,071	143,684	141,253	18,387	2,431
Materials and supplies	35,986	32,699	32,661	3,287	38
Utilities	30,664	29,606	28,832	1,058	774
Other operating expenses	22,023	21,712	21,213	311	499
Operating expenses before depreciation	590,295	551,223	540,959	39,072	10,264
Depreciation	123,941	103,300	86,976	20,641	16,324
Total operating expenses	714,236	654,523	627,935	59,713	26,588
Less- allocation to ONT, VNY and PMD	10,135	9,995	11,407	140	(1,412)
Net operating expenses	\$ 704,101	\$ 644,528	\$ 616,528	\$ 59,573	\$ 28,000



Management's Discussion and Analysis (Unaudited)

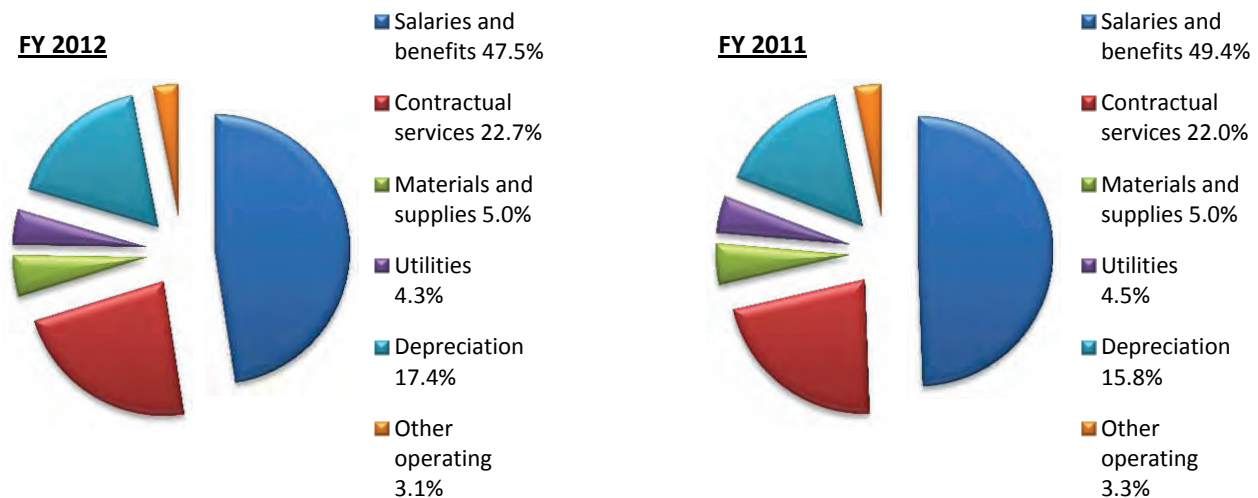
June 30, 2012 and 2011

(continued)



Operating Expenses, Fiscal Year 2012

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2012 and 2011. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.



For the fiscal year ended June 30, 2012, operating expenses before allocation to other airports were \$714.2 million, a \$59.7 million or 9.1% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by \$16 million; contractual services, up by \$18.4 million; and depreciation, up by \$20.6 million. The remaining expense accounts had an aggregate increase of \$4.7 million. For salaries and benefits, the primary reason was the increase in the year-end accrual for workers' compensation. The liability for workers' compensation is actuarially determined and the difference over the prior year's valuation is booked at the end of the year, net of claims payments during the year. The medical expense component of the estimated workers' compensation liability had an increase of 59.6% over the prior year's figure. The increase in consulting costs for planning, engineering, environmental, and systems services was the primary driver of the increase in contractual services. These additional operating costs were incurred as a consequence of the capital improvement and modernization projects at the airport. The increase in depreciation charges to \$123.9 million from \$103.3 million in the prior fiscal year was due to the completion of certain major projects at the terminals and airfield.

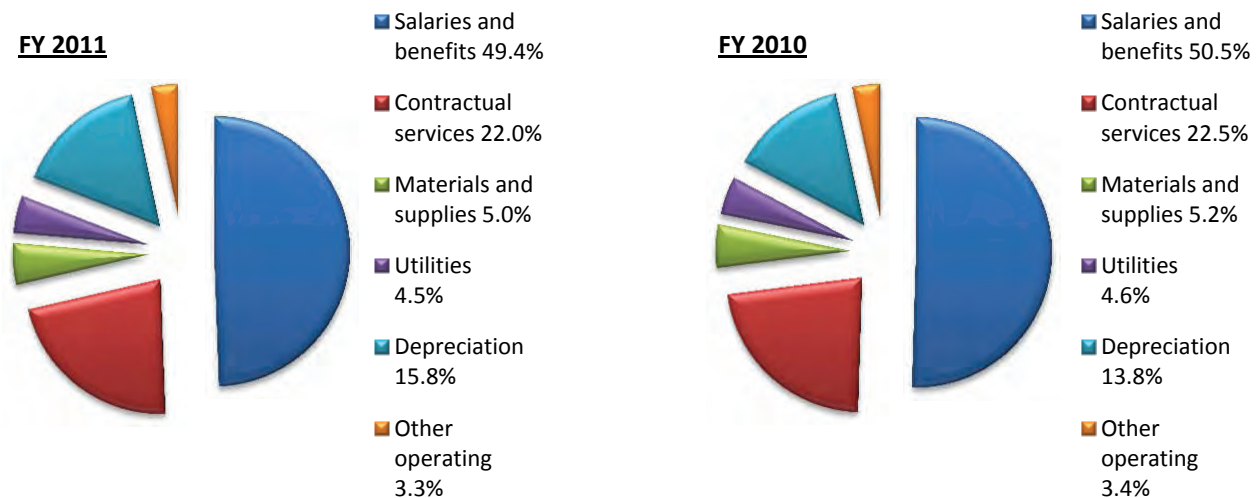
A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services. The current year's allocation had a minimal increase over the prior year's amount.





Operating Expenses, Fiscal Year 2011

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2011 and 2010. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

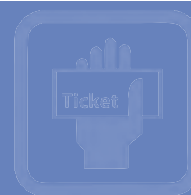


For the fiscal year ended June 30, 2011, operating expenses before allocation to other airports were \$654.5 million, a \$26.6 million or 4.2% increase from the prior fiscal year. Expense categories that posted significant fluctuations were salaries and benefits, up by \$6.5 million; contractual services, up by \$2.4 million; and depreciation, up by \$16.3 million. For salaries and benefits, the major factors for the increase were cost of living adjustment, health care benefits and workers' compensations costs, retirement contributions, and airport police overtime charges. These upward adjustments totaled \$22.8 million and were offset by a \$16.3 million reduction in accrual for sick leave and early retirement incentive. An adjustment for accrued sick leave was made at the end of fiscal year 2010 to correct underaccruals of the prior years. In addition, early retirement expense was recognized in fiscal year 2010 for the separation payment to employees who participated in the City's early retirement incentive program. For contractual services, operations contracts had an increase of \$9.7 million while non-capital City services costs had a decrease of \$7.3 million. Depreciation charges increased due to the completion of major construction projects at the terminals and airfield.

Because of the decreases in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services.



Management's Discussion and Analysis (Unaudited)
June 30, 2012 and 2011
(continued)



Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services and producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2012, 2011, and 2010.

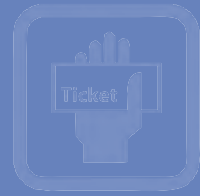
Summary of Nonoperating Transactions
(amounts in thousands)

	FY 2012	FY 2011	FY 2010	FY 2012 increase (decrease)	FY 2011 increase (decrease)
Nonoperating revenue					
Passenger facility charges	\$ 121,443	\$ 117,821	\$ 110,961	\$ 3,622	\$ 6,860
Customer facility charges	26,002	24,250	22,270	1,752	1,980
Interest and investment income	32,802	29,064	44,005	3,738	(14,941)
Other nonoperating revenue	13,910	13,380	22,898	530	(9,518)
	<u>\$ 194,157</u>	<u>\$ 184,515</u>	<u>\$ 200,134</u>	<u>\$ 9,642</u>	<u>\$ (15,619)</u>
Nonoperating expenses					
Interest expense	\$ 83,068	\$ 78,740	\$ 35,416	\$ 4,328	\$ 43,324
Other nonoperating expenses	1,245	1,883	922	(638)	961
	<u>\$ 84,313</u>	<u>\$ 80,623</u>	<u>\$ 36,338</u>	<u>\$ 3,690</u>	<u>\$ 44,285</u>
Federal and other capital grants	<u>\$ 59,854</u>	<u>\$ 67,939</u>	<u>\$ 80,955</u>	<u>\$ (8,085)</u>	<u>\$ (13,016)</u>
Interagency transfers	<u>\$ 3,466</u>	<u>\$ 804</u>	<u>\$ 7,224</u>	<u>\$ 2,662</u>	<u>\$ (6,420)</u>

Nonoperating Transactions, Fiscal Year 2012

For fiscal year 2012, the increase of \$3.6 million in passenger facility charges (PFCs) from the prior fiscal year represents a 3.1% improvement that is aligned with the encouraging gains in passenger traffic during the fiscal year. PFCs are imposed on enplaning passengers. Customer facility charges (CFCs) also posted an increase as rental car business is buoyed by passenger traffic. CFCs are imposed on each car rental transaction collected by rental car concessionaires and remitted to LAX. The increase in interest and investment income was reflective of the improving interest rates. While the annualized rates of return of the Treasury Pool reserve and core portfolios for fiscal year 2012 of 2.38% and 0.21% were down from the prior fiscal year rates of 2.57% and 0.22%, respectively, there was an improvement in investment indices for the quarter ended June 30, 2012. That improvement was translated to upward adjustment of the fair market valuation of investments securities. Other nonoperating revenue had a minimal increase from the prior year's figure. The increase in interest expense was corollary to the additional issuances of revenue bonds to finance capital improvement projects. Eligible expenditures for capital grant related projects were less in fiscal year 2012 as compared to fiscal year 2011.





Nonoperating Transactions, Fiscal Year 2011

For fiscal year 2011, the increase of \$6.9 million in passenger facility charges (PFCs) from the prior fiscal year was a reflection of improved passenger traffic. PFCs are imposed on enplaning passengers. Enplanements increased by 4.4% from fiscal year 2010. The increase in customer facility charges followed the trend of rental car concession revenue. The decrease in interest and investment income was reflective of the decline in interest rates. The rates of return of the Treasury Pool reserve and core portfolios for the twelve months ended June 30, 2011 were 2.57% and 0.22%, respectively, down from the prior fiscal year rates of 5.31% and 0.23%, respectively. The decrease in other nonoperating revenue was mainly due to the recognition in FY 2010 of the receivable from the City's General Fund that resulted from an FAA audit. Build America Bonds subsidy, a component of other nonoperating revenue, was \$7.6 million in fiscal year 2011 compared to \$3.1 million in fiscal year 2010. The increase in interest expense was corollary to the additional issuances of revenue bonds to finance capital improvement projects. Eligible expenditures for capital grant related projects were less in fiscal year 2011 as compared to fiscal year 2010.

Long-Term Debt

As of June 30, 2012, LAX's outstanding bonded debt was \$3.51 billion. Scheduled principal maturities paid during the fiscal year reduced the June 30, 2011 balance by \$45 million.

As of June 30, 2011, LAX's outstanding bonded debt was \$3.55 billion. The increase of \$1.03 billion from the June 30, 2010 balance resulted from the sale of \$1.07 billion revenue bonds less scheduled maturities of \$38.7 million.

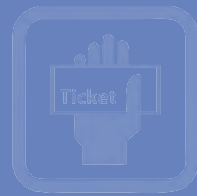
As of June 30, 2012 and 2011, LAX had \$402.5 million and \$501.2 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2012, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA for Senior Bonds; AA-, A1, and AA- for Subordinate Bonds, respectively.

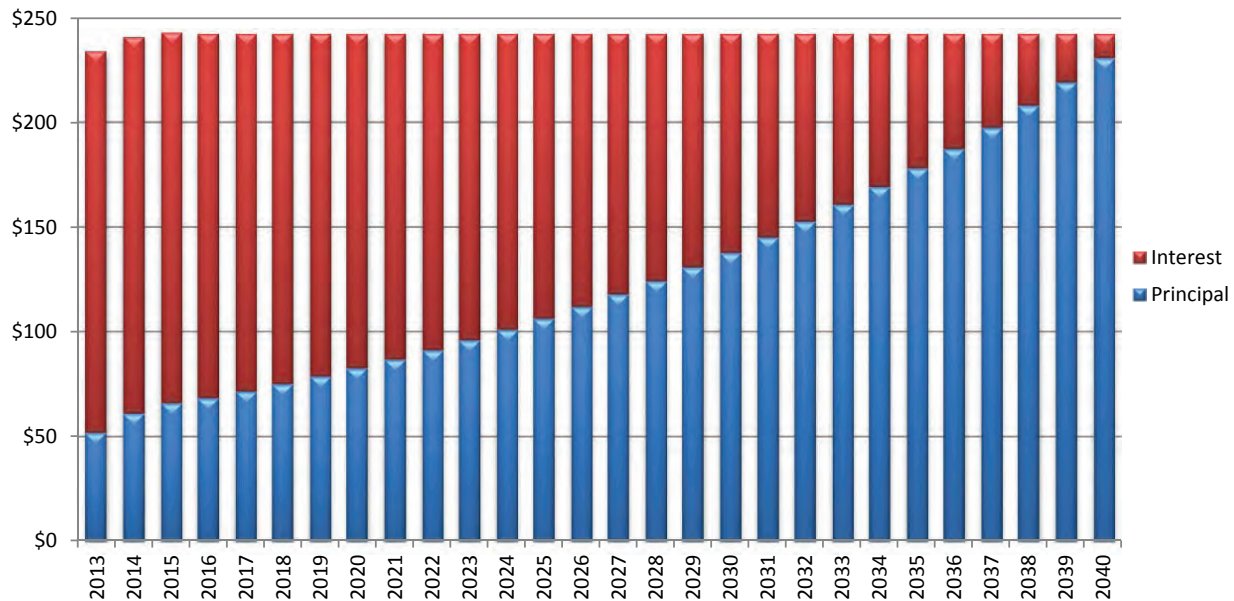
Additional information regarding LAX's bonded debt can be found in Note 6 of the Notes to the Financial Statements beginning on page 44.



Management’s Discussion and Analysis (Unaudited)
June 30, 2012 and 2011
 (continued)



Outstanding principal, plus scheduled interest as of June 20, 2012, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX’s investment in capital assets, net of accumulated depreciation, as of June 30, 2012 and 2011 were \$4.8 billion and \$3.9 billion, respectively. This investment, which accounts for 60.7% and 51% of LAX’s total assets as of June 2012 and 2011, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

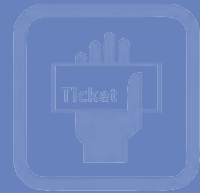
LAWA’s policy affecting capital assets can be found in Note 1(f) of the Notes to the Financial Statements on page 33. Additional information can be found on Note 4 on pages 41-42.

Capital Assets, Fiscal Year 2012

Major capital assets activities during fiscal year 2012 were as follows:

- \$579.5 million improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- \$98.2 million replacement of the Central Utility Plant and cogeneration facilities.
- \$69.4 million renovations at Terminals 5 and 6.





- \$41.4 million residential acquisition, soundproofing, and noise mitigation.
- \$31.6 million security program-in-line baggage screening.
- \$27.9 million various IT network and systems projects.
- \$15.8 million repairs and improvements of elevators and escalators.
- \$5.8 million construction of new north/south crossfield taxiway and apron for overnight parking.

At June 30, 2012, the amounts committed for capital expenditures were as follows: \$6 million for airfield and runways, \$6.5 million for noise mitigation program, \$84.1 million for terminals and facilities, and \$17.8 million for various other projects.

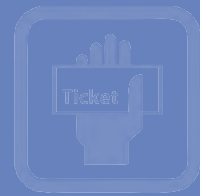
Capital Assets, Fiscal Year 2011

Major capital assets activities during fiscal year 2011 were as follows:

- \$314.9 million interior improvements and security upgrades at the Tom Bradley International Terminal (TBIT).
- \$35.2 million construction of new north/south crossfield taxiway and apron for overnight parking.
- \$33.6 million replacement of Central Utility Plant and cogeneration facilities.
- \$23.9 million repairs and improvements of elevators and escalators.
- \$17.4 residential acquisition and soundproofing.
- \$14.9 million security program-in-line baggage screening.
- \$14.8 million acquisition of leased facilities.

At June 30, 2011, the amounts committed for capital expenditures were as follows: \$15.8 million for airfield and runways, \$22 million for noise mitigation program, \$88 million for terminals and facilities, and \$4.4 million for miscellaneous projects.





Landing Fees, Fiscal Year 2013

The airline landing fees for fiscal year 2013, which became effective as of July 1, 2012 are as follows:

<u>Permitted air carriers</u>	<u>Non-permitted air carriers</u>	
\$ 58.00	\$ 73.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
112.00	140.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.77	4.71	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.46	5.58	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

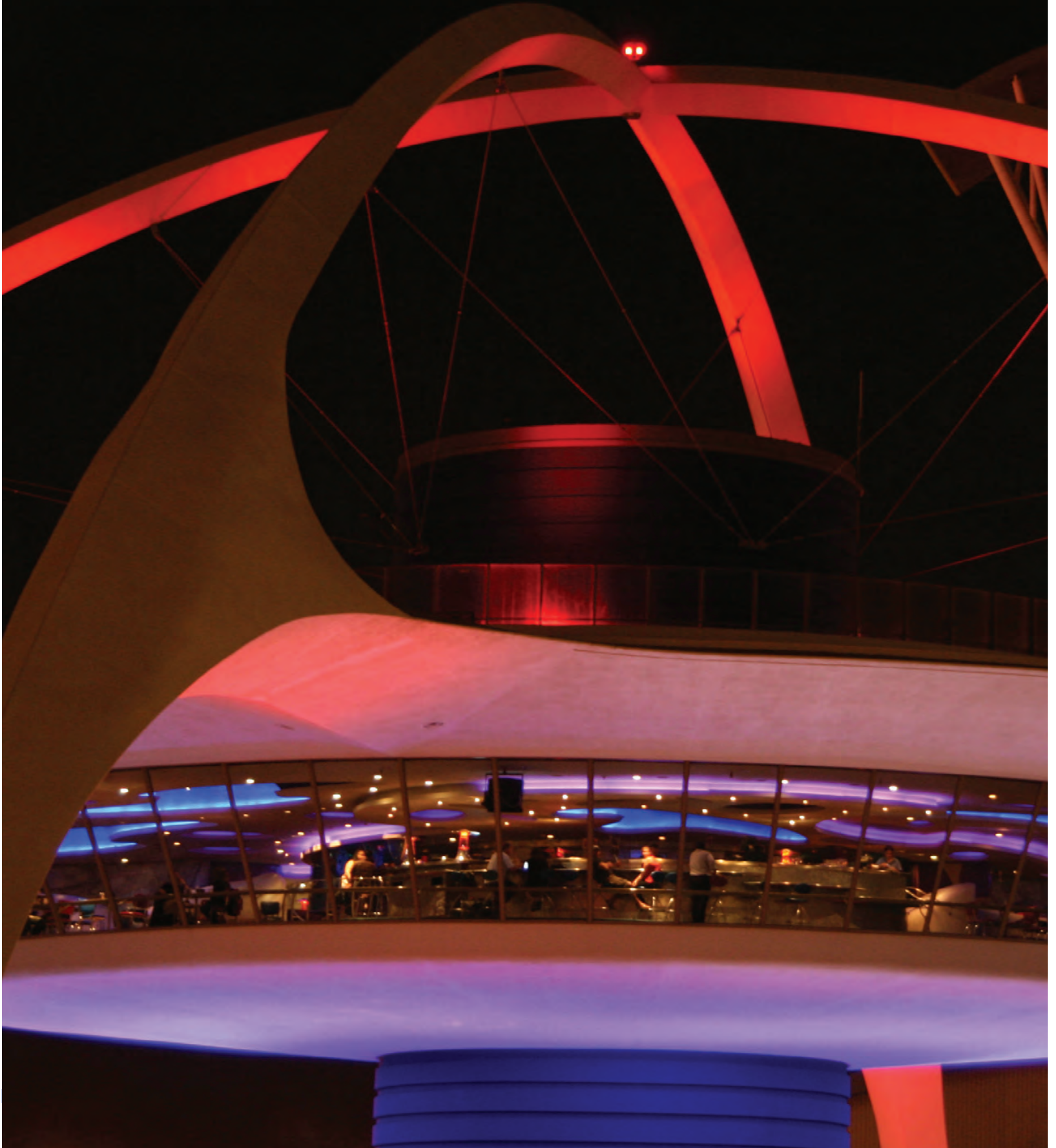
Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

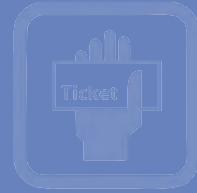
This report is designed to provide a general overview of the Los Angeles International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Wei Chi, Deputy Executive Director- Comptroller, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.



FINANCIAL STATEMENTS



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport

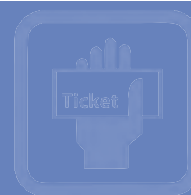


Statements of Net Assets
June 30, 2012 and 2011
 (amounts in thousands)

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	\$ 627,556	\$ 702,125
Investments with fiscal agents	61,764	116,310
Accounts receivable, net of allowance for uncollectible accounts: 2012 - \$8,565; 2011 - \$905	26,662	13,684
Unbilled receivables	30,071	39,394
Accrued interest receivable	3,387	3,055
Grants receivable	21,698	22,374
Receivable from City General Fund	793	769
Due from other agencies	48,285	48,349
Prepaid expenses	2,705	158
Inventories	1,676	1,889
Total unrestricted current assets	<u>824,597</u>	<u>948,107</u>
Restricted current assets		
Cash and pooled investments held in City Treasury	1,031,575	982,656
Investments with fiscal agents, includes cash and cash equivalents: 2012 - \$1,144,798; 2011 - \$1,533,810	1,199,535	1,719,665
Accrued interest receivable	2,894	2,345
Passenger facility charges receivable	19,954	18,410
Customer facility charges receivable	2,312	2,542
Total restricted current assets	<u>2,256,270</u>	<u>2,725,618</u>
Total current assets	<u>3,080,867</u>	<u>3,673,725</u>
Noncurrent Assets		
Capital assets		
Not depreciated	2,811,312	2,725,030
Depreciated, net	2,007,897	1,200,506
Total capital assets	<u>4,819,209</u>	<u>3,925,536</u>
Other noncurrent assets		
Restricted investments with fiscal agents	--	54,737
Receivable from City General Fund, net of current portion	14,657	15,449
Deferred bond issuance costs	21,865	22,859
Total other noncurrent assets	<u>36,522</u>	<u>93,045</u>
Total noncurrent assets	<u>4,855,731</u>	<u>4,018,581</u>
TOTAL ASSETS	<u>\$ 7,936,598</u>	<u>\$ 7,692,306</u>



Statements of Net Assets (continued)
June 30, 2012 and 2011
(amounts in thousands)

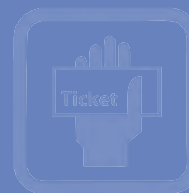


	<u>2012</u>	<u>2011</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	\$ 154,169	\$ 113,895
Accrued salaries	9,108	7,711
Accrued employee benefits	4,016	7,893
Estimated claims payable	5,854	4,331
Commercial paper	162,199	115,012
Unearned revenue	4,165	--
Obligations under securities lending transactions	--	64,729
Other current liabilities	24,101	4,509
Total current liabilities payable from unrestricted assets	<u>363,612</u>	<u>318,080</u>
Current liabilities payable from restricted assets		
Contracts and accounts payable	2,071	2,182
Current maturities of bonded debt	51,790	44,985
Accrued interest payable	22,873	23,096
Obligations under securities lending transactions	--	88,473
Other current liabilities	28,020	--
Total current liabilities payable from restricted assets	<u>104,754</u>	<u>158,736</u>
Total current liabilities	<u>468,366</u>	<u>476,816</u>
Noncurrent Liabilities		
Bonded debt, net of current portion	3,519,963	3,575,412
Accrued employee benefits, net of current portion	32,490	30,395
Estimated claims payable, net of current portion	59,480	44,561
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	9,474	10,013
Other long-term liabilities	5,662	5,099
Total noncurrent liabilities	<u>3,639,852</u>	<u>3,678,263</u>
TOTAL LIABILITIES	<u>4,108,218</u>	<u>4,155,079</u>
Net Assets		
Invested in capital assets, net of related debt	1,965,592	1,600,882
Restricted for:		
Debt service	379,603	478,067
Passenger facility charges funded projects	736,653	660,290
Customer facility charges funded projects	124,852	97,181
Central utility plant	--	13,709
Operations and maintenance reserve	159,424	137,684
Other purposes	919	565
Unrestricted	461,337	548,849
TOTAL NET ASSETS	<u>\$ 3,828,380</u>	<u>\$ 3,537,227</u>

See accompanying notes to the financial statements.



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport



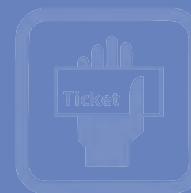
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2012 and 2011
 (amounts in thousands)

	<u>2012</u>	<u>2011</u>
OPERATING REVENUE		
Aviation revenue		
Landing fees	\$ 207,988	\$ 191,307
Reliever airport fee	(2,420)	--
Building rentals	229,160	204,525
Land rentals	80,629	87,225
Other aviation revenue	<u>24,552</u>	<u>18,179</u>
Total aviation revenue	539,909	501,236
Concession revenue	278,767	263,195
Other operating revenue	<u>3,414</u>	<u>3,413</u>
Total operating revenue	<u>822,090</u>	<u>767,844</u>
OPERATING EXPENSES		
Salaries and benefits	339,551	323,522
Contractual services	162,071	143,684
Materials and supplies	35,986	32,699
Utilities	30,664	29,606
Other operating expenses	22,023	21,712
Allocated administrative charges	<u>(10,135)</u>	<u>(9,995)</u>
Total operating expenses before depreciation and amortization	<u>580,160</u>	<u>541,228</u>
Operating income before depreciation and amortization	241,930	226,616
Depreciation and amortization	<u>123,941</u>	<u>103,300</u>
OPERATING INCOME	<u>117,989</u>	<u>123,316</u>
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	121,443	117,821
Customer facility charges	26,002	24,250
Interest and investment income	32,802	29,064
Interest expense	(83,068)	(78,740)
Other nonoperating revenue	13,910	13,380
Other nonoperating expenses	<u>(1,245)</u>	<u>(1,883)</u>
Total nonoperating revenue, net	<u>109,844</u>	<u>103,892</u>
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	227,833	227,208
Federal and other government grants	59,854	67,939
Inter-agency transfers	<u>3,466</u>	<u>804</u>
CHANGES IN NET ASSETS	291,153	295,951
NET ASSETS, BEGINNING OF YEAR	<u>3,537,227</u>	<u>3,241,276</u>
NET ASSETS, END OF YEAR	<u>\$ 3,828,380</u>	<u>\$ 3,537,227</u>

See accompanying notes to the financial statements.



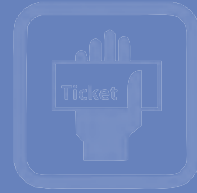
Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport



Statements of Cash Flows
For the Years Ended June 30, 2012 and 2011
 (amounts in thousands)

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 825,951	\$ 747,780
Payments to suppliers	(116,668)	(144,770)
Payments for employee salaries and benefits	(326,599)	(321,563)
Payments for City services	(77,289)	(76,881)
Interagency payments, net	6,663	8,972
Net cash provided by operating activities	<u>312,058</u>	<u>213,538</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	10,598	12,037
Inter-agency transfers in (out)	3,530	(229)
Net cash provided by noncapital financing activities	<u>14,128</u>	<u>11,808</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	209,398	1,213,845
Principal paid on revenue bonds and commercial paper notes	(207,196)	(185,786)
Interest paid on revenue bonds and commercial paper notes	(184,717)	(162,270)
Revenue bonds and commercial paper notes issuance costs	--	(6,710)
Acquisition and construction of capital assets	(933,501)	(584,341)
Proceeds from passenger facility charges	119,899	115,596
Proceeds from customer facility charges	26,232	24,436
Capital contributed by federal agencies	63,468	64,262
Net cash provided by (used for) capital and related financing activities	<u>(906,417)</u>	<u>479,032</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and investment income	33,642	31,829
Cash collateral received (paid) under securities lending transactions	(153,202)	117,056
Pending investment trade	44,728	--
Proceeds from maturities of investments held by fiscal agents	185,855	508,002
Net cash provided by investing activities	<u>111,023</u>	<u>656,887</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(469,208)	1,361,265
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,334,901</u>	<u>1,973,636</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,865,693</u>	<u>\$ 3,334,901</u>





	<u>2012</u>	<u>2011</u>
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	\$ 627,556	\$ 702,125
Investments with fiscal agents- unrestricted	61,764	116,310
Cash and pooled investments held in City Treasury- restricted	1,031,575	982,656
Investments with fiscal agents- restricted	<u>1,144,798</u>	<u>1,533,810</u>
Total cash and cash equivalents	<u>\$ 2,865,693</u>	<u>\$ 3,334,901</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	<u>\$ 117,989</u>	<u>\$ 123,316</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	123,941	103,300
Change in provision for uncollectible accounts	7,660	520
Other nonoperating revenue, net	123	362
Changes in assets and liabilities		
Accounts receivable	(20,638)	4,293
Unbilled receivables	9,323	(26,220)
Prepaid expenses and inventories	(2,334)	885
Contracts and accounts payable	52,864	2,607
Accrued salaries	1,397	1,749
Accrued employee benefits	(1,782)	(46)
Other liabilities	<u>23,515</u>	<u>2,772</u>
Total adjustments	<u>194,069</u>	<u>90,222</u>
Net cash provided by operating activities	<u>\$ 312,058</u>	<u>\$ 213,538</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	\$ 54,606	\$ 66,058
Noncash portion of capital contributions	18,760	22,374

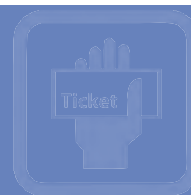
See accompanying notes to the financial statements.



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Index to the Notes to the Financial Statements



The Notes to the Financial Statements include disclosures that are necessary for a better understanding of the accompanying financial statements. An index to the Notes follows:

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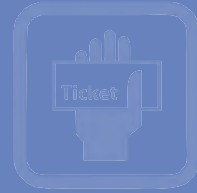


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Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Notes to the Financial Statements
June 30, 2012 and 2011



1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA maintains LA/Palmdale Regional Airport (PMD); however, PMD is not currently certificated by the Federal Aviation Administration. All four airports are collectively referred to as the Airport System.

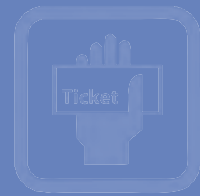
LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop, and operate all property, plant, and 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 the use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The accompanying financial statements present the net assets and changes in net assets and cash flows of LAX. These financial statements are not intended to present the financial position and the results of operations of LAWA or the City, or cash flows of LAWA or the City's enterprise funds.

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each airport in the Airport System. LAX applies all applicable GASB pronouncements as well as private sector pronouncements issued by the Financial Accounting Standards Board (FASB) on or before November 30, 1989, unless such FASB pronouncements conflict or contradict GASB pronouncements. LAX has elected not to follow private sector guidance issued after November 30, 1989.





c. Cash, Cash Equivalents, and Investments

LAX's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAX's portion of the pool is presented on the statements of net assets as "Cash and Pooled Investments Held in City Treasury." LAX's investments, including its share in the City's investment pool, are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net assets.

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore reported as cash equivalents.

LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

d. Accounts Receivable and Unbilled Receivable

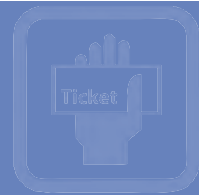
LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

Unbilled receivable balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal year period might not get processed through the billing system for up to sixty days into the next fiscal year.

e. Inventory

LAX's inventory consists primarily of general custodial supplies and is recorded at cost on a first-in, first-out basis.





f. Capital Assets

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of \$5,000 for all capital assets other than internally generated computer software where the threshold is \$500,000.

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of such proceeds). Net interest capitalized in fiscal years 2012 and 2011 were \$95.6 million and \$78.8 million, respectively.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; landplane ports, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

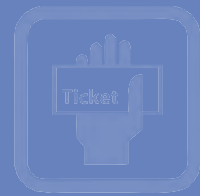
g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

h. Operating and Nonoperating Revenues and Expenses

LAX distinguishes between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.





i. Landing Fees

Landing fee rates are used to determine what fees are to be charged to the airlines each time that a qualified aircraft lands at LAX. These fees are calculated using complex and unique allocation methods of relevant operating costs attributable to operational activities approved by the airlines. LAX applies the “*compensatory method*” in determining landing fees. Under this method, the fee charged for a facility or service is based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAX’s actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each year.

j. Concession Revenue

Concession revenue is generated through LAX concessionaires or tenants who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAX are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants’ operations report and payment are due to LAX in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when accruals are required for each tenant.

k. Unearned Revenue

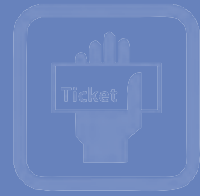
Unearned revenue consists of concessionaire rentals and payments received in advance, which will be amortized to revenue on the straight-line basis over the applicable period.

l. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves, and early retirement incentive. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. The liability for early retirement is recognized for the separation payment to LAX employees who qualified and elected to participate in the City’s Early Retirement Incentive Program. Accrued employee benefits as of June 30, 2012 and 2011 are as follows (amounts in thousands):

Type of benefit	2012	2011
Accrued vacation leave	\$ 19,503	\$ 19,389
Accrued sick leave	17,003	16,799
Early retirement incentive	--	2,100
Total	\$ 36,506	\$ 38,288





m. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as capital grant contributions in the statements of revenues, expenses, and changes in net assets.

n. Bond Premiums, Discounts, Deferred Amounts on Refundings, and Issuance Costs

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment are deferred and amortized over the life of the bonds. Bonds payable is reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

o. Net Assets

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2012 and 2011, net assets of \$861.5 million and \$757.5 million, respectively, are restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAX that are not restricted for any project or other purpose.

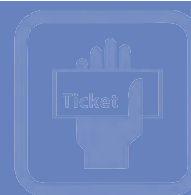
p. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes of which both restricted and unrestricted net assets are available, LAX's policy is to apply restricted net assets first.

q. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.





r. Reclassifications

Certain reclassifications have been made to fiscal 2011 amounts in order to conform to the fiscal year 2012 presentation. Such reclassifications had no effect on the previously reported change in net assets.

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2012.

Issued in December 2009, GASB Statement No. 57, *“OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans,”* establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. It also clarifies requirements of previously issued GASB Statements. This statement has no impact on LAX’s financial statements.

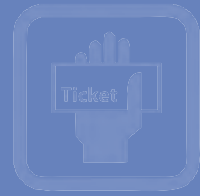
Issued in June 2011, GASB Statement No. 64, *“Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53,”* clarifies the existing requirements for the termination of hedge accounting and amends certain provisions of a previously issued GASB Statement. This statement has no impact on LAX’s financial statements.

LAWA is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in November 2010, GASB Statement No. 60, *“Accounting and Financial Reporting for Service Concession Arrangements,”* addresses service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement requires disclosures about SCAs including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. Implementation of this statement is effective fiscal year 2013.

Issued in December 2010, GASB Statement No. 62, *“Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,”* incorporates into GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989 and does not conflict with or contradict GASB pronouncements: (a) Financial Accounting Standards Board (FASB) Statements and Interpretations, (b) Accounting Principles Board Opinions, and (c) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. Implementation of this statement is effective fiscal year 2013.





Issued in June 2011, GASB Statement No. 63, *“Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,”* provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, and amends the net asset reporting requirements in GASB Statement No. 34, *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Implementation of this statement is effective fiscal year 2013.

Issued in March 2012, GASB Statement No. 65, *“Items Previously Reported as Assets and Liabilities,”* establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of this statement is effective fiscal year 2014.

Issued in March 2012, GASB Statement No. 66, *“Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62,”* resolves conflicting guidance that resulted from the issuance of previously issued pronouncements. Implementation of this statement is effective fiscal year 2014.

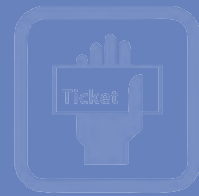
Issued in June 2012, GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* replaces the requirements of previously issued statements as they relate to governments that provide pensions through pension plans administered by trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. Governments will report in their financial statements a net pension liability that represents the difference between the total pension liability and the pension assets set aside in a trust. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including descriptive information about the types of benefits available, how to determine the amount of pension plan contributions, and assumptions and methods used in calculating the pension liability. This statement requires cost-sharing employers, such as LAX, to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost sharing plan. Implementation of this statement is effective fiscal year 2015.

3. Cash and Investments

a. Pooled Investments

Pursuant to the California Government Code and the Los Angeles City Council File No. 94-2160, the City Treasurer provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City’s pooled investment practices with the following objectives, in order of priority, safety of capital, liquidity, and rate of return. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted under California law.





Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). As of June 30, 2012 and 2011, LAX's share of the Pool was \$1.659 billion and \$1.685 billion, which represent approximately 24% and 26%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool at June 30, 2012 is the allocated investment agreement traded on June 29, 2012 that was subsequently settled on July 2, 2012. LAX's allocated share was \$44.7 million. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

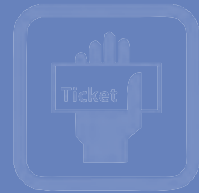
b. City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.





LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. The City temporarily suspended its securities lending program on May 30, 2012. At June 30, 2011, LAX's portion of the cash collateral and the related obligation in the City's program was \$153.2 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2011 was \$153.2 million. Such securities are stated at fair value.

During the fiscal years, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City at June 30, 2011 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

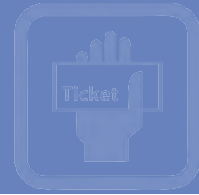
The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Unrestricted, current		
Commercial paper	\$ 61,764	\$ 115,094
Revocable trust accounts for lease termination	<u>--</u>	<u>1,216</u>
Subtotal	<u>61,764</u>	<u>116,310</u>
Restricted, current and noncurrent		
Bond security funds	402,476	501,164
Construction funds	<u>797,059</u>	<u>1,273,238</u>
Subtotal	<u>1,199,535</u>	<u>1,774,402</u>
Total	<u>\$ 1,261,299</u>	<u>\$ 1,890,712</u>

The revocable trust accounts were established and used by LAX to buy-back rights on certain leased facilities. Such buy-back rights allowed LAX to purchase the leased facilities by retiring third party debt used to finance improvements on such facilities. The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.



Notes to the Financial Statements
June 30, 2012 and 2011
(continued)



At June 30, 2012, the investments with fiscal agents and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities		
		1 to 30 days	31 to 60 days	61 to 365 days
U.S. Treasury notes	\$ 54,737	\$ --	\$ --	\$ 54,737
Money market mutual funds	1,140,396	276,741	863,655	--
Subtotal	1,195,133	<u>\$ 276,741</u>	<u>\$ 863,655</u>	<u>\$ 54,737</u>
Bank deposit accounts	66,166			
Total	<u>\$ 1,261,299</u>			

At June 30, 2011, the investments with fiscal agents and their maturities are as follows (amounts in thousands):

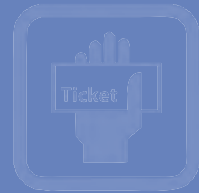
	Amount	Investment maturities			
		1 to 30 days	31 to 60 days	61 to 365 days	366 days to 5 years
U.S. Treasury notes	\$ 397,145	\$ 49,917	\$ 51,915	\$ 240,576	\$ 54,737
Money market mutual funds	1,377,258	310,000	1,067,258	--	--
Subtotal	1,774,403	<u>\$ 359,917</u>	<u>\$ 1,119,173</u>	<u>\$ 240,576</u>	<u>\$ 54,737</u>
Bank deposit accounts	116,309				
Total	<u>\$ 1,890,712</u>				

Interest Rate Risk. LAX's investments with fiscal agents mature in less than one year except for certain securities that are held in connection with outstanding bonds.

Credit Risk. At June 30, 2012 and 2011, the money market mutual funds were rated AAAM by Standard and Poor's, and Aaa by Moody's. The collateralized investment contract is not rated. In August 2011, Standard and Poor's lowered its long-term credit rating on U.S. government debt from AAA to AA+. This downgrade relates to the credit risk associated with LAX's investments in U.S. Treasury notes held by the fiscal agents.

The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.





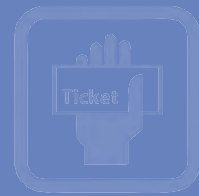
4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2012 (amounts in thousands):

	Balance at July 1, 2011	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2012
Capital assets not depreciated					
Land and land clearance	\$ 703,664	\$ --	\$ --	\$ 37,933	\$ 741,597
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	<u>1,971,102</u>	<u>984,415</u>	<u>--</u>	<u>(936,066)</u>	<u>2,019,451</u>
Total capital assets not depreciated	<u>2,725,030</u>	<u>984,415</u>	<u>--</u>	<u>(898,133)</u>	<u>2,811,312</u>
Capital assets depreciated					
Buildings	574,217	--	--	--	574,217
Improvements	1,765,362	31,299	--	890,524	2,687,185
Equipment and vehicles	<u>178,429</u>	<u>2,490</u>	<u>(6,090)</u>	<u>7,609</u>	<u>182,438</u>
Total capital assets depreciated	<u>2,518,008</u>	<u>33,789</u>	<u>(6,090)</u>	<u>898,133</u>	<u>3,443,840</u>
Less accumulated depreciation					
Buildings	(350,335)	(13,883)	--	--	(364,218)
Improvements	(834,044)	(103,764)	--	2,593	(935,215)
Equipment and vehicles	<u>(133,123)</u>	<u>(6,294)</u>	<u>5,500</u>	<u>(2,593)</u>	<u>(136,510)</u>
Total accumulated depreciation	<u>(1,317,502)</u>	<u>(123,941)</u>	<u>5,500</u>	<u>--</u>	<u>(1,435,943)</u>
Capital assets depreciated, net	<u>1,200,506</u>	<u>(90,152)</u>	<u>(590)</u>	<u>898,133</u>	<u>2,007,897</u>
Total capital assets	<u>\$ 3,925,536</u>	<u>\$ 894,263</u>	<u>\$ (590)</u>	<u>\$ --</u>	<u>\$ 4,819,209</u>



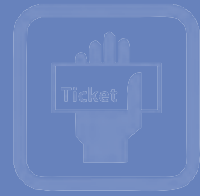
Notes to the Financial Statements
June 30, 2012 and 2011
(continued)



LAX had the following activities in capital assets during fiscal year 2011 (amounts in thousands):

	Balance at July 1, 2010	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2011
Capital assets not depreciated					
Land and land clearance	\$ 700,359	\$ --	\$ --	\$ 3,305	\$ 703,664
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	<u>1,625,174</u>	<u>591,534</u>	<u>--</u>	<u>(245,606)</u>	<u>1,971,102</u>
Total capital assets not depreciated	<u>2,375,797</u>	<u>591,534</u>	<u>--</u>	<u>(242,301)</u>	<u>2,725,030</u>
Capital assets depreciated					
Buildings	574,217	--	--	--	574,217
Improvements	1,504,133	20,377	--	240,852	1,765,362
Equipment and vehicles	<u>172,802</u>	<u>6,194</u>	<u>(2,016)</u>	<u>1,449</u>	<u>178,429</u>
Total capital assets depreciated	<u>2,251,152</u>	<u>26,571</u>	<u>(2,016)</u>	<u>242,301</u>	<u>2,518,008</u>
Less accumulated depreciation					
Buildings	(326,714)	(13,268)	--	(10,353)	(350,335)
Improvements	(762,616)	(81,781)	--	10,353	(834,044)
Equipment and vehicles	<u>(126,884)</u>	<u>(8,251)</u>	<u>2,012</u>	<u>--</u>	<u>(133,123)</u>
Total accumulated depreciation	<u>(1,216,214)</u>	<u>(103,300)</u>	<u>2,012</u>	<u>--</u>	<u>(1,317,502)</u>
Capital assets depreciated, net	<u>1,034,938</u>	<u>(76,729)</u>	<u>(4)</u>	<u>242,301</u>	<u>1,200,506</u>
Total capital assets	<u>\$ 3,410,735</u>	<u>\$ 514,805</u>	<u>\$ (4)</u>	<u>\$ --</u>	<u>\$ 3,925,536</u>





5. Commercial Paper

As of June 30, 2012 and 2011, LAX had outstanding commercial paper notes (CP) of \$162.2 million and \$115 million, respectively. The respective average interest rates in effect as of June 30, 2012 and 2011 were 0.1720% and 0.2542%. The CP matures no more than 270 days from the date of issuance. The notes were issued as a means of interim financing for certain capital expenditures.

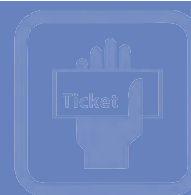
LAX entered into a letter of credit and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of America for \$54.5 million to expire on March 6, 2015; Barclays Bank for \$54.5 million to expire on March 7, 2014; Citibank for \$109 million to expire on March 8, 2015; and Wells Fargo Bank for \$163.5 million to expire on March 6, 2015.

LAX had the following CP activity for the fiscal years ended June 30, 2012 and 2011 (amounts in thousands):

	Balance			Balance			Balance
	July 1, 2010	Additions	Reductions	June 30, 2011	Additions	Reductions	June 30, 2012
Series B	\$ --	\$ 115,012	\$ --	\$ 115,012	\$ --	\$ (115,012)	\$ --
Subseries B	--	--	--	--	47,199	--	47,199
Series C	147,116	--	(147,116)	--	47,199	(47,199)	--
Subseries D	--	--	--	--	115,000	--	115,000
Total	<u>\$ 147,116</u>	<u>\$ 115,012</u>	<u>\$ (147,116)</u>	<u>\$ 115,012</u>	<u>\$ 209,398</u>	<u>\$ (162,211)</u>	<u>\$ 162,199</u>



Notes to the Financial Statements
June 30, 2012 and 2011
(continued)



6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

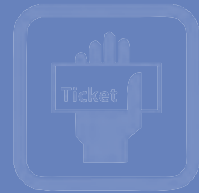
Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2012 and 2011 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal	
					2012	2011
Issue of 2002, Series A	12/19/02	4.100% - 5.250%	2019	\$ 32,450	\$ 32,450	\$ 32,450
Issue of 2003, Series B	5/07/03	4.000% - 5.000%	2015	103,625	31,775	45,690
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	602,075	551,545	561,840
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	3,905	5,085
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	227,080	231,570
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	303,260	306,385
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	307,350	307,350
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,815	22,755	27,410
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	31,325	34,580
Issue of 2010, Series A	4/08/10	3.000% - 5.000%	2040	930,155	930,155	930,155
Issue of 2010, Series B	11/04/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/04/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	871,735	875,805
Total principal amount				<u>\$ 3,678,700</u>	3,507,375	3,552,360
Unamortized premium					73,924	78,094
Unamortized discount					(8,377)	(8,700)
Unamortized deferred amount on refunding					<u>(1,169)</u>	<u>(1,357)</u>
Net revenue bonds					3,571,753	3,620,397
Less current debt					<u>(51,790)</u>	<u>(44,985)</u>
Net noncurrent debt					<u>\$ 3,519,963</u>	<u>\$ 3,575,412</u>

b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that LAX's pledged revenues, as defined, shall be the security and source of payment for the bonds.





LAX has received approval from the Federal Aviation Administration to collect and use passenger facility charges (PFC) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2012 and 2011, the Board authorized the use of PFC funds not to exceed \$25.2 million and \$34.5 million for this purpose, respectively. Of the authorized amounts, \$25.2 million and \$19 million were used for debt service in fiscal years 2012 and 2011, respectively.

The total principal and interest remaining to be paid on the bonds is \$6.8 billion. Principal and interest paid during fiscal year 2012 and the net pledged revenues (as defined and including the \$25.2 million PFC funds discussed in the preceding paragraph), were \$229.4 million and \$302.4 million, respectively. Principal and interest paid during fiscal year 2011 and the net pledged revenues, (as defined and including the \$19 million PFC funds discussed in the preceding paragraph), were \$200.5 million and \$275.3 million, respectively.

c. Fiscal Year 2011 Issuances

On November 4, 2010, LAX issued the following bonds: \$134.7 million Subordinate Revenue Bonds, 2010 Series B; and \$59.4 million Subordinate Revenue Bonds, 2010 Series C. The premium for these issuances totaled \$2.2 million. The bonds were issued to finance a portion of the costs of certain capital projects including construction of the Bradley West Aprons Project and the Taxilane T Project.

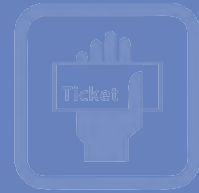
On November 30, 2010, LAX issued \$875.8 million Senior Revenue Bonds, 2010 Series D. The premium for this issue totaled \$26.7 million. The bonds were issued to finance a portion of certain capital projects including construction of certain elements of the Bradley West Terminal Projects and the Central Utility Plant Project.

d. Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

<u>Fiscal year(s) ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 51,790	\$ 182,483	\$ 234,273
2014	60,960	180,138	241,098
2015	65,990	177,245	243,235
2016	68,305	174,267	242,572
2017	71,500	171,072	242,572
2018 - 2022	414,165	798,691	1,212,856
2023 - 2027	533,130	679,738	1,212,868
2028 - 2032	690,525	522,332	1,212,857
2033 - 2037	892,955	319,906	1,212,861
2038 - 2040	658,055	69,666	727,721
Total	<u>\$ 3,507,375</u>	<u>\$ 3,275,538</u>	<u>\$ 6,782,913</u>





e. Build America Bonds

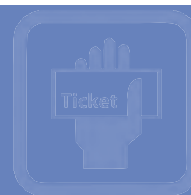
LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of \$307.4 million and \$59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX will receive a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The interest subsidy on the BABs was \$8.3 million in FY 2012 and \$7.6 million in FY 2011. The subsidy is recorded as a noncapital grant, a component of other nonoperating revenue.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activity for the fiscal year ended June 30, 2012 (amounts in thousands):

	Balance at July 1, 2011	Additions	Reduction	Balance at June 30, 2012	Current Portion
Revenue bonds	\$ 3,552,360	\$ --	\$ (44,985)	\$ 3,507,375	\$ 51,790
Add unamortized premium	78,094	--	(4,170)	73,924	--
Less unamortized discount	(8,700)	--	323	(8,377)	--
Less unamortized deferred amount on refunding	<u>(1,357)</u>	<u>--</u>	<u>188</u>	<u>(1,169)</u>	<u>--</u>
Net revenue bonds	3,620,397	--	(48,644)	3,571,753	51,790
Accrued employee benefits	38,288	6,111	(7,893)	36,506	4,016
Estimated claims payable	48,892	20,773	(4,331)	65,334	5,854
Unearned revenue	--	4,165	--	4,165	4,165
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	10,013	--	(539)	9,474	--
Other long-term liabilities	<u>5,099</u>	<u>563</u>	<u>--</u>	<u>5,662</u>	<u>--</u>
Total long-term liabilities	<u>\$ 3,735,472</u>	<u>\$ 31,612</u>	<u>\$ (61,407)</u>	<u>\$ 3,705,677</u>	<u>\$ 65,825</u>





LAX had the following long-term liabilities activity for the fiscal year ended June 30, 2011 (amounts in thousands):

	Balance at July 1, 2010	Additions	Reduction	Balance at June 30, 2011	Current Portion
Revenue bonds	\$ 2,521,185	\$ 1,069,845	\$ (38,670)	\$ 3,552,360	\$ 44,985
Add unamortized premium	52,872	28,988	(3,766)	78,094	--
Less unamortized discount	(9,024)	--	324	(8,700)	--
Less unamortized deferred amount on refunding	<u>(1,544)</u>	<u>--</u>	<u>187</u>	<u>(1,357)</u>	<u>--</u>
Net revenue bonds	2,563,489	1,098,833	(41,925)	3,620,397	44,985
Accrued employee benefits	38,334	7,956	(8,002)	38,288	7,893
Estimated claims payable	47,877	6,038	(5,023)	48,892	4,331
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,870	143	--	10,013	--
Other long-term liabilities	<u>6,032</u>	<u>161</u>	<u>(1,094)</u>	<u>5,099</u>	<u>--</u>
Total long-term liabilities	<u>\$ 2,678,385</u>	<u>\$ 1,113,131</u>	<u>\$ (56,044)</u>	<u>\$ 3,735,472</u>	<u>\$ 57,209</u>

8. Leases

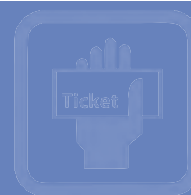
a. Operating Leases

LAX has entered into numerous rental agreements with concessionaires for food and beverage, gift and news, duty-free, rental car facilities, and advertisements. In general, the agreements provide for cancellation on a 30-day notice by either party; however, they are intended to be long-term in nature with renewal options. Accordingly, these agreements are considered operating leases for purposes of financial reporting.

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the years ended June 30, 2012 and 2011, revenues from such agreements were approximately \$199.1 million and \$187.7 million, respectively. The respective amounts over MAG were \$53.1 million and \$37.8 million.



Notes to the Financial Statements
June 30, 2012 and 2011
(continued)



Minimum future rents under these agreements over the next five years, assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

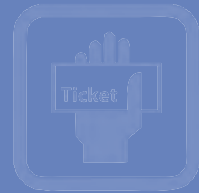
Fiscal year ending	Amount
2013	\$ 114,928
2014	69,715
2015	42,640
2016	4,365
2017	4,354
Total	\$ 236,002

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT), Terminal 2, and Theme Building for a term of 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than \$81.9 million in initial improvements and \$16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval.

Under the 3-1-12 Agreement, Westfield shall pay LAX the minimum annual guaranteed rent (MAG) of \$17.7 million (\$210 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) \$210 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than \$78.6 million in initial improvements and \$15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval.





Under the 6-22-12 Agreement, Westfield shall pay LAX the minimum annual guaranteed rent (MAG) of over \$17 million (\$240 per square foot of concession area) in the first year of full operations. Beginning January 1, 2014, the MAG will be adjusted each year by the greater of (a) \$240 per square foot escalated by the Consumer Price Index, but not greater than 2% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

Minimum future rents under these two agreements with Westfield over the next five years are estimated as follows (amounts in thousands):

<u>Fiscal year ending</u>	<u>Amount</u>
2013	\$ 1,475
2014	17,872
2015	26,794
2016	35,894
2017	<u>36,612</u>
Total	<u>\$ 118,647</u>

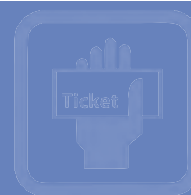
LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from 35 to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the years ended June 30, 2012 and 2011, revenues from these leases were approximately \$309.8 million and \$291.8 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the following assumptions: (a) current agreements are carried to contractual termination, (b) airline agreements with no definitive expiry dates are carried over for the next five years, and (c) non-airline agreements with no definitive expiry dates are carried over for the next three years. The future rents are as follows (amounts in thousands):

<u>Fiscal year ending</u>	<u>Amount</u>
2013	\$ 315,977
2014	308,687
2015	301,656
2016	290,882
2017	<u>272,922</u>
Total	<u>\$ 1,490,124</u>



Notes to the Financial Statements
June 30, 2012 and 2011
(continued)



The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2012 and 2011 are as follows (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Buildings and facilities	\$ 1,532,645	\$ 852,585
Less- Accumulated depreciation	<u>(424,620)</u>	<u>(387,760)</u>
Net	1,108,025	464,825
Land	<u>489,742</u>	<u>475,977</u>
Total	<u><u>\$ 1,597,767</u></u>	<u><u>\$ 940,802</u></u>

b. Lease Obligations

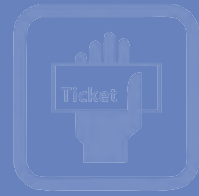
LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2012 and 2011 were \$4.2 million and \$4 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

<u>Fiscal year(s) ending</u>	<u>Amount</u>
2013	\$ 4,528
2014	4,528
2015	4,528
2016	4,528
2017	4,528
2018 - 2022	15,656
2023 - 2027	8,191
2028 - 2032	<u>8,190</u>
Total	<u><u>\$ 54,677</u></u>

9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. LAX has received approvals from FAA to impose PFCs for various projects. The current PFC is \$4.50.





As previously discussed, LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. For fiscal years 2012 and 2011, the Board authorized the use of PFC funds not to exceed \$25.2million and \$34.5 million, respectively. Of the authorized amounts, \$25.2 million and \$19 million were used for debt service in fiscal years 2012 and 2011, respectively.

The following project summary has been approved by FAA as of June 30, 2012 (amounts in thousands):

Terminal development	\$ 1,632,304
Noise mitigation	822,539
Airfield development	82,645
Aircraft rescue and firefighting vehicles	<u>975</u>
Total	<u>\$ 2,538,463</u>

PFCs collected and the related interest earnings through June 30, 2012 and 2011 were as follows (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Amount collected	\$ 1,552,868	\$ 1,431,567
Interest earnings	165,902	155,102
FAA approved transfer to ONT	<u>(126,090)</u>	<u>(126,090)</u>
Total	<u>\$ 1,592,680</u>	<u>\$ 1,460,579</u>

As of June 30, 2012 and 2011, cumulative expenditures to date on approved PFC projects, net of the related expenditures on the transfer to ONT, totaled \$857.9 million and \$799.9 million, respectively.

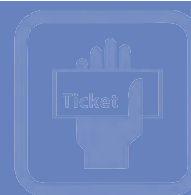
10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charge (CFC) from car rental agencies serving LAX. State law allows airports to collect a fee of \$10 per on-airport rental car agency transaction to fund the development of consolidated car rental facility and common-use transportation system. CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2012 and 2011 were as follows (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Amount collected	\$ 117,260	\$ 91,029
Interest earnings	<u>6,318</u>	<u>4,945</u>
Total	<u>\$ 123,578</u>	<u>\$ 95,974</u>



Notes to the Financial Statements
June 30, 2012 and 2011
(continued)



As of June 30, 2012 and 2011, cumulative expenditures to date on approved CFC projects totaled \$3 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$59.9 million and \$67.9 million in fiscal years 2012 and 2011, respectively. Capital grant funds are used for the Airport Improvement Program and Transportation Security Administration capital projects.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for the years ended June 30, 2012 and 2011 were \$78.3 million and \$79.6 million. The capitalized portion of these costs was \$1.5 million in fiscal year 2011.

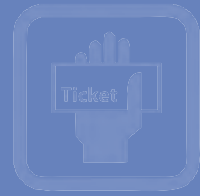
LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2012 and 2011 were \$7 million and \$6.7 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD such as legal, human services, and financial services. In addition, LAX pays reliever airport fee to VNY. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2012 and 2011 was \$1.052 million and \$1.023 million, respectively. The details are as follows (amounts in thousands):

	<u>FY 2012</u>	<u>FY 2011</u>
Allocated administrative costs		
ONT	\$ 7,908	\$ 8,129
VNY	1,847	1,504
PMD	<u>380</u>	<u>362</u>
Total	10,135	9,995
Reliever airport fee	(2,420)	--
Land rental	<u>(1,052)</u>	<u>(1,023)</u>
Net	<u>\$ 6,663</u>	<u>\$ 8,972</u>

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of \$43 million out of approximately \$58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway.





The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling \$17.7 million plus a 3% interest for a total of \$21.3 million. To effect payment, the installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2012 and 2011, the respective outstanding principal amount of \$14.7 million and \$15.4 million payable beyond one year were reported under Other Noncurrent Assets while the balance of \$0.79 million and \$0.77 million payable within one year were reported under Unrestricted Current Assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

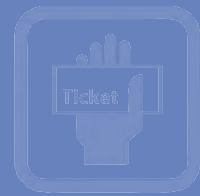
The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer substantive other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328.

As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a cost-sharing plan arrangement with the City. Pension and other postemployment benefits are established pursuant to City ordinance. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for health premium subsidy with City-approved health carrier.

b. Funding Policy

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 27.66% in fiscal year 2012, 24.49% in fiscal year 2011, and 19.43% in fiscal year 2010. The required contribution rates were based on the June 30, 2010, June 30, 2009 and June 30, 2008 actuarial valuations, respectively. LAWA paid 100% of its annual contributions of which LAX's portions for fiscal years 2012, 2011 and 2010 were \$50.2 million, \$49.2 million and \$40.4 million, respectively.





Starting November 8, 2009, the contribution rate of all members regardless of their entry date is 6% of their salaries. In addition, effective July 1, 2011, members contribute an additional 1% of their pay for a period of 15 years or until the Early Retirement Incentive Program (ERIP) cost obligation is fully paid, whichever comes first. Further, members represented by certain bargaining groups are required to contribute an additional 2% or 4% of pay beginning April 24, 2011. As a result, members' contribution rates effective July 1, 2011 are 7%, 9% or 11% of pay, depending upon the bargaining group they belong. The City Charter and related ordinances define member contributions.

c. Net Pension Obligation

The City allocated a portion of its net pension obligation to LAWA based upon its percentage of payroll benefit costs for all City employees. The amounts recorded at June 30, 2012 and 2011 were \$9.5 million and \$10 million, respectively. For administrative purpose, the allocated amounts were presented as part of LAX's liabilities and were not allocated to all four airport agencies.

d. Funded Status of the Plans

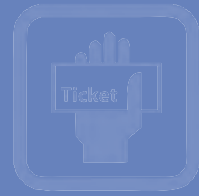
The City issues a publicly available financial report that includes complete disclosures and required supplementary information on the funded status of the plans. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

e. Early Retirement Incentive Program

In October 2009, the City adopted the ERIP by providing incentives for eligible members of the LACERS. Such incentives are in the form of retirement benefit enhancement and/or separation pay. The ERIP enrollment period started on November 2, 2009 and ended 45 days thereafter. Under terms of the program, an ERIP filer may withdraw his or her enrollment. Eligible ERIP participants shall receive a "separation payment" whereby additional service and/or age credit is added to qualify an employee for an unreduced or standard retirement. Depending on the length of service credit, ERIP retirees received a separation payment of \$1,000 for each year of service or \$15,000. The separation payment is being paid over two separate calendar years, 2011 and 2012. There were 2,400 ERIP filers Citywide. Of the Citywide ERIP participants, 209 were LAX employees. As of June 30, 2012, LAX's total early retirement liability was fully liquidated; as of June 30, 2011, the early retirement liability was \$2.1 million.

The ERIP resulted in additional actuarial accrued liability for pension benefits and postemployment healthcare benefits of \$300.2 million and \$54.7 million, respectively, with a 15-year amortization period. The ERIP cost obligation shall be borne by members of LACERS and cost-neutral to the City. To this end, the retirement benefits of employees retiring under ERIP were reduced by 1%. In addition, as previously discussed, active members contribute an additional 1% of their pay beginning July 1, 2011 for a period of 15 years or until the ERIP cost obligation is fully paid, whichever comes first.





14. Risk Management

The Risk Management Division (RMD) administers LAX's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAX's ability to meet its business goals and objectives.

LAX maintains insurance coverage of \$1.3 billion for general liability and \$1 billion for war and terrorism. Additional insurance coverage is carried for general property for \$1.5 billion, boiler and machinery for \$250 million, and earthquake for \$25 million. Deductibles for these policies are \$10,000 per claim with a \$400,000 annual aggregate for general liability, and \$100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAX also maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2012, 2011, and 2010, no claims were in excess of LAX's insurance coverage.

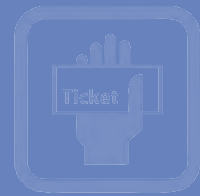
A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities to be probable of occurring from these lawsuits. The liability for litigation and other claims at June 30, 2012 and 2011 was \$11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liability at June 30, 2012 and 2011 were \$53.6 million and \$37.2 million, respectively.

The changes in LAX's estimated claims payable are as follows (amounts in thousands):

	June 30		
	2012	2011	2010
Balance at beginning of year	\$ 48,892	\$ 47,877	\$ 46,422
Provision for current year's events and changes in provision for prior years' events	20,773	6,038	5,672
Claims payments	(4,331)	(5,023)	(4,217)
Balance at end of year	<u>\$ 65,334</u>	<u>\$ 48,892</u>	<u>\$ 47,877</u>
Current portion	<u>\$ 5,854</u>	<u>\$ 4,331</u>	<u>\$ 5,023</u>





15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were \$121.8 million and \$136.3 million as of June 30, 2012 and 2011, respectively. Significant amounts were committed for the following projects: inspection, testing, and surveying for the center taxiway; in-line baggage screening; runway projects; interior improvements at TBIT; noise mitigation; elevator and escalator system upgrade; central utility plant replacement; and information technology network expansion.

b. LAX Master Plan

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

Settlement agreements were entered into by the City and several entities that filed lawsuits in connection with the LAX Master Plan. Among other things, the agreements require LAX to limit the number of terminal gates; involve the surrounding communities in project planning; provide funding for traffic and noise mitigation and abatement, job training and opportunities, street and street lighting improvements, and air quality and environmental programs; and develop a regional initiative to encourage passenger and cargo activity at other airports. These agreements are conditioned upon FAA's approval of expenditures and use of airport revenues for the specified purposes.

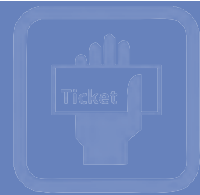
c. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns. Intensified security precautions have been instituted by government agencies, airlines, and airport operators since the September 11, 2001 terrorist attacks. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot as well as a potential terrorist target. LAX is unable to predict: (a) the likelihood of future incidents of terrorism and other airline travel disruptions; (b) the impact of the aforementioned security issues on its operations and revenues; and (c) financial impact to the airlines operating at LAX.

d. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy.





As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2012 and 2011 was \$12.8 million. LAX does not expect any recoveries reducing this obligation.

The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates 8 USTs at LAX. The NOV is unclear as to the alleged violation. The SWRCB's investigation is continuing.

e. Terminal Leases

In January 2007, American Airlines, Continental Airlines, and United Air Lines (the Plaintiffs) filed a complaint in Federal District Court alleging that LAX has imposed new M&O charges in violation of their leases at LAX.

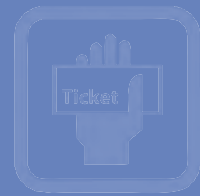
In January 2008, the Board approved interim settlement agreements with the Plaintiffs. Thereafter, a joint stipulation for dismissal of the entire action filed by the parties was granted by the Court without prejudice to renew. United Air Lines and Continental Airlines have since settled their claims with LAX relating to this matter. The interim settlement with American Airlines (AA) was subsequently extended until December 31, 2010 and the action has not been reinitiated as of October 30, 2012. AA continued to pay M&O charges, based on the already expired interim settlement agreement, that is lower than LAX's interpretation of the lease.

In November 2011, AA filed for Chapter 11 bankruptcy protection. Pursuant to bankruptcy laws, AA has a certain period of time to assume or reject the lease. If AA assumes the lease, it must cure existing defaults as LAX views the underpayment as a default under the lease. If AA rejects the lease, the lease is deemed terminated.

f. AMR Corporation Bankruptcy Filing

On November 29, 2011, AMR Corporation, the parent company of AA, filed for Chapter 11 bankruptcy protection. AA is one of the top ten airlines, by number of passengers, operating at LAX. As of October 30, 2012, LAX's prepetition receivable from AA was \$7.8 million. AA has provided LAWA with a \$15 million faithful performance guarantee (FPG); however, management and AA have agreed to not draw from the FPG to settle the prepetition receivable. Although AA's operations at the airport remain as usual, LAX cannot predict the outcome of the bankruptcy filing.





16. Other Matters

City Financial Challenges

Faced with projected gaps in the General Fund budget, the City implemented various measures and considering others to attain a balanced budget. Such measures include hiring freeze for civilian positions, implementing an early retirement incentive program, mandating unpaid days off for certain employees, consolidating City departments, leasing of City parking facilities, and eliminating and laying off General Fund positions.

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect LAX's operations. However, auxiliary services provided to LAX by other City departments may be impacted. In addition, the City's budget challenges may have an adverse effect on the trading value of LAX's outstanding and future bond issues.

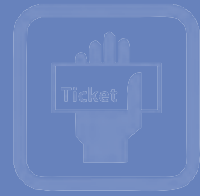
17. Subsequent Events

a. New Rates and Charges Methodology

On September 17, 2012, the Board approved a new methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The new rates that will recover from the airlines costs of acquiring, constructing, operating and maintaining terminal facilities are as follows: (i) terminal building rate, (ii) federal inspection services area (FIS) rate, (iii) common use holdroom rate, (iv) common use baggage claim rate, (v) common use outbound baggage system rate, (vi) common use ticket counter rate, and (vii) terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The new rates shall apply beginning January 1, 2013 to airlines and airline consortia agreeing to the new methodology and executing a rate agreement with LAWA (signatory airlines) by December 15, 2012. Agreements executed after December 15, 2012 shall commence on the first day of the next month beginning no less than sixty days after the execution of the agreement. Agreements with signatory airlines terminate on December 31, 2022. The new rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period. In addition, signatory airlines will share in the concession revenue derived from the terminals based on prescribed two-tiered formulae. Tier One Revenue Sharing will have the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing will be distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.





Airlines with existing leases that opt not to sign an agreement under the new methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the new rate agreement. Airlines with no existing leases that opt not to sign the new rate agreement (non-signatory tariff airlines) will be charged with the new rates effective January 1, 2013. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.

b. Revenue Bonds Issuance and Refunding

On September 24, 2012, the Board authorized the following: (a) Issuance of LAX revenue bonds in one or more series in an aggregate principal amount not to exceed \$1 billion. The bond proceeds will be used to finance various airfield and terminal capital projects, and refinance outstanding commercial paper notes. (b) Refunding and defeasance of LAX Revenue Bonds Issue of 2002, Series A; and Issue of 2003, Series B with outstanding principal balance of \$32.5 million and \$31.8 million, respectively.



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SUPPLEMENTAL INFORMATION



Los Angeles City Retirement System Schedules of Funding Progress



Prorated Data for Los Angeles World Airports (Non-GAAP Basis – Unaudited) (dollar amounts in thousands)

Defined Benefit Pension Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2009	\$ 1,174,324	\$ 1,476,463	\$ 302,139	80%	\$ 222,680	136%
6/30/2010	1,248,131	1,645,405	397,274	76%	237,458	167%
6/30/2011	1,186,475	1,639,552	453,077	72%	224,463	202%

Other Postemployment Benefit Healthcare Plan

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Under-funded AAL	Funded ratio	Covered payroll	Under-funded AAL as a percentage of covered payroll
6/30/2009	\$ 164,603	\$ 252,352	\$ 87,749	65%	\$ 222,680	39%
6/30/2010	186,256	291,832	105,576	64%	237,458	44%
6/30/2011	189,386	241,030	51,644	79%	224,463	23%

Notes to the Schedules

1. LAWA's portions of the actuarial assets and liabilities were prorated based on covered payroll. Such prorated data is not indicative of the results of an actuarial valuation of LAWA on a stand-alone basis.
2. The multiyear trend information presented above is those of LAWA and is not allocated to LAWA's four airports.



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COMPLIANCE SECTION



Sacramento

Walnut Creek

Oakland

Newport Beach

San Diego

Seattle

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON THE PASSENGER FACILITY CHARGE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE**

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (the Guide), issued by the Federal Aviation Administration, for its passenger facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its passenger facility charge program is the responsibility of LAX's management. Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit also includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

In our opinion, LAX complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its passenger facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of LAX is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered LAX's internal control over compliance with the requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Passenger Facility Charge Program and on Internal Control Over Compliance (continued)



A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the passenger facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Airport Commissioners, LAX management, others within the entity, and the Federal Aviation Administration of the U.S. Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Los Angeles, California
October 30, 2012



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport



Schedule of Passenger Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2012 and 2011

(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2010	\$ 1,316,991	\$ 142,747	\$ 1,459,738	\$ 813,040	\$ 646,698
Fiscal year 2010-11 transactions					
Quarter ended September 30, 2010	28,830	1,513	30,343	1,567	28,776
Quarter ended December 31, 2010	28,057	1,666	29,723	10,734	18,989
Quarter ended March 31, 2011	25,719	4,563	30,282	78,292	(48,010)
Quarter ended June 30, 2011	<u>31,970</u>	<u>4,613</u>	<u>36,583</u>	<u>24,241</u>	<u>12,342</u>
Program to date as of June 30, 2011	1,431,567	155,102	1,586,669	927,874	658,795
Fiscal year 2011-12 transactions					
Quarter ended September 30, 2011	30,383	1,599	31,982	2,248	29,734
Quarter ended December 31, 2011	29,731	1,551	31,282	16,745	14,537
Quarter ended March 31, 2012	27,476	4,237	31,713	11,909	19,804
Quarter ended June 30, 2012	<u>33,711</u>	<u>3,413</u>	<u>37,124</u>	<u>27,116</u>	<u>10,008</u>
Unexpended passenger facility charge revenues and interest earned June 30, 2012	<u>\$ 1,552,868</u>	<u>\$ 165,902</u>	<u>\$ 1,718,770</u>	<u>\$ 985,892</u>	<u>\$ 732,878</u>

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport



Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
June 30, 2012 and 2011

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects.

The current PFC rate is \$4.50. The PFC collection authority approved to date by FAA is \$2.5 billion. The details are as follows (amounts in thousands):

Application number	Charge effective date	Approval of use date	Amount approved for use
96-02-U-00-LAX, closed 6/2/03	03/26/93	05/06/96	\$ 116,371
96-03-C-00-LAX, closed 10/1/08	05/10/96	05/10/96	50,223
97-04-C-02-LAX	11/28/97	11/28/97	610,000
97-04-C-02-LAX	10/31/98	10/31/98	90,000
05-05-C-00-LAX	12/01/05	12/01/05	229,750
05-05-C-01-LAX	12/01/05	12/01/05	468,030
07-06-C-00-LAX	01/01/08	01/01/08	85,000
10-07-C-00-LAX	06/01/12	06/01/12	855,000
11-08-C-00-LAX	03/01/19	03/01/19	34,089
Subtotal- LAX			<u>\$ 2,538,463</u>

In May 1996, FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund certain projects at ONT. Accordingly, PFC revenues totaling \$126.1 million collected at LAX were transferred to ONT.

In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to \$468 million to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Project. The amounts used for this purpose were \$25.2 million and \$19 million in fiscal years 2012 and 2011, respectively.





The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date	
		June 30	
		2012	2011
ONT- Terminal Development Program	\$ 116,371	\$ 116,371	\$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	44,176	19,000
Implementation of IT Security Master Plan	56,573	28,790	18,961
Noise Mitigation - Land Acquisitions	485,000	360,292	359,265
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	25,575	20,893
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	34,091	26,787
Bradley West	855,000	--	--
Lennox Schools Soundproofing Program	34,089	11,215	1,215
Total	\$ 2,538,463	\$ 985,892	\$ 927,874



Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
June 30, 2012 and 2011
(continued)



2. Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (Schedule) represents amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports. The Schedule was prepared using the cash basis of accounting.

3. Excess Project Expenditures

The expenditures for Aircraft Noise Monitoring and Management System project were in excess of the authorized amount. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFC application in which the authority was approved, the public agency may elect to increase the total approved PFC revenue in that application by 15% or less.



Sacramento

Walnut Creek

Oakland

Newport Beach

San Diego

Seattle

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON THE CUSTOMER FACILITY CHARGE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE**

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, with the compliance requirements described in the *California Civil Code Section 1936, as amended by SB 1192*, for its customer facility charge program for the year ended June 30, 2012. Compliance with the requirements of laws and regulations applicable to its customer facility charge program is the responsibility of LAX's management. Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the customer facility charge program occurred. An audit also includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

In our opinion, LAX complied, in all material respects, with the requirements referred to above that could have a direct and material effect on its customer facility charge program for the year ended June 30, 2012.

Internal Control Over Compliance

The management of LAX is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the customer facility charge program. In planning and performing our audit, we considered LAX's internal control over compliance with the requirements that could have a direct and material effect on the customer facility charge program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *California Civil Code Section 1936, as amended by SB 1192*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the Customer Facility Charge Program and on Internal Control Over Compliance (continued)



A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the customer facility charge program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the customer facility charge program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Airport Commissioners, LAX management, others within the entity, and the California State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

Los Angeles, California
October 30, 2012



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport



Schedule of Customer Facility Charge Revenues and Expenditures
For the Years Ended June 30, 2012 and 2011
 (amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under expenditures on approved projects
Program to date as of June 30, 2010	\$ 66,593	\$ 3,623	\$ 70,216	\$ 2,828	\$ 67,388
Fiscal year 2010-11 transactions					
Quarter ended September 30, 2010	6,225	160	6,385	61	6,324
Quarter ended December 31, 2010	6,348	385	6,733	47	6,686
Quarter ended March 31, 2011	5,499	427	5,926	90	5,836
Quarter ended June 30, 2011	<u>6,364</u>	<u>350</u>	<u>6,714</u>	<u>--</u>	<u>6,714</u>
Program to date as of June 30, 2011	91,029	4,945	95,974	3,026	92,948
Fiscal year 2011-12 transactions					
Quarter ended September 30, 2011	6,750	392	7,142	--	7,142
Quarter ended December 31, 2011	6,579	407	6,986	--	6,986
Quarter ended March 31, 2012	6,002	391	6,393	--	6,393
Quarter ended June 30, 2012	<u>6,900</u>	<u>183</u>	<u>7,083</u>	<u>--</u>	<u>7,083</u>
Unexpended customer facility charge revenues and interest earned June 30, 2012	<u>\$ 117,260</u>	<u>\$ 6,318</u>	<u>\$ 123,578</u>	<u>\$ 3,026</u>	<u>\$ 120,552</u>

See accompanying notes to the schedule of customer facility charge revenues and expenditures.



Los Angeles World Airports
 (Department of Airports of the City of Los Angeles)
Los Angeles International Airport



Notes to the Schedule of Customer Facility Charge Revenues and Expenditures
June 30, 2012 and 2011

1. General

Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) (Code) authorized the imposition of Customer Facility Charges (CFC) and use of CFC revenue to plan, finance, design, and construct on-airport consolidated rental car facilities (CRCF).

On March 5, 2007, the Board found that the CRCF proposed by Management was sufficiently definitive and authorized the collection of CFC of \$10 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

The proposed CRCF at LAX will enhance efforts to reduce traffic congestion while also providing an efficient, secure, safe, and reliable transportation system.

CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	<u>2012</u>	<u>2011</u>
Amount collected	\$ 117,260	\$ 91,029
Interest earnings	<u>6,318</u>	<u>4,945</u>
Subtotal	123,578	95,974
Expenditures		
CRCF planning and development costs	<u>3,026</u>	<u>3,026</u>
Unexpended CFC revenue and interest earnings	<u>\$ 120,552</u>	<u>\$ 92,948</u>

2. Basis of Accounting – Schedule of Customer Facility Charge Revenues and Expenditures

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the cash basis of accounting.



The background of the page is a photograph showing the silhouettes of airport control towers against a sunset sky. The towers are dark against the bright, colorful sky. One tower is on the left, and a larger, more complex structure is in the center. The sun is visible as a bright orange circle on the horizon.

Los Angeles World Airports

Administrative Offices

1 World Way

Los Angeles, CA 90045-5803

Mail: PO Box 92216

Los Angeles, CA 90009-2216

Telephone: (310) 646-5252

Internet: www.lawa.aero

Los Angeles International Airport

1 World Way

Los Angeles, CA 90045-5803

Telephone: (310) 646-5252

LA/Ontario International Airport

1923 East Avion Street

Ontario, CA 91761

Telephone: (909) 937-2700

Van Nuys Airport

16461 Sherman Way, Suite 300

Van Nuys, CA 91406

Telephone: (818) 442-6500

As a covered entity under Title II of the Americans With Disability Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure access to its programs, services and activities.

APPENDIX C

CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SENIOR INDENTURE AND THE THIRTEENTH SUPPLEMENTAL SENIOR INDENTURE

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture found in this Appendix C.

“Accreted Value” means (i) with respect to any Capital Appreciation Senior Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Senior Indenture as the amount representing the initial principal amount of such Capital Appreciation Senior Bonds plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (ii) with respect to Original Issue Discount Senior Bonds, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Senior Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Senior Indenture authorizing the issuance of such Capital Appreciation Senior Bond or Original Issue Discount Senior Bond.

“Airport Revenue Fund” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

“Airport System” means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, LA/Ontario International Airport, Van Nuys Airport and LA/Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

“Authorized Representative” means the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer or such other officer or employee of the Board or the Department or other person which other officer, employee or person has been designated by the Board or the Department as an Authorized Representative by written notice delivered by the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Senior Trustee.

“Balloon Indebtedness” means, with respect to any Series of Senior Bonds twenty-five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Senior Bonds of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any preceding Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Senior Bonds, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Senior Commercial Paper Program and the Commercial Paper constituting part of such Senior Program will not be Balloon Indebtedness.

“Board” means the Board of Airport Commissioners of the City of Los Angeles, California, created under the provisions of the Charter, and any successor to its function.

“Bond Counsel” means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Senior Indenture and which are acceptable to the Department.

“Bondholder,” “holder,” “owner” or *“registered owner”* means the person in whose name any Senior Bond or Senior Bonds are registered on the books maintained by the Senior Registrar and will include any Credit Provider or Liquidity Provider to which a Senior Repayment Obligation is then owed, to the extent that such Senior Repayment Obligation is deemed to be a Senior Bond under the provisions of the Senior Indenture.

“Business Day” means a day on which banks located in New York, New York, in Los Angeles, California and in the city in which the principal corporate trust office of the Senior Trustee is located are open, provided that such term may have a different meaning for any specified Series of Senior Bonds if so provided by Supplemental Senior Indenture.

“*Capital Appreciation Senior Bonds*” means Senior Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Senior Indenture and is payable only upon redemption or on the maturity date of such Senior Bonds. Senior Bonds which are issued as Capital Appreciation Senior Bonds, but later convert to Senior Bonds on which interest is paid periodically will be Capital Appreciation Senior Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Senior Bonds, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Charter*” means the Charter of the City of Los Angeles, as amended from time to time, and any other article or section of the Charter of the City of Los Angeles, as amended from time to time, in which the provisions relating to the Board and the Department are set forth or may hereafter be set forth, and any predecessor provisions thereof which will be deemed to continue in force.

“*Chief Financial Officer*” means the person at a given time who is the chief financial officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee by the Department.

“*Chief Operating Officer*” means the person at a given time who is the chief operating officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee by the Department.

“*City*” means The City of Los Angeles, California.

“*City Attorney*” means legal counsel to the Board and staff of the Department who otherwise acts as provided for in the Charter.

“*City Treasury*” means the official depository of the City established pursuant to the Charter which is under the control of the Treasurer.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

“*Commercial Paper*” means notes of the Department with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Senior Program adopted by the Board.

“*Consultant*” means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Department to perform acts and carry out the duties provided for such consultant in the Senior Indenture.

“*Costs*” or “*Costs of a Project*” means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Senior Bonds, costs of Credit Facilities, Liquidity Facilities, Senior Capitalized Interest, the Senior Reserve Fund, any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund), and Senior Trustee’s fees and expenses; (6) any Senior Swap Termination Payments due in connection with a Series of Senior Bonds or the failure to issue such Series of Senior Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. Costs of a Project will also include the acquisition or refunding of outstanding revenue bonds and obligations of the Department, RAIC bonds and California Statewide Communities Development Authority bonds, including any financing costs with respect thereto.

“*Credit Facility*” means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Senior Reserve Fund Surety Policy, a Senior Debt Service Reserve Fund Surety Policy (other than a Senior Reserve Fund Surety Policy), or other financial instrument which obligates a third party to make payment of or provide funds to the Senior Trustee for the payment of the principal of and/or interest on Senior Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

“*Credit Provider*” means the party obligated to make payment of principal of and interest on the Senior Bonds under a Credit Facility.

“*Customer Facility Charges*” means all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

“*Department*” means the Department of Airports of the City of Los Angeles, or any successor thereto performing the activities and functions of the Department under the Charter.

“*Executive Director*” means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee by the Department.

“*Facilities Construction Credit*” and “*Facilities Construction Credits*” means the amounts further described in the Master Senior Indenture resulting from an arrangement embodied in a written agreement of the Department and another person or entity pursuant to which the Department permits such person or entity to make a payment or payments to the Department which is reduced by the amount owed by the Department to such person or entity under such agreement, resulting in a net payment to the Department by such person or entity. The “*Facilities Construction Credit*” will be deemed to be the amount owed by the Department under such agreement which is “netted” against the payment of such person or entity to the Department. “*Facilities Construction Credits*” will include any credits extended to airlines or other users of LAX Airport Facilities related to RAIC projects.

“*Fiscal Year*” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Department designates as its fiscal year.

“*Fitch*” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Fitch*” will be deemed to refer to any nationally recognized rating agency designated by the Department (other than Moody’s or S&P).

“*Government Obligations*” means (1) United States Obligations (including obligations issued or held in book-entry form), (2) prerefunded municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated in their highest rating category by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds, and (3) any other type of security or obligation that Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and S&P if S&P then maintains a rating on any of the Senior Bonds have determined to be permitted defeasance securities.

“*Implemented*” means a Senior Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Senior Program, the provisions of the Master Senior Indenture have been complied with.

“*Independent*” means, when used with respect to any specified firm or individual, such a firm or individual who (i) 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 (ii) is not connected with the Department or the City as an official, officer or employee.

“*LAX Airport Facilities*” or “*LAX Airport Facility*” means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

“*LAX Maintenance and Operation Expenses*” means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

“*LAX Maintenance and Operation Reserve Account*” means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173,232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

“*LAX Revenue Account*” means the account established pursuant to the Master Senior Indenture and Section 23.10(a) of the Los Angeles Administrative Code.

“*LAX Revenues*” means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Department from the Los Angeles International Airport, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (1) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at Los Angeles International Airport, (2) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at Los Angeles International Airport, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of Los Angeles International Airport (or any LAX Airport Facilities or activities and undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto, all of which is required to be deposited in the Airport Revenue Fund pursuant to the Charter and the LAX Revenue Account pursuant to the Master Senior Indenture. “*LAX Revenues*” include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Senior Construction Fund allowed to be pledged by the terms of a Supplemental Senior Indenture, the Senior Reserve Fund, any Senior Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

“*LAX Special Facilities*” or “*LAX Special Facility*” means, with respect to Los Angeles International Airport, a facility or group of facilities or improvements or category of facilities or improvements which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Senior Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

“*LAX Special Facilities Revenue*” means the contractual payments and all other revenues derived by or available to or receivable by the Department from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

“*LAX Special Facility Obligations*” means bonds or other debt instruments issued pursuant to an indenture other than the Senior Indenture or the Subordinate Indenture to finance LAX Special Facilities and which, except as otherwise provided in the Master Senior Indenture, are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

“*Liquidity Facility*” means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Senior Bonds.

“*Liquidity Provider*” means the entity, including the Credit Provider, which is obligated to provide funds to purchase Senior Bonds under the terms of a Liquidity Facility.

“*Los Angeles International Airport*” and “*LAX*” means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on

the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Department at such location or in which the Department has other rights or from which the Department derives revenues at such location.

“*Mail*” means by first-class United States mail, postage prepaid.

“*Maintenance and Operation Expenses of the Airport System*” means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

“*Maintenance and Operation Reserve Fund*” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and the provisions of the Master Senior Indenture.

“*Master Senior Indenture*” means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department, acting by and through the Board, and the Senior Trustee, as amended.

“*Master Subordinate Indenture*” means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and U.S. Bank National Association, as trustee, as amended.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Moody’s*” will be deemed to refer to any other nationally recognized rating agency designated by the Department.

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

“*Net Proceeds*” means insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation less expenses (including attorneys’ fees and expenses and any fees and expenses of the Senior Trustee) incurred in the collection of such proceeds or award.

“*Non-Qualified Swap*” means any Swap which is not a Senior Qualified Swap.

“*Ordinance No. 173,232*” means the City of Los Angeles Ordinance No. 173,232 which became effective on June 19, 2000.

“*Original Issue Discount Senior Bonds*” means Senior Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Senior Bonds by the Supplemental Senior Indenture under which such Senior Bonds are issued.

“*Outstanding*” means all Senior Bonds which have been authenticated and delivered under the Senior Indenture, except:

(a) Senior Bonds cancelled or purchased by the Senior Trustee for cancellation or delivered to or acquired by the Senior Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Senior Bonds deemed to be paid in accordance with the Master Senior Indenture;

(c) Senior Bonds in lieu of which other Senior Bonds have been authenticated under the provisions of the Master Senior Indenture;

(d) Senior Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Senior Trustee or a Senior Paying Agent;

(e) Senior Bonds which, under the terms of the Supplemental Senior Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Senior Repayment Obligations deemed to be Senior Bonds under the Master Senior Indenture to the extent such Senior Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Senior Bonds acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Senior Bonds under the Master Senior Indenture, Senior Bonds held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Senior Bonds are pledged to secure a debt to an unrelated party.

“*Passenger Facility Charges*” or “*PFCs*” means charges collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 Pub. L. 101-508, Title IX, Subtitle B, Sections 9110 and 9111, the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century, Pub. L. 106-181 and 14 CFR Part 158, all as amended from time to time, or any other applicable federal law, in respect of LAX and interest earnings thereon net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

“*Payment Date*” means, with respect to any Senior Bonds, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“*Pledged Revenues*” means, except to the extent specifically excluded in the Master Senior Indenture or under the terms of any Supplemental Senior Indenture (only with respect to the Series of Senior Bonds issued pursuant to such Supplemental Senior Indenture), LAX Revenues. “*Pledged Revenues*” will also include such additional revenues, if any, as are designated as “*Pledged Revenues*” under the terms of any Supplemental Senior Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Department from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “*LAX Revenues*” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “*Pledged Revenues*,” unless designated as “*Pledged Revenues*” under the terms of a Supplemental Senior Indenture: (a) any Senior Swap Termination Payments paid to the Department pursuant to a Senior Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture, (d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Customer Facility Charges in respect of LAX may be so pledged), (e) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (f) Released LAX Revenues. Further, interest earnings or other investment earnings on any Senior Construction Fund established by any Supplemental Senior Indenture are specifically excluded from “*Pledged Revenues*,” unless otherwise provided for in such Supplemental Senior Indenture.

“*President*” or “*President of the Board*” means the president of the Board or such other title as the Board may from time to time assign for such position.

“*Project*” means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of Senior Bonds.

“*RAIC*” means the Regional Airports Improvement Corporation, a California nonprofit corporation.

“*Rating Agency*” and “*Rating Agencies*” means Fitch, Moody’s or S&P, or any other nationally recognized rating agency of municipal obligations, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds and such Rating Agencies are then maintaining a rating on any of the Senior Bonds.

“*Rating Category*” and “*Rating Categories*” means (i) 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 (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“*Rebate Fund*” means any fund created by the Department pursuant to a Supplemental Senior Indenture in connection with the issuance of the Senior Bonds or any Series of Senior Bonds for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means, with respect to any Series of Senior Bonds, the record date as specified in the Supplemental Senior Indenture which provides for the issuance of such Series of Senior Bonds. With respect to the Series 2012 Senior Bonds, “Record Date” means for a May 15 Interest Payment Date the preceding May 1 and for a November 15 Interest Payment Date the preceding November 1.

“*Refunding Senior Bonds*” means any Senior Bonds issued pursuant to the Master Senior Indenture to refund or defease all or a portion of any series of Outstanding Senior Bonds, any Subordinated Obligation or any Third Lien Obligation.

“*Regularly Scheduled Swap Payments*” means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

“*Released LAX Revenues*” means LAX Revenues in respect of which the following have been filed with the Senior Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption “SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account” below, or (B) an amount not less than 150% of average Senior Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption “SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account,” or (B) an amount not less than 150% of the average Senior Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of the Master Senior Indenture will not, in and of itself, cause the interest on any Outstanding Senior Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody’s (provided such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds and such Rating Agencies are then maintaining a rating on any of the Senior Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of the Master Senior Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Senior Bonds.

For purposes of subparagraph (b) above, no Transfer will be taken into account in the computation of Net Pledged Revenues.

Additionally, the Department will give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Senior Bonds and S&P is then maintaining a rating on any of the Senior Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of the Master Senior Indenture as proved in this definition of “*Released LAX Revenues*.”

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Senior Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Senior Indenture pursuant to a Supplemental Senior Indenture.

“*Responsible Officer*” means an officer or assistant officer of the Senior Trustee assigned by the Senior Trustee to administer the Senior Indenture.

“S&P” means Standard & Poor’s Ratings Group, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, “S&P” will be deemed to refer to any other nationally recognized securities rating agency designated by the Department.

“Senior Aggregate Annual Debt Service” means for any Fiscal Year the aggregate amount of Senior Annual Debt Service on all Outstanding Senior Bonds and Unissued Senior Program Bonds. For purposes of calculating Senior Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(i) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Senior Bonds, and Unissued Senior Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Senior Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Senior Bonds or Original Issue Discount Senior Bonds maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (ii), (iii) or (iv) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Senior Bonds will be excluded to the extent such payments are to be paid from Senior Capitalized Interest for such Fiscal Year;

(ii) if all or any portion or portions of an Outstanding Series of Senior Bonds, or Unissued Senior Program Bonds constitute Balloon Indebtedness (excluding Senior Program Bonds or Unissued Senior Program Bonds to which subsection (vi) applies), then, for purposes of determining Senior Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Senior Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (iii) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Senior Bonds, Unissued Senior Program Bonds or Senior Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (i) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Senior Program Bonds or Senior Program Bonds or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (i) above or such other provision of this definition as will be applicable;

(iii) any maturity of Senior Bonds which constitutes Balloon Indebtedness as described in provision (ii) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation is made, will be assumed to become due and payable on the stated maturity date and provision (ii) above will not apply thereto unless there is delivered to the entity making the calculation a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Senior Aggregate Annual Debt Service, provided that such assumption will not result in an amortization period longer than or an interest rate lower than that which would be assumed under provision (ii) above;

(iv) if any Outstanding Senior Bonds (including Senior Program Bonds then issued and Outstanding) or any Senior Bonds which are then proposed to be issued constitute Senior Tender Indebtedness, then, for purposes of determining Senior Aggregate Annual Debt Service, Senior Tender Indebtedness will be treated as if (a) the principal amount of such Senior Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Senior Annual Debt Service payments and extending not later than 30 years from the date such Senior Tender Indebtedness was originally

issued, provided, however, notwithstanding the previous provisions of this clause (a), any principal amortization schedule set forth in a Supplemental Senior Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) will be applied to determine the principal amortization of such Senior Bonds; (b) the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and (c) with respect to all principal and interest payments becoming due prior to the year in which such Senior Tender Indebtedness is first subject to tender, such payments will be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (v) or (vi) below, as appropriate;

(v) if any Outstanding Senior Bonds constitute Variable Rate Indebtedness, including obligations described in subsection (viii)(b) to the extent it applies (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Senior Tender Indebtedness or subsection (viii)(a) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vi) with respect to any Senior Program Bonds or Unissued Senior Program Bonds (other than a Senior Commercial Paper Program) (a) debt service on Senior Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (b) with respect to Unissued Senior Program Bonds, it will be assumed that the full principal amount of such Unissued Senior Program Bonds will be amortized over a term certified by an Authorized Representative at the time the initial Senior Program Bonds of such Senior Program are issued to be the expected duration of such Senior Program or, if such expectations have changed, over a term certified by an Authorized Representative to be the expected duration of such Senior Program at the time of such calculation, but not to exceed 30 years from the date the initial Senior Program Bonds of such Senior Program are issued and it will be assumed that debt service will be paid in substantially level Senior Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vii) debt service on Senior Repayment Obligations, to the extent such obligations constitute Senior Bonds under the Master Senior Indenture, will be calculated as provided in the Master Senior Indenture;

(viii) (a) for purposes of computing the Senior Aggregate Annual Debt Service of Senior Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, if the 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 does not elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(b) for purposes of computing the Senior Aggregate Annual Debt Service of Senior Bonds with respect to which a Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Senior Bonds to which such Swap pertains will be included in the calculation of Senior Aggregate Annual Debt Service, and the interest rate with respect to such Senior Bonds will be the sum of that rate as determined in accordance with subsection (v) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Senior Designated Debt and the rate received from the Swap Provider;

(ix) if moneys, Senior Permitted Investments or any other amounts not included in Pledged Revenues have been used to pay or have been irrevocably deposited with and are held by the Senior Trustee or another fiduciary to pay or Senior Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Senior Bonds, then the principal and/or interest to be paid from such moneys, Senior Permitted Investments, other amounts not included in Pledged Revenues or Senior Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Senior Aggregate Annual Debt Service;

(x) with respect to any Senior Commercial Paper Program which has been Implemented and not then terminated or with respect to any Senior Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Senior Authorized Amount of such Senior Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Senior Commercial Paper Program is Implemented and with substantially level Senior Annual Debt Service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and

(xi) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues have been irrevocably committed or are held by the Senior Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Senior Bonds, then the principal and/or interest to be paid from such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues or from earnings thereon will be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Senior Aggregate Annual Debt Service.

“*Senior Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, in the then current or any future Fiscal Year with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Annual Debt Service*” means, with respect to any Senior Bond, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Senior Qualified Swap is in effect for such Senior Bond, plus the amount payable by the Department (or the Senior Trustee) under the Senior Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Senior Qualified Swap Provider pursuant to the Senior Qualified Swap, calculated using the principles and assumptions set forth in the definition of Senior Aggregate Annual Debt Service.

“*Senior Authorized Amount*” means, when used with respect to Senior Bonds, including Senior Program Bonds, the maximum Senior Principal Amount of Senior Bonds which is then authorized by a resolution or

Supplemental Senior Indenture adopted by the Board pursuant to the Master Senior Indenture to be Outstanding at any one time under the terms of such Senior Program or Supplemental Senior Indenture. If the maximum Senior Principal Amount of Senior Bonds or Senior Program Bonds authorized by a preliminary resolution or form of Supplemental Senior Indenture approved by the Board pursuant to the Master Senior Indenture exceeds the maximum Senior Principal Amount of Senior Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Senior Indenture executed and delivered by the Department pursuant to which such Senior Bonds are issued or such Senior Program is established, the Senior Principal Amount of such Senior Bonds or Senior Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Senior Indenture as executed and delivered by the Department will be deemed to be the “*Senior Authorized Amount.*” Notwithstanding the provisions of this definition of “*Senior Authorized Amount,*” in connection with compliance with the additional Senior Bonds test set forth in the Master Senior Indenture and the calculation of Senior Maximum Aggregate Annual Debt Service and Senior Aggregate Annual Debt Service with respect to a Senior Commercial Paper Program, “*Senior Authorized Amount*” means the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Senior Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.

“*Senior Bond*” or “*Senior Bonds*” means any debt obligation of the Department issued under and in accordance with the provisions of the Master Senior Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Senior Repayment Obligations to the extent provided in the Master Senior Indenture. The term “*Senior Bond*” or “*Senior Bonds*” does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Department may provide in a Supplemental Senior Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations or Third Lien Obligations will be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term “*Senior Bond*” and “*Senior Bonds*” includes Senior Program Bonds.

“*Senior Capitalized Interest*” means the amount of interest on Senior Bonds, if any, funded from the proceeds of the Senior Bonds or other monies that are deposited with the Senior Trustee upon issuance of Senior Bonds to be used to pay interest on the Senior Bonds.

“*Senior Commercial Paper Program*” means a Senior Program authorized by the Department pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Senior Authorized Amount of such Senior Program.

“*Senior Construction Fund*” means any of the Senior Construction Funds authorized to be created pursuant to the Master Senior Indenture.

“*Senior Debt Service Fund*” or “*Senior Debt Service Funds*” means a Senior Debt Service Fund or any of the Senior Debt Service Funds required to be created by the Master Senior Indenture.

“*Senior Debt Service Reserve Fund*” means any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund) created by the Department pursuant to a Supplemental Senior Indenture in connection with the issuance of any Series of Senior Bonds and that is required to be funded for the purpose of providing additional security for such Series of Senior Bonds and under certain circumstances to provide additional security for such other designated Series of Senior Bonds issued pursuant to the terms of the Master Senior Indenture and as specified in any Supplemental Senior Indenture.

“*Senior Debt Service Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit (other than a Senior Reserve Fund Surety Policy) deposited with the Senior Trustee for the credit of a Senior Debt Service Reserve Fund created for one or more series of Outstanding Senior Bonds in lieu of or partial substitution for cash or securities on deposit therein. Except as otherwise provided in a Supplemental Senior Indenture, the entity providing such Senior Debt Service Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest long-term Rating Categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds.

“*Senior Designated Debt*” means a specific indebtedness designated by the Department with the intent that the risks associated with such debt be offset with a Swap, such specific indebtedness to include all or any part of a Series of Senior Bonds.

“*Senior Event of Default*” means any occurrence or event specified as a “Senior Event of Default” in the Senior Indenture.

“*Senior Indenture*” means the Master Senior Indenture, together with all Supplemental Senior Indentures.

“*Senior Investment Agreement*” means an investment agreement or guaranteed investment contract (i) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short term rating category (if the term of the Senior Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Senior Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the Senior Bonds and by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Senior Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (C) subject to a perfected first lien on behalf of the Senior Trustee, and (D) free and clear from all third-party liens.

“*Senior Maximum Aggregate Annual Debt Service*” means the maximum amount of Senior Aggregate Annual Debt Service with respect to all Senior Bonds, Unissued Senior Program Bonds, the Senior Authorized Amount of all Senior Bonds then proposed to be issued in the then current or any future Fiscal Year.

“*Senior Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Maximum Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, in the then current or any future Fiscal Year with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Paying Agent*” or “*Senior Paying Agents*” means, with respect to the Senior Bonds or any Series of Senior Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Senior Indenture or a resolution of the Department as the place where such Senior Bonds will be payable.

“*Senior Permitted Investments*” means, to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

- (1) Government Obligations,
- (2) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;
- (3) Direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;

(4) Direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody's if Moody's then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;

(5) Interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC") or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (a) continuously and fully insured by FDIC and with banks that are rated at least "P-1" or "Aa" by Moody's if any of the Senior Bonds are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Senior Bonds are then rated by S&P or (b) fully secured by obligations described in item (1) or (2) of this definition of Senior Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee, and (iv) free and clear from all third-party liens;

(6) Long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody's and S&P in either of their two highest rating categories;

(7) Repurchase agreements which are (a) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody's if Moody's then maintains a rating on any of the Senior Bonds and from S&P if S&P then maintains a rating on any of the Senior Bonds and (b) fully secured by investments specified in Section (1) or (2) of this definition of Senior Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee and (iv) free and clear from all third-party liens;

(8) Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" by S&P if S&P then maintains a rating on any of the Senior Bonds;

(9) Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (a) a money market fund that has been rated in one of the two highest rating categories by Moody's or S&P or (b) a money market fund or account of the Senior Trustee or any state or federal bank that is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or whose one bank holding company parent is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(10) Senior Investment Agreements; and

(11) Any other type of investment consistent with City policy in which the Department directs the Senior Trustee to invest provided that there is delivered to the Senior Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Senior Bonds has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Senior Bonds.

"Senior Principal Amount" or *"Senior principal amount"* means, as of any date of calculation, (i) with respect to any Capital Appreciation Senior Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (ii) with respect to any Original Issue Discount Senior Bond, the Accreted Value thereof, unless the Supplemental Senior Indenture under which such Senior Bond was issued will specify a different amount, in which case, the terms of the Supplemental Senior Indenture will control, and (iii) with respect to any other Senior Bonds, the principal amount of such Senior Bond payable at maturity.

“*Senior Program*” means a financing program, including but not limited to a Senior Commercial Paper Program, (i) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Senior Indenture have been filed with the Senior Trustee, (ii) wherein the Board has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Senior Authorized Amount, and (iii) the Senior Authorized Amount of which has met the additional bonds test set forth in the Master Senior Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Senior Authorized Amount.

“*Senior Program Bonds*” means Senior Bonds issued and Outstanding pursuant to a Senior Program, other than Unissued Senior Program Bonds.

“*Senior Qualified Swap*” means any Swap (a) whose Senior Designated Debt is all or part of a particular Series of Senior Bonds; (b) whose Swap Provider is a Senior Qualified Swap Provider or has been a Senior Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Senior Annual Debt Service or Senior Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Senior Designated Debt or to a specified mandatory tender or redemption of such Senior Designated Debt; (d) which has been designated in writing to the Senior Trustee by the Department as a Senior Qualified Swap with respect to such Senior Bonds; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Senior Bonds, and Moody’s, if Moody’s has an outstanding rating on the Senior Bonds.

“*Senior Qualified Swap Provider*” means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Senior Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least “Aa,” in the case of Moody’s and “AA,” in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) whose obligations under any Senior Qualified Swap are fully secured by obligations described in items (1) or (2) of the definition of Senior Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien on behalf of the Senior Trustee, and (iv) free and clear from all third-party liens.

“*Senior Registrar*” means, with respect to the Senior Bonds or any Series of Senior Bonds, the bank, trust company or other entity designated in a Supplemental Senior Indenture or a resolution of the Department to perform the function of Senior Registrar under the Master Senior Indenture or any Supplemental Senior Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Senior Indenture. The Senior Trustee will act as Senior Registrar with respect to the Series 2012 Senior Bonds.

“*Senior Repayment Obligations*” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department has agreed to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Senior Bonds or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department has agreed to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Senior Bonds.

“*Senior Reserve Fund*” means the trust fund created pursuant to the Master Senior Indenture and that is required to be funded for the purpose of providing additional security for the Outstanding Senior Bonds issued pursuant to the terms of the Senior Indenture and as specified in any Supplemental Senior Indenture as participating in the Senior Reserve Fund. The Department will specify in the Thirteenth Supplemental Senior Indenture that the Series 2012 Senior Bonds will participate in the Senior Reserve Fund.

“*Senior Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit, deposited with the Senior Trustee for the credit of the Senior Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Senior Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest Rating Categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds.

“*Senior Reserve Requirement*” means, except as otherwise provided in a Supplemental Senior Indenture, an amount equal to the least of (i) Senior Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, (ii) ten percent of the principal amount of the Senior Bonds that have been issued and are participating

in the Senior Reserve Fund or the Senior Bonds that have been issued and are participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, less the amount of original issue discount with respect to any Senior Bond if such original issue discount exceeded 2% on such Senior Bond at the time of its original sale and (iii) 125% of the average Senior Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be.

“*Senior Swap Termination Payment*” means an amount payable by the Department or a Senior Qualified Swap Provider, in accordance with a Senior Qualified Swap, to compensate the other party to the Senior Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Senior Qualified Swap.

“*Senior Tender Indebtedness*” means any Senior Bonds or portions of Senior Bonds a feature of which is an option and/or an obligation on the part of the Bondholders, under the terms of such Senior Bonds, to tender all or a portion of such Senior Bonds to the Department, the Senior Trustee, the Senior Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Senior Bonds or portions of Senior Bonds be purchased if properly presented.

“*Senior Trustee*” means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee until a successor replaces it and, thereafter, means such successor.

“*Serial Senior Bonds*” means Senior Bonds for which no sinking installment payments are provided.

“*Series*” or “*series*” means Senior Bonds designated as a separate Series by a Supplemental Senior Indenture and, with respect to Senior Program Bonds or a Senior Commercial Paper Program, means the full Senior Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Senior Indenture, designated as separate Series.

“*Series 2012 Senior Bonds*” means collectively, the Series 2012A Senior Bonds, the Series 2012B Senior Bonds and the Series 2012C Senior Bonds.

“*Series 2012A Senior Bonds*” means the \$105,610,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2012 Series A.”

“*Series 2012B Senior Bonds*” means the \$145,630,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2012 Series B.”

“*Series 2012C Senior Bonds*” means the \$27,870,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2012 Series C.”

“*Significant Portion*” means, for purposes of the Master Senior Indenture, any LAX Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the Department at the beginning of an annual period which includes the month of commencement of the 12-month period ending on the day of such disposition would have resulted in a reduction in Net Pledged Revenues for such annual period of more than 4% when the actual Net Pledged Revenues for such annual period are decreased by the Pledged Revenues directly attributable to such LAX Airport Facilities and increased by the expenses of the Department directly attributable to such LAX Airport Facilities. The Department will notify Moody’s, if Moody’s then maintains a rating on any of the Senior Bonds, and S&P, if S&P then maintains a rating on any of the Senior Bonds, prior to the selling or disposing of a Significant Portion of any LAX Airport Facilities or portions thereof.

“*Specified LAX Project*” means a Project at Los Angeles International Airport or a group of alternative Projects which are described in a certificate of an Authorized Representative delivered to the Consultant preparing

the certificate described in the additional bonds test under the Master Senior Indenture, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate described in the additional bonds test under the Master Senior Indenture.

“*State*” means the State of California.

“*Subordinated Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish the Senior Reserve Fund and any Senior Debt Service Reserve Fund. “*Subordinated Obligations*” are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Department may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations will be secured on a junior and subordinate basis to the Senior Bonds from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a “*Subordinated Obligation*” for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Department as a “*Subordinated Obligation*” in a Supplemental Senior Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “*Subordinated Obligation*” includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Department under each such Swap, as the context requires. The term “*Subordinated Obligations*” also includes a Swap or the obligations of the Department under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term “*Subordinated Obligation*” includes any Senior Swap Termination Payment under a Senior Qualified Swap with respect to any Senior Bonds payable on parity with Subordinated Obligations.

“*Subordinate Indenture*” means the Master Subordinate Indenture, together with all supplemental subordinate indentures.

“*Subordinate Obligation*” or “*Subordinate Obligations*” means any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Subordinate Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and subordinate repayment obligations to the extent provided in the Master Subordinate Indenture.

“*Supplemental Senior Indenture*” means any document supplementing or amending the Master Senior Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior Indenture.

“*Swap*” means any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Senior Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid *after* it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement.

“*Swap Provider*” means a party to a Swap with the Department.

“*Synthetic Fixed Rate Debt*” means indebtedness issued by the Department which: (i) is combined, as Senior Designated Debt, with a Senior Qualified Swap and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (ii) 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.

“*Term Senior Bonds*” means Senior Bonds of a series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Senior Indenture for such series for that purpose and calculated to retire the Senior Bonds on or before their specified maturity dates.

“*Third Lien Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish the Senior Reserve Fund, any Senior Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “*Third Lien Obligations*” are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Department may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations will be secured on a junior and subordinate basis to the Senior Bonds and the Subordinated Obligations from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a “*Third Lien Obligation*” for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Department as a “*Third Lien Obligation*” in a Supplemental Senior Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “*Third Lien Obligation*” includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Department under each such Swap, as the context requires. The term “*Third Lien Obligations*” also includes a Swap or the obligations of the Department under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term “*Third Lien Obligation*” includes any Senior Swap Termination Payment under a Senior Qualified Swap with respect to any Senior Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.”

“*Thirteenth Supplemental Senior Indenture*” means the Thirteenth Supplemental Trust Indenture, to be dated as of December 1, 2012, by and between the Board, acting through the Department, and the Senior Trustee.

“*Transfer*” means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH described under the caption “SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account” below have been made as of the last day of the immediately preceding Fiscal Year).

“*Treasurer*” means the Treasurer of the City as set forth in the Charter.

“*Unenhanced Commercial Paper Program*” will be a Senior Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Senior Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

“*Unissued Senior Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Senior Program and payable from Net Pledged Revenues, issuable in an amount up to the Senior Authorized Amount relating to such Senior Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Senior Program the items required pursuant to the Master Senior Indenture have been filed with the Senior Trustee but which have not yet been authenticated and delivered pursuant to the Senior Program documents.

“*United States Bankruptcy Code*” means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

“*United States Obligations*” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the

custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. "*United States Obligations*" will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

"*Variable Rate Indebtedness*" means any Senior Bond or Senior Bonds the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

SUMMARY OF THE MASTER SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2012 SENIOR BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Senior Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Senior Indenture.

Grant to Secure Senior Bonds; Pledge of Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Senior Bonds and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Senior Indenture or contained in the Senior Bonds, the Department has pledged and assigned to the Senior Trustee and granted to the Senior Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Net Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Senior Trustee under the Master Senior Indenture, moneys and securities held in the Senior Reserve Fund or any Senior Debt Service Reserve Fund and any Senior Reserve Fund Surety Policy or Senior Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Senior Reserve Requirement, and to the extent provided in any Supplemental Senior Indenture moneys and securities held in any Senior Construction Fund whether or not held by the Senior Trustee, (c) earnings on amounts included in provisions (a) and (b) above (except to the extent excluded from the definition of “Pledged Revenues”), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Senior Trustee as additional security under the Master Senior Indenture, for the equal and proportionate benefit and security of all Senior Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Senior Bond over any other Senior Bond or Senior Bonds, except as to the timing of payment of the Senior Bonds. Any security or Credit Facility provided for specific Senior Bonds or a specific Series of Senior Bonds may, as provided by Supplemental Senior Indenture, secure only such specific Senior Bonds or Series of Senior Bonds and, therefore, will not be included as security for all Senior Bonds under the Master Senior Indenture and moneys and securities held in trust as provided in the Master Senior Indenture exclusively for Senior Bonds which have become due and payable and moneys and securities which are held exclusively to pay Senior Bonds which are deemed to have been paid under the Master Senior Indenture will be held solely for the payment of such specific Senior Bonds.

Senior Repayment Obligations Afforded Status of Senior Bonds

If a Credit Provider or Liquidity Provider makes payment of principal of and/or interest on a Senior Bond or advances funds to purchase or provide for the purchase of Senior Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department’s Senior Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Senior Bond issued under the Master Senior Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Bondholder and such Senior Bond will be deemed to have been issued at the time of the original Senior Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Senior Indenture; provided, however, the payment terms of the Senior Bond held by the Credit Provider or Liquidity Provider under the Master Senior Indenture will be as follows (unless otherwise provided in the Supplemental Senior Indenture pursuant to which the Senior Bonds are issued or in the agreement with the Credit Provider or Liquidity Provider): interest will be due and payable semiannually and principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, (ii)(a) if shorter, a term extending to the maturity date of the enhanced Senior Bonds or (b) if later, the final maturity of the Senior Repayment Obligation under the written agreement, and providing substantially level Senior Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Senior Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Senior Repayment Obligation. Any amount which comes due on the Senior Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Senior Bond will be

payable from Net Pledged Revenues on a basis subordinate to the payment and/or funding of the Senior Bonds and any reserve funds established with respect to the Senior Bonds. This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Senior Indenture. The Senior Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Senior Repayment Obligation is to be afforded the status of a Senior Bond under the Master Senior Indenture.

Obligations Under Senior Qualified Swap; Nonqualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Senior Qualified Swap with respect to a Series of Senior Bonds may be on a parity with the obligation of the Department to make payments with respect to such Series of Senior Bonds and other Senior Bonds under the Master Senior Indenture, except as otherwise provided by a Supplemental Senior Indenture and elsewhere in the Master Senior Indenture with respect to any Senior Swap Termination Payments. The Department may provide in any Supplemental Senior Indenture that Regularly Scheduled Swap Payments under a Senior Qualified Swap will be secured by a pledge of or lien on the Net Pledged Revenues on a parity with the Senior Bonds of such Series and all other Senior Bonds, regardless of the principal amount, if any, of the Senior Bonds of such Series remaining Outstanding. The Senior Trustee will take all action consistent with the other provisions of the Master Senior Indenture as will be requested in writing by the Senior Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Senior Trustee either to exercise the remedies granted in the Master Senior Indenture or to institute any action, suit or proceeding in its own name, the Senior Qualified Swap Provider will provide to the Senior Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Senior Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Senior Qualified Swap, such Senior Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Withdrawals from LAX Revenue Account

(a) Subject to the provisions of the Master Senior Indenture, the Department will cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Department and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective revenue account within the Airport Revenue Fund. The Department has covenanted and agreed that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Department in the LAX Revenue Account and will, immediately upon receipt thereof, become subject to the lien and pledge of the Master Senior Indenture. The Department will notify the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by the Master Senior Indenture and will instruct the Treasurer that all such LAX Revenues, will be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Department or the City. If the Treasurer fails to comply with such instructions, the Department will separately account for all of the revenues and expenses of each airport under the jurisdiction of the Department.

Earnings on the various funds and accounts created under any Supplemental Senior Indenture will be deposited as provided in such Supplemental Senior Indenture, except that (i) during the continuation of a Senior Event of Default earnings on such funds and accounts will be deposited into the Senior Debt Service Funds created under the respective Supplemental Senior Indentures, (ii) earnings on the Senior Construction Funds may, if so provided by Supplemental Senior Indenture, be retained in such Senior Construction Fund, (iii) pursuant to the provisions of the Master Senior Indenture, earnings on the Senior Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Senior Debt Service Reserve Fund may, if so provided by Supplemental Senior Indenture, be retained in such fund.

The sums of Pledged Revenues required by the Master Senior Indenture to be so set aside out of the LAX Revenue Account into the specified accounts will be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. An Authorized Representative will direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this section.

The provisions in the Master Senior Indenture regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and will be so construed.

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

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

SECOND To the payment of amounts required to be deposited in the Senior Debt Service Funds as described in “—Deposits and Withdrawals from the Senior Debt Service Funds” below;

THIRD To the payment of amounts required to be deposited in the Senior Reserve Fund, pursuant to the Master Senior Indenture, and any Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture;

FOURTH To the payment of debt service on any indebtedness (other than Outstanding Senior Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FIFTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Senior Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

SIXTH To the payment of debt service on any indebtedness (other than Outstanding Senior Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

SEVENTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Senior Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

EIGHTH To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department pursuant to Master Senior Indenture;

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

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

Notwithstanding the provisions of the Master Senior Indenture, nothing in the Master Senior Indenture will preclude the Department from making the payments described in paragraphs FIRST through NINTH above from sources other than Pledged Revenues.

Deposits and Withdrawals from the Senior Debt Service Funds

Deposits Into the Senior Debt Service Funds. The Senior Trustee will, at least 15 Business Days prior to each Payment Date on any Senior Bond, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Senior Capitalized Interest, if any, on deposit in the Senior Debt Service Funds, required to be deposited with the Senior Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Senior Bonds, the Supplemental Senior Indenture under which such Senior Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Senior Indenture will control.

So long as any of the Senior Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, at least 10 Business Days prior to each Payment Date, as to each Series of Senior Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than 5 Business Days prior to each Payment Date, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each Series of Outstanding Senior Bonds the full amount required to pay the principal of and/or interest on Senior Bonds of that Series due on such Payment Date.

On any day on which the Senior Trustee receives funds from the Treasurer to be used to pay principal of or interest on Senior Bonds, the Senior Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Senior Debt Service Funds for the Series of Senior Bonds for which such payments were made and any excess funds will be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from the LAX Revenue Account or otherwise deposited into any Senior Debt Service Fund for any Series of Senior Bonds for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Senior Bonds on the next succeeding Payment Date.

The Department may provide in any Supplemental Senior Indenture that, as to any Series of Senior Bonds Outstanding, any amounts required to be transferred to and paid into a Senior Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Senior Debt Service Fund, and in that event any subsequently scheduled transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Senior Indenture, the Department may provide that monies in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Senior Bonds so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Senior Trustee at the principal amount thereof to the next scheduled sinking installment payments on Senior Bonds of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Senior Bonds to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Senior Trustee in writing.

Money set aside and placed in a Senior Debt Service Fund for any Series of Senior Bonds will remain therein until from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Senior Debt Service Fund may be temporarily invested as provided in the Master Senior Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this section to be available in a Senior Debt Service Fund at the time required to meet payments of principal of and interest on Senior Bonds of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of a Senior Event of Default, such earnings will remain in the Senior Debt Service Funds created under the respective Supplemental Senior Indentures.

Each Senior Debt Service Fund established to pay principal of and interest on any Series of Senior Bonds will be held by the Senior Trustee or any agent of the Senior Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Senior Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Senior Trustee or any agent of the Senior Trustee in the various Senior Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Senior Trustee or such agents as will be provided by Supplemental Senior Indenture.

The moneys in each Senior Debt Service Fund established for any issue or Series will be held in trust and applied as provided in the Master Senior Indenture and in the Supplemental Senior Indenture, and pending the application of such amounts in accordance with the Master Senior Indenture and with the provisions of such Supplemental Senior Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Senior Bonds of such Series.”

Withdrawals From Senior Debt Service Funds. On each Payment Date for any Outstanding Senior Bonds, the Senior Trustee will pay to the owners of the Senior Bonds of a given Series from the appropriate Senior Debt Service Fund or Senior Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Senior Bonds.

On or before a mandatory redemption date from sinking installment payments for Term Senior Bonds of a Series of Senior Bonds, the Senior Trustee will transfer from the Senior Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Senior Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Senior Trustee will pay to the owners of Senior Bonds of such Series from the redemption account for such Series, an amount equal to the amount of interest and the principal amount of Term Senior Bonds of such Series to be mandatorily redeemed on such date.

On each date on which Senior Bonds of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Senior Indenture, the Senior Trustee will pay to the owners of such Senior Bonds from the redemption account, an amount of interest and principal, and premium, if any, on such Senior Bonds to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Senior Indenture pursuant to which such Senior Bonds are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposits therein and available for such purpose, is sufficient to pay the redemption price of such Senior Bonds on such redemption date.

The payments made by the Senior Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Senior Debt Service Fund.

All money remaining in a Senior Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Senior Bonds of the Series for which that Senior Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Senior Bonds of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Senior Trustee will, at least two Business Days prior to each Payment Date on any Senior Bond, or as otherwise directed in any Supplemental Senior Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Senior Trustee to pay the amount required to be paid on such Payment Date in respect of such Senior Bond, in the event the amount then on deposit in any Senior Debt Service Fund is insufficient to pay the amounts due on any Series of Senior Bonds on such Payment Date. With respect to any Series of Senior Bonds, the Supplemental Senior Indenture under which such Senior Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Senior Indenture will control.

If, on any Payment Date, the Senior Trustee does not have sufficient amounts in the Senior Debt Service Funds (without regard to any amounts which may be available in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) to pay in full with respect to Senior Bonds of all Series all amounts of principal and/or interest due on such date, the Senior Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) as

follows: first to the payment of past due interest on Senior Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Senior Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Senior Bonds of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Senior Bonds then due, then *pro rata* among the Series according to the amount of interest then due and second to the payment of principal then due on the Senior Bonds and, if the amount available will not be sufficient to pay in full all principal on the Senior Bonds then due, then *pro rata* among the Series according to the Senior Principal Amount then due on the Senior Bonds.

If the Senior Reserve Fund or any Senior Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Senior Bonds secured thereby, then the Department may be required by Supplemental Senior Indenture to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider from Net Pledged Revenues provided that (a) no amount from Net Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Senior Bonds which have become due and payable will have been paid in full, (b) the required payments to replenish the Senior Reserve Fund and any Senior Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Senior Trustee for such purpose will be allocated among the Senior Reserve Fund and any Senior Debt Service Reserve Fund and the Credit Provider *pro rata* on the basis of the Outstanding Senior Principal Amount of Senior Bonds secured thereby.

Notwithstanding the foregoing, the Department may, by Supplemental Senior Indenture, provide for different provisions and timing of deposits with the Senior Trustee and different methods of paying principal of or interest on Senior Bonds of any Series depending upon the terms of such Series of Senior Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Senior Debt Service Fund created for the Series of Senior Bonds for which such Credit Facility is provided.

If Net Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Senior Bonds, the Department may, at its election, pay to the Senior Trustee funds from any available sources with the direction that such funds be deposited into the Senior Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Net Pledged Revenues and the other security provided in the Granting Clauses of the Master Senior Indenture, secure all Senior Bonds issued under the terms of the Master Senior Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Senior Bonds or Series of Senior Bonds with no obligation to provide such additional security or credit enhancement to other Senior Bonds.

Payment of Principal and Interest

The Department has covenanted and agreed that it will duly and punctually pay or cause to be paid from the Net Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Senior Bond at the place and on the dates and in the manner set forth in the Master Senior Indenture, in the Supplemental Senior Indentures and in the Senior Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Senior Indenture and in the Senior Bonds contained, provided that the Department's obligation to make payment of the principal of, premium, if any, and interest on the Senior Bonds will be limited to payment from the Net Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Senior Indenture and any other source which the Department may specifically provide for such purpose and no Bondholder will have any right to enforce payment from any other funds of the Department.

Subordinated Obligations and Third Lien Obligations

(a) The Department may, from time to time, incur indebtedness which is subordinate to the Senior Bonds and which indebtedness is, in the Master Senior Indenture, referred to as Subordinated Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that:

(i) Any Supplemental Senior Indenture authorizing the issuance of any Subordinated Obligations will specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Senior Bonds; and

(ii) Payment of principal of and interest on such Subordinated Obligations will be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses and to the Senior Trustee to be used to pay debt service on the Senior Bonds and to replenish the Senior Reserve Fund or a Senior Debt Service Reserve Fund are then current in accordance with the provisions of the Master Senior Indenture.

(b) The Department may, from time to time, incur indebtedness which is subordinate to the Senior Bonds and any Subordinated Obligations and which indebtedness is, in the Master Senior Indenture, referred to as Third Lien Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that:

(i) Any Supplemental Senior Indenture authorizing the issuance of any Third Lien Obligations will specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Senior Bonds and the Subordinated Obligations; and

(ii) Payment of principal of and interest on such Third Lien Obligations will be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses, to the Senior Trustee to be used to pay debt service on the Senior Bonds and to replenish the Senior Reserve Fund or a Senior Debt Service Reserve Fund, and to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with the provisions of the Master Senior Indenture.

LAX Special Facilities and LAX Special Facility Obligations

The Department will be permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this section. The Department may, from time to time, and subject to the terms and conditions set forth below, (i) designate a separately identifiable existing facility or improvement or planned facility or improvement as an “LAX Special Facility,” (ii) pursuant to an indenture other than the Senior Indenture and without a pledge of any Pledged Revenues (except as otherwise provided in (iv) below), incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility or improvement, (iii) provide that the contractual payments derived from or related to such LAX Special Facility, together with other income and revenues available to the Department from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be “LAX Special Facilities Revenue” and not included as Pledged Revenues, unless otherwise provided in any supplemental indenture, and (iv) provide that the debt so incurred will be an “LAX Special Facility Obligation” and the principal of and interest thereon will be payable solely from the LAX Special Facilities Revenue and the proceeds of such LAX Special Facility Obligation set aside exclusively to pay debt service on such LAX Special Facility Obligation (except the Department may, in its sole discretion, determine to make Pledged Revenues or such other moneys not included in Pledged Revenues available (through a specific pledge or otherwise and subject to any covenants or other provisions of the Master Senior Indenture or such other indentures or agreements of the Department) to the payment of the principal of and interest on such LAX Special Facility Obligation in such amounts and at such times as may be agreed to by the Department). The Department may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations will be payable as to principal, redemption premium, if any, and interest solely from (a) LAX Special Facilities Revenue, which will include contractual payments derived by the Department under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Department and another person, firm or corporation, either public or private, as will undertake the operation of an LAX Special Facility, (b) proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and (c) such Pledged Revenues or other moneys

not included in Pledged Revenues made available by the Department as provided in clause (iv) of the previous paragraph, if any.

No LAX Special Facility Obligations will be issued by the Department unless there has been filed with the Senior Trustee a certificate of an Authorized Representative stating that:

(1) The estimated LAX Special Facilities Revenue pledged to the payment of the LAX Special Facility Obligations, the proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and such Pledged Revenues or other moneys made available by the Department pursuant to clause (iv) of the first paragraph of this section, if any, will be at least sufficient, to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special Facility not paid for by the operator thereof or by a party other than the Department and all sinking fund, reserve or other payments required by the resolution or indenture authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an “LAX Special Facility” or “LAX Special Facilities”, the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue, the proceeds of any LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations or any Pledged Revenues or other moneys made available by the Department pursuant to clause (iv) of the first paragraph of this section, if any, and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Senior Event of Default then exists under the Master Senior Indenture.

To the extent LAX Special Facilities Revenue received by the Department during any Fiscal Year will exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Department.

Notwithstanding any other provision of this section, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Department from such facility will be included as Pledged Revenues.

Maintenance and Operation of LAX Airport Facilities

Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of Los Angeles International Airport.

Insurance; Application of Insurance Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(1) the Department will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting Los Angeles International Airport and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Department, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar airports;

(2) the Department will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Financial Officer and on any other employees of the Board or the Department who handle or are responsible for funds of the Department; and

(3) the Department will place on file with the Senior Trustee annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Representative containing a summary of all insurance policies and self-insured programs then in effect with respect to Los Angeles International Airport and the operations of the Department. The Senior Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required in the Master Senior Indenture or obtained by the Department.

“Qualified Self Insurance” means insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Department may have a material interest and of which the Department may have control, either singly or with others. Each plan of Qualified Self Insurance will be established in accordance with law, will provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Department determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self-insurance program will be reviewed at least once every 12 months by a Consultant who will deliver to the Department a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he will make a recommendation as to the amount of reserves that should be established and maintained, and the Department will comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Department.

If, as a result of any event, any part of an LAX Airport Facility or any LAX Airport Facilities is destroyed or severely damaged, the Department will create within the LAX Revenue Account a special subaccount and will credit the Net Proceeds received as a result of such event of damage or destruction to such subaccount and such Net Proceeds will, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (1) repair or replace the LAX Airport Facilities, or portion thereof, which were damaged or destroyed, (2) provide additional revenue-producing LAX Airport Facilities, (3) redeem Senior Bonds, or (4) create an escrow fund pledged to pay specified Senior Bonds and thereby cause such Senior Bonds to be deemed to be paid as provided in the Master Senior Indenture; provided, however, that the Department will first deliver to the Senior Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Senior Bonds, the rate covenant set forth in the Master Senior Indenture would, nevertheless, be met.

Transfer of LAX Airport Facility or LAX Airport Facilities

The Department will not, except as permitted below transfer, sell or otherwise dispose of an LAX Airport Facility or LAX Airport Facilities. For purposes of this section, any transfer of an asset over which the Department retains substantial control in accordance with the terms of such transfer will not, for so long as the Department has such control, be deemed a disposition of an LAX Airport Facility or LAX Airport Facilities.

The Department may transfer, sell or otherwise dispose of LAX Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions:

(a) The property being disposed of is inadequate, obsolete or worn out; or

(b) The property proposed to be disposed of and all other LAX Airport Facilities disposed of during the 12-month period ending on the day of such transfer (but excluding property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the LAX Revenue Account to be used as described below and the Department believes that such disposal will not prevent it from fulfilling its obligations under the Senior Indenture; or

(c) Prior to the disposition of such property, there is delivered to the Senior Trustee a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Department as evidenced by a certificate of an Authorized Representative, the Consultant estimates that Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the five Fiscal Years immediately following such disposition.

LAX Airport Facilities which were financed with the proceeds of obligations the interest on which is then excluded from gross income for federal income tax purposes will not be disposed of, except under the terms of provision (a) above, unless the Department has first received a written opinion of Bond Counsel to the effect that such disposition and the application of any disposition proceeds thereof will not cause the interest on such obligations to become includable in gross income for federal income tax purposes.

No such disposition will be made which would cause the Department to be in default of any other covenant contained in the Master Senior Indenture.

Investments

Moneys held by the Senior Trustee in the funds and accounts created under the Master Senior Indenture and under any Supplemental Senior Indenture will be invested and reinvested as directed by the Department, in Senior Permitted Investments subject to the restrictions set forth in the Master Senior Indenture and such Supplemental Senior Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Senior Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Senior Trustee will, to the extent practicable, invest in Senior Permitted Investments specified in clause (9) of the definition thereof. The Senior Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Senior Permitted Investment is held. The Senior Trustee may buy or sell any Senior Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Senior Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Senior Indenture except for the purposes of payment from moneys or Government Obligations held by the Senior Trustee or a Senior Paying Agent for such purpose. When all Senior Bonds which have been issued under the Master Senior Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Senior Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Senior Trustee, the Senior Registrar and the Senior Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Senior Trustee in and to the Net Pledged Revenues and the other assets pledged to secure the Senior Bonds under the Master Senior Indenture will thereupon cease, terminate and become void, and thereupon the Senior Trustee will cancel, discharge and release the Master Senior Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Senior Indenture which may then be in the Senior Trustee's possession, except funds or securities in which such funds are invested and are held by the Senior Trustee or the Senior Paying Agent for the payment of the principal of, premium, if any, and interest on the Senior Bonds.

A Senior Bond will be deemed to be paid within the meaning of the Master Senior Indenture when payment of the principal, interest and premium, if any, either (a) will have been made or caused to be made in accordance with the terms of the Senior Bonds and the Master Senior Indenture or (b) will have been provided for by depositing with the Senior Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Senior Bonds will be deemed to be paid under the Master Senior Indenture, such Senior Bonds will no longer be secured by or entitled to the benefits of the Master Senior Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Senior Bonds. Once such deposit will have been made, the Senior Trustee will notify all holders of the affected Senior Bonds that

the deposit required by (b) above has been made with the Senior Trustee and that such Senior Bonds are deemed to have been paid in accordance with the Master Senior Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Senior Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Senior Bonds or the Master Senior Indenture subject to (a) receipt of an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax-exemption of any Senior Bond or Senior Bonds then outstanding and (b) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Senior Bonds. Notwithstanding anything in the Master Senior Indenture to the contrary, monies from the trust or escrow established for the defeasance of Senior Bonds may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (a) and (b) above are met prior to or concurrently with any such withdrawal.

Senior Events of Default and Remedies

Senior Events of Default. Each of the following events will constitute and be referred to as a “*Senior Event of Default*”:

(a) a failure to pay the principal of or premium, if any, on any of the Senior Bonds when the same will become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Senior Bonds when such interest will become due and payable;

(c) a failure to pay the purchase price of any Senior Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in the Supplemental Senior Indenture;

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Senior Indenture or a Supplemental Senior Indenture, which failure, except for a violation under the rate covenant set forth in the Master Senior Indenture which will be controlled by the provisions set forth therein, will continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Senior Trustee, which notice may be given at the discretion of the Senior Trustee and will be given at the written request of holders of 25% or more of the Senior Principal Amount of the Senior Bonds then Outstanding, unless the Senior Trustee, or the Senior Trustee and holders of Senior Bonds in a Senior Principal Amount not less than the Senior Principal Amount of Senior Bonds the holders of which requested such notice, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Senior Trustee or the Senior Trustee and the holders of such principal amount of Senior Bonds will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 or 11 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Senior Event of Default as is provided in a Supplemental Senior Indenture.

Remedies.

(a) Upon the occurrence and continuance of any Senior Event of Default, the Senior Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Senior Principal Amount of the Senior Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Senior Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the Department to carry out any agreements with or for the

benefit of the Bondholders and to perform its or their duties under the Charter or any other law to which it is subject and the Master Senior Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Senior Indenture;

(ii) bring suit upon the Senior Bonds;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(b) The Senior Trustee will be under no obligation to take any action with respect to any Senior Event of Default unless the Senior Trustee has actual knowledge of the occurrence of such Senior Event of Default.

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Senior Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider, in no event, upon the occurrence and continuation of a Senior Event of Default will the Senior Trustee, the Holders, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Senior Bonds Outstanding.

Bondholders' Right To Direct Proceedings. Anything in the Master Senior Indenture to the contrary notwithstanding, holders of not less than 51% in aggregate Senior Principal Amount of the Senior Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Senior Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Senior Trustee under the Master Senior Indenture to be taken in connection with the enforcement of the terms of the Master Senior Indenture or exercising any trust or power conferred on the Senior Trustee by the Master Senior Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Senior Indenture and that there has been provided to the Senior Trustee security and indemnity satisfactory to the Senior Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Senior Trustee.

Limitation on Right To Institute Proceedings. No Bondholder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the Master Senior Indenture, or any other remedy under the Master Senior Indenture or on such Senior Bonds, unless such Bondholder or Bondholders previously has given to the Senior Trustee written notice of a Senior Event of Default as hereinabove provided and unless also holders of 25% or more of the Senior Principal Amount of the Senior Bonds then Outstanding will have made written request of the Senior Trustee to do so, after the right to institute such suit, action or proceeding under the Master Senior Indenture will have accrued, and will have afforded the Senior Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Senior Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Senior Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are declared in every such case, at the option of the Senior Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Bondholders will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Senior Indenture, or to enforce any right under the Master Senior Indenture or under the Senior Bonds, except in the manner provided in the Master Senior Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Senior Indenture and for the equal benefit of all Bondholders.

Application of Moneys. If a Senior Event of Default will occur and be continuing, all amounts then held or any moneys received by the Senior Trustee, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of the Master Senior Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Senior Trustee (including attorneys' fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Senior Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Senior Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled

thereto of the unpaid principal amount of any of the Senior Bonds which will have become due with interest on such Senior Bonds at such rate as provided in a Supplemental Senior Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Senior Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Senior Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Senior Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Senior Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Bondholders and will not be required to make payment to any Bondholder until such Senior Bonds will be presented to the Senior Trustee for appropriate endorsement or for cancellation if fully paid.

The Senior Trustee

Duties. If a Senior Event of Default has occurred and is continuing, the Senior Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Senior Trustee will perform the duties set forth in the Senior Indenture and no implied duties or obligations will be read into the Senior Indenture against the Senior Trustee. Except during the continuance of a Senior Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Senior Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Senior Trustee and conforming to the requirements of the Senior Indenture. However, the Senior Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Senior Indenture.

The Senior Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Senior Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Senior Trustee was negligent in ascertaining the pertinent facts; and (b) the Senior Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Bondholders or the Department in the manner provided in the Senior Indenture.

The Senior Trustee will not, by any provision of the Senior Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Senior 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. The Senior Trustee will be under no obligation to exercise any of the rights or powers vested in it by the Senior Indenture at the request or direction of any of the holders of the Senior Bonds, unless such holders will have offered to the Senior Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

Notice of Defaults. If (i) a Senior Event of Default has occurred or (ii) an event has occurred which with the giving of notice and/or the lapse of time would be a Senior Event of Default and, with respect to such events for which notice to the Department is required before such events will become Senior Events of Default, such notice has been given, then the Senior Trustee will promptly, after obtaining actual notice of such Senior Event of Default or event described in (ii) above, give notice thereof to each Bondholder. Except in the case of a default in payment or purchase on any Senior Bonds, the Senior Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Bondholders.

Eligibility of Senior Trustee. The Senior Indenture will always have a Senior Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Senior Trustee. The Senior Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The holders of not less than 51% in aggregate Senior Principal Amount of the Senior Bonds may remove the Senior Trustee by notifying the removed Senior Trustee and may appoint a successor Senior Trustee with the Department's consent. The Department may remove the Senior Trustee, by notice in writing delivered to the Senior Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Senior Trustee during any time when a Senior Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Senior Event of Default.

No resignation or removal of the Senior Trustee will be effective until a new Senior Trustee has taken office and delivered a written acceptance of its appointment to the retiring Senior Trustee and to the Department. Immediately thereafter, the retiring Senior Trustee will transfer all property held by it as Senior Trustee to the successor Senior Trustee, the resignation or removal of the retiring Senior Trustee will then (but only then) become effective and the successor Senior Trustee will have all the rights, powers and duties of the Senior Trustee under the Master Senior Indenture.

If the Senior Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Senior Indenture, the Department will promptly appoint a successor Senior Trustee.

If a Senior Trustee is not performing its duties under the Senior Indenture and a successor Senior Trustee does not take office within 60 days after the retiring Senior Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Senior Trustee, the Department or the holders of not less than 51% in aggregate Senior Principal Amount of the Senior Bonds may petition any court of competent jurisdiction for the appointment of a successor Senior Trustee.

Amendments and Supplements

Supplemental Senior Indentures Not Requiring Consent of Bondholders. The Department may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Senior Indentures supplementing and/or amending the Master Senior Indenture or any Supplemental Senior Indenture, as follows:

(a) to provide for the issuance of a Series or multiple Series of Senior Bonds under the provisions of the Master Senior Indenture and to set forth the terms of such Senior Bonds and the special provisions which will apply to such Senior Bonds;

(b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Senior Indenture or any Supplemental Senior Indenture, provided such supplement or amendment is not materially adverse to the Bondholders;

(c) to add to the covenants and agreements of the Department in the Master Senior Indenture or any Supplemental Senior Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Bondholders;

(d) to confirm, as further assurance, any interest of the Senior Trustee in and to the Net Pledged Revenues or in and to the funds and accounts held by the Senior Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Senior Indenture or to otherwise add additional security for the Bondholders;

(e) to evidence any change made in the terms of any Series of Senior Bonds if such changes are authorized by the Supplemental Senior Indenture at the time the Series of Senior Bonds is issued and such change is made in accordance with the terms of such Supplemental Senior Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, provided such supplement or amendment is not materially adverse to the Bondholders;

(g) to provide for uncertificated Senior Bonds or for the issuance of coupons and bearer Senior Bonds or Senior Bonds registered only as to principal;

(h) to qualify the Senior Bonds or a Series of Senior Bonds for a rating or ratings by Moody's and/or S&P;

(i) to accommodate the technical, operational and structural features of Senior Bonds which are issued or are proposed to be issued or of a Senior Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Senior Bonds or a specific Series of Senior Bonds, provided such supplement or amendment is not materially adverse to the Bondholders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Senior Bonds, including, without limitation, the segregation of Pledged Revenues and Net Pledged Revenues into different funds; or

(l) to modify, alter, amend or supplement the Master Senior Indenture or any Supplemental Senior Indenture in any other respect which is not materially adverse to the Bondholders.

Before the Department executes any Supplemental Senior Indenture, there will be delivered to the Department and Senior Trustee an opinion of Bond Counsel to the effect that such Supplemental Senior Indenture is authorized or permitted by the Master Senior Indenture, the Charter and, other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Senior Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Senior Indentures Requiring Consent of Bondholders.

(a) Except for any Supplemental Senior Indenture entered into pursuant to the provisions described in “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above and any Supplemental Senior Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this paragraph (a) and not otherwise, the holders of not less than 51% in aggregate Senior Principal Amount of the Senior Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Senior Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Senior Indenture or in a Supplemental Senior Indenture; provided, however, that, unless approved in writing by the holders of all the Senior Bonds then Outstanding or unless such change affects less than all Series of Senior Bonds and the following subsection (b) is applicable, nothing contained in the Master Senior Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Senior Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds or the rate of interest thereon; and provided that nothing contained in the Master Senior Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Senior Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Senior Indenture) upon or pledge of the Pledged Revenues created by the Master Senior Indenture, ranking prior to or on a parity with the claim created by the Master Senior Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Senior Bonds, a preference or priority of any Senior Bond or Senior Bonds over any other Senior Bond or Senior Bonds with respect to the security granted therefor under the Granting Clauses of the Master Senior Indenture, or (v) a reduction in the aggregate Senior Principal Amount of Senior Bonds the consent of the Bondholders of which is required for any such Supplemental Senior Indenture. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Bondholders of the execution of any Supplemental Senior Indenture as authorized in “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Senior Indenture which amends the provisions of an earlier Supplemental Senior Indenture under which a Series or multiple Series of Senior Bonds were issued. If such Supplemental Senior Indenture is executed for one of the purposes described under “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above, no notice to or consent of the Bondholders will be required. If such Supplemental Senior Indenture contains provisions which affect the rights

and interests of less than all Series of Senior Bonds Outstanding and the provisions described under “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the holders of not less than 51% in aggregate Senior Principal Amount of the Senior Bonds of all Series which are affected by such changes will have the right from time to time to consent to any Supplemental Senior Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Senior Indenture and affecting only the Senior Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Senior Bonds of all the affected Series then Outstanding, nothing contained in the Master Senior Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Senior Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Bondholders of the adoption of any Supplemental Senior Indenture as authorized pursuant to the provisions as described in “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

Rights of Credit Provider

The Master Senior Indenture provides that if a Credit Facility is provided for a Series of Senior Bonds or for specific Senior Bonds, the Department may in the Supplemental Senior Indenture under which such Senior Bonds are issued, provide any or all of the following rights to the Credit Provider as the Department will deem to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Senior Trustee or to otherwise direct proceedings all as provided in the Master Senior Indenture to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds; (b) the right to act in place of the owners of the Senior Bonds which are secured by the Credit Facility for purposes of removing a Senior Trustee or appointing a Senior Trustee under the Master Senior Indenture; and (c) the right to consent to Supplemental Senior Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Senior Principal Amount of the Outstanding Senior Bonds, entered into pursuant to the provisions described in “—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Bondholders” above, except with respect to any amendments described in clauses (a)(i) through (v) and clauses (b)(i) or (ii) described in “—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Bondholders” above, which consent of the actual Bondholders will still be required, to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds.

SUMMARY OF THE THIRTEENTH SUPPLEMENTAL SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2012 SENIOR BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Thirteenth Supplemental Senior Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Thirteenth Supplemental Senior Indenture.

Terms of the Series 2012 Senior Bonds

The Thirteenth Supplemental Senior Indenture sets forth the terms of the Series 2012 Senior Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE SERIES 2012 SENIOR BONDS.”

Establishment of Funds and Accounts

Pursuant to the Thirteenth Supplemental Senior Indenture, the Senior Trustee will establish and maintain the following funds and accounts: the Series 2012A Senior Debt Service Fund (and within the Series 2012A Senior Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2012A Senior Construction Fund, the Series 2012B Senior Debt Service Fund (and within the Series 2012B Senior Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2012C Senior Debt Service Fund (and within the Series 2012C Senior Debt Service Fund an Interest Account and a Principal Account), the Series 2012 Senior Costs of Issuance Fund, the Series 2012 Senior Reserve Account to be established in the Senior Reserve Fund, and the Series 2012 Senior Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2012 Senior Bonds and from other sources as described in the forepart of this Official Statement under “ESTIMATED SOURCES AND USES OF FUNDS.”

Series 2012 Senior Debt Service Funds. The Senior Trustee will deposit into the Interest Accounts of the Series 2012A Senior Debt Service Fund and the Series 2012B Senior Debt Service Fund, respectively, a portion of the proceeds of the Series 2012A Senior Bonds and the Series 2012B Senior Bonds representing capitalized interest on the Series 2012A Senior Bonds and the Series 2012B Senior Bonds. Additionally, the Senior Trustee will deposit in the Interest Accounts of the Series 2012A Senior Debt Service Fund, the Series 2012B Senior Debt Service Fund and the Series 2012C Senior Debt Service Fund, respectively, amounts received from the Department, as provided in the Master Senior Indenture, to be used to pay interest on the Series 2012A Senior Bonds, the Series 2012B Senior Bonds and the Series 2012C Senior Bonds, respectively. The Senior Trustee will also deposit into the Interest Accounts of the Series 2012A Senior Debt Service Fund, the Series 2012B Senior Debt Service Fund and the Series 2012C Senior Debt Service Fund, respectively, any other amounts deposited with the Senior Trustee for deposit in such Interest Accounts or transferred from other funds and accounts for deposit therein. Earnings on the 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 a Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such account.

The Senior Trustee will deposit into the Principal Accounts of the Series 2012A Senior Debt Service Fund, the Series 2012B Senior Debt Service Fund and the Series 2012C Senior Debt Service Fund, respectively, amounts received from the Department to be used to pay principal of the Series 2012A Senior Bonds, the Series 2012B Senior Bonds and the Series 2012C Senior Bonds, respectively, at maturity. The Senior Trustee will also deposit into the Principal Accounts of the Series 2012A Senior Debt Service Fund, the Series 2012B Senior Debt Service Fund and the Series 2012C Senior Debt Service Fund, respectively, any other amounts deposited with the Senior Trustee for deposit into such Principal Accounts or transferred from other funds and accounts for deposit therein. Earnings on the Principal Accounts will be withdrawn and paid to the Department on the Business Day following a principal Payment Date for deposit into the LAX Revenue Account, unless a Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such account.

The Senior Trustee will deposit into the Redemption Accounts of the Series 2012A Senior Debt Service Fund and the Series 2012B Senior Debt Service Fund, respectively, amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on the Series 2012A Senior Bonds or Series 2012B Senior Bonds, as applicable, which are to be redeemed in advance of their maturity (except

redemptions occurring as a result of the operation of the mandatory sinking fund). Earnings on such Redemption Accounts will be retained in such account or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Senior Trustee by an Authorized Representative at the time of such deposit.

The Series 2012A Senior Debt Service Fund, the Series 2012B Senior Debt Service Fund and the Series 2012C Senior Debt Service Fund will be invested and reinvested in Senior Permitted Investments as directed by an Authorized Representative.

Series 2012A Senior Construction Fund. Amounts in the Series 2012A Senior Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the projects for which the Series 2012A Senior Bonds were issued. While held by the Senior Trustee, amounts in the Series 2012A Senior Construction Fund will not secure the Outstanding Series 2012 Senior Bonds. Amounts in the Series 2012A Senior Construction Fund will be invested and reinvested in Senior Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Series 2012 Senior Costs of Issuance Fund. The proceeds of the Series 2012 Senior Bonds deposited into the Series 2012 Senior Costs of Issuance Fund will be disbursed by the Senior Trustee, from time to time, to pay Costs of Issuance of the Series 2012 Senior Bonds. Amounts in the Series 2012 Senior Costs of Issuance Fund will be invested and reinvested in Senior Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Series 2012 Senior Reserve Account. For a description of the Senior Reserve Fund and the Series 2012 Senior Reserve Account, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 SENIOR BONDS—Senior Reserve Fund.”

Series 2012 Senior Rebate Fund. The Thirteenth Supplemental Senior Indenture creates the Series 2012 Senior Rebate Fund for the Series 2012 Senior Bonds for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Senior Trustee with respect to the Series 2012 Senior Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2012 Senior Bonds. Such excess is to be deposited into the Series 2012 Senior Rebate Fund and periodically paid to the United States of America. The Series 2012 Senior Rebate Fund while held by the Senior Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2012 Senior Bonds.

APPENDIX D
PROPOSED FORM OF BOND COUNSEL'S OPINION

[Closing Date]

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

\$105,610,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2012 Series A

\$145,630,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2012 Series B

\$27,870,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2012 Series C

Ladies and Gentlemen:

We have acted as Bond Counsel to the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board"), in connection with the Department's issuance and sale of (i) \$105,610,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2012 Series A (the "Series 2012A Senior Bonds"), (ii) \$145,630,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2012 Series B (the "Series 2012B Senior Bonds"), and (iii) \$27,870,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2012 Series C (the "Series 2012C Senior Bonds," and collectively with the Series 2012A Senior Bonds and the Series 2012B Senior Bonds, the "Series 2012 Senior Bonds"). The Series 2012 Senior Bonds are being issued under the terms of the Charter of the City of Los Angeles, relevant ordinances of the City of Los Angeles, and the Los Angeles Administrative Code (collectively, the "Charter"), the Master Trust Indenture, dated as of April 1, 1995, as amended (the "Master Senior Indenture"), by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee (the "Senior Trustee"), and the Thirteenth Supplemental Trust Indenture, dated as of December 1, 2012 (the "Thirteenth Supplemental Senior Indenture"), by and between the Department, acting through the Board, and the Senior Trustee. Issuance of the Series 2012 Senior Bonds has been authorized by Resolution No. 24919, adopted by the Board on September 24, 2012, and approved by the City Council of the City of Los Angeles on October 30, 2012, and Resolution No. 24970, adopted by the Board on November 13, 2012 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture.

In connection with the issuance of the Series 2012 Senior Bonds and the opinions set forth below, we have examined the following:

- (a) a copy of the Charter;
- (b) certified copies of the Resolutions;
- (c) an executed counterpart of the Master Senior Indenture;
- (d) an executed counterpart of the Thirteenth Supplemental Senior Indenture;

- (e) certifications of the Department and others;
- (f) an executed copy of the Tax Compliance Certificate dated this date relating to the Series 2012 Senior Bonds and other matters (the “Tax Certificate”);
- (g) an opinion of the City Attorney; and
- (h) such other documents, opinions and matters as we deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Department validly exists as a department of the City of Los Angeles (the “City”), duly organized and operating pursuant to the Charter, and has the power to issue the Series 2012 Senior Bonds.

2. The Master Senior Indenture and the Thirteenth Supplemental Senior Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Senior Trustee, represent valid and binding agreements of the Department enforceable in accordance with their terms.

3. The Series 2012 Senior Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2012 Senior Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Senior Trustee of the Net Pledged Revenues and certain funds and accounts created under the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture, and not out of any other fund or moneys of the Department or the City. Neither the faith and credit nor the taxing power of the City, the State of California or any public agency, other than the Department to the extent of the Net Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2012 Senior Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2012A Senior Bonds and the Series 2012B Senior Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2012A Senior Bond or Series 2012B Senior Bond for any period during which such Series 2012A Senior Bond or Series 2012B Senior Bond, as applicable, is held by a person who is a “substantial user” of the facilities financed or refinanced by the Series 2012A Senior Bonds or the Series 2012B Senior Bonds, as applicable, or a “related person” to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Interest on the Series 2012A Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2012B Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2012C Senior Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2012C Senior Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations’ adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2012 Senior Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 4 and the first sentence of paragraph 5 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Senior Indenture, the Thirteenth Supplemental Senior Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2012 Senior Bonds to be included in gross income retroactive to the date of issue of the Series 2012 Senior Bonds. Although we are of the opinion that interest on the Series 2012 Senior Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2012 Senior Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the

recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The obligations of the Department and the security provided therefor, as contained in the Series 2012 Senior Bonds, the Master Senior Indenture and the Thirteenth Supplemental Senior Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, and to the limitations on legal remedies against cities in the State of California. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated December 5, 2012, or any other offering material relating to the Series 2012 Senior Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2012 Senior Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

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APPENDIX E
BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “—General” below has been provided by DTC. Neither the City nor the Department make any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2012 Senior Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE CITY NOR THE SENIOR TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2012 SENIOR BONDS UNDER THE SENIOR INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2012 SENIOR BONDS; (D) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE OWNER OF THE SERIES 2012 SENIOR BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2012 SENIOR BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

General

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Series 2012 Senior Bonds. The Series 2012 Senior Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each series of the Series 2012 Senior Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Senior Trustee.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of Series 2012 Senior Bond certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC may be found on its web sites. The Department undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2012 Senior Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Senior Bonds, as applicable, on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012 Senior Bonds, as applicable, are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2012 Senior Bonds, except in the event that use of the book-entry system for the Series 2012 Senior Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Senior Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2012 Senior Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Senior Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Senior Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Series 2012 Senior Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2012 Senior Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2012 Senior Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2012 Senior Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2012 Senior Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Senior Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2012 Senior Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Department, or the Senior Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2012 Senior Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Senior Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2012 Senior Bonds at any time by giving reasonable notice to the Department or the Senior Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. To the extent permitted by law, the Department may decide to discontinue use of the system of book-entry transfers through DTC (or to the extent permitted by law, a successor Bonds depository). In that event, bond certificates will be printed and delivered.

No Assurance Regarding DTC Practices

The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2012 SENIOR BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2012 SENIOR BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2012 SENIOR BONDS.

In the event the Department determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Series 2012 Senior Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2012 Senior Bonds in such principal amount or amounts, in authorized denominations, and registered in whatever name or names, as DTC shall designate. In such event, transfers and exchanges of Series 2012 Senior Bonds, as applicable, will be governed by the provisions of the Senior Indenture.

Risks of Book-Entry System

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2012 Senior Bonds.

In addition, Beneficial Owners of the Series 2012 Senior Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2012 Senior Bonds, as applicable, since such distributions will be forwarded by the Department to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Series 2012 Senior Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2012 Senior Bonds, as applicable, to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2012 Senior Bonds, as applicable, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Series 2012 Senior Bonds, as applicable, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Department of Airports of the City of Los Angeles, California acting by and of through the Board of Airport Commissioners of the City of Los Angeles, California (the “Department”) in connection with the issuance by the Department of its Los Angeles International Airport, Senior Revenue Bonds, 2012 Series A (the “Series 2012A Senior Bonds”), Los Angeles International Airport, Senior Revenue Bonds, 2012 Series B (the “Series 2012B Senior Bonds”), and Los Angeles International Airport, Senior Revenue Bonds, 2012 Series C (the “Series 2012C Senior Bonds” and collectively with the Series 2012A Senior Bonds and the Series 2012 B Senior Bonds, the “Series 2012 Senior Bonds”). The Series 2012 Senior Bonds are being issued pursuant to the Master Trust Indenture, dated as of April 1, 1995, as amended (the “Master Senior Indenture”), by and between the Department and The Bank of New York Mellon Trust Company N. A., formerly known as The Bank of New York Trust Company, N. A., successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N. A., as trustee (the “Senior Trustee”) and a Thirteenth Supplemental Trust Indenture dated as of December 1, 2012 (the “Thirteenth Supplemental Senior Indenture,” and together with the Master Senior Indenture, the “Senior Indenture”), by and between the Department and the Senior Trustee. The Department hereby covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Senior Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2012 Senior Bonds (including persons holding Series 2012 Senior Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2012 Senior Bonds for federal income tax purposes.

“Dissemination Agent” shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any other successor Dissemination Agent designated in writing by the Department.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Fiscal Year” shall mean the one-year period ending on June 30 of each year or such other period of 12 months designated by the Department as its Fiscal Year.

“GASB” shall mean the Governmental Accounting Standards Board.

“Listed Events” shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any successor thereto.

“Official Statement” shall mean the final official statement of the Department relating to the Series 2012 Senior Bonds.

“Owner” shall mean a registered owner of the Series 2012 Senior Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2012 Senior Bonds required to comply with the Rule in connection with offering of the Series 2012 Senior Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the Securities and Exchange Commission.

“State” shall mean the State of California.

Section 2. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Owners and Beneficial Owners of the Series 2012 Senior Bonds and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent, if the Dissemination Agent is other than the Department, to, not later than 180 days following the end of each Fiscal Year of the Department (which Fiscal Year currently ends on June 30), commencing with the report for Fiscal Year ending June 30, 2013, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB and/or the Rule, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the Department changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) If in any year, the Department does not provide the Annual Report to the MSRB by the time specified above, the Department shall file a notice with the MSRB through the EMMA System in substantially the form attached as Exhibit A hereto.

(c) If the Dissemination Agent is not the Department, the Dissemination Agent shall:

1. file a report with the Department certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the date(s) of the filing(s); and
2. take any other actions mutually agreed to between the Dissemination Agent and the Department.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Department's audited financial statements for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB, provided however that the Department may from time to time, in order to comply with federal or State legal requirements, modify the basis upon which such financial statements are provided notice. Nothing of any such modification shall be provided to the MSRB and shall include a reference to the applicable law or requirement describing such accounting basis. If the Department's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information in form and substance similar to the following tables set forth in the Official Statement for the most recently completed Fiscal Year:

1. Table 1 – “Existing Senior Bonds”;
2. Table 2 – “Existing Subordinate Bonds and Subordinate Commercial Paper Notes”;
3. Table 3 – “Senior Bonds and Subordinate Bonds Debt Service Requirements” (only if such information changes);
4. Table 6 – “Air Carriers Serving LAX” (as of the first day of the current Fiscal Year);
5. Table 8 – “Air Traffic Data”;
6. Table 9 – “Historical Total Enplanements by Airline”;
7. Table 10 – “Total Revenue Landed Weight”;
8. Table 11 – “Enplaned and Deplaned Cargo”;
9. Table 14 – “Historical Operating Statements”;
10. Table 15 – “Top Ten Revenue Providers”;
11. Table 16 – “Top Ten Revenue Sources”;

12. Table 18 – “Historical Debt Service Coverage”; and
13. The columns entitled “Department Carrying Value” and “LAX Carrying Value” in Table 20 – “City of Los Angeles Pooled Investment Fund”; and
14. Unless otherwise provided in “Historical Operating Statements,” the total amount of PFC revenues received by the Department with respect to Los Angeles International Airport.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities that have been submitted to the MSRB through the EMMA System. In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reason therefore and the Department will provide comparable information if available.

Section 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Senior Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Department;

Note: for the purposes of the event identified in Section 5(a)(9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Department, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Department.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2012 Senior Bonds, if material, not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2012 Senior Bonds or other material events affecting the tax status of the Series 2012 Senior Bonds;
3. Modifications to rights of the Owners of the Series 2012 Senior Bonds;
4. Series 2012 Senior Bond calls;

5. Release, substitution or sale of property securing repayment of the Series 2012 Senior Bonds;
6. The consummation of a merger, consolidation, or acquisition involving the Department or the sale of all or substantially all of the assets of the Department, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Department shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3.

(d) Whenever the Department obtains knowledge of the occurrence of a Listed Event described in Section 5(b), the Department shall determine if such event would be material under applicable federal securities laws.

(e) If the Department learns of an occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB through the EMMA System in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2012 Senior Bonds pursuant to the Indenture.

Section 6. Termination of Obligation. The Department's obligations under this Disclosure Certificate with respect to a Series of the Series 2012 Senior Bonds shall terminate upon the maturity, legal defeasance, prior redemption or payment in full of all of such Series of the Series 2012 Senior Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the Department with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the Department's obligations hereunder shall terminate to a like extent. If such termination occurs prior to the final maturity of a Series of the Series 2012 Senior Bonds, the Department shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 7. Dissemination Agent. The Department may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not any other designated dissemination agent, the Department shall be the dissemination agent. The initial dissemination agent shall be the Department.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, without the consent of the Owners of the Series 2012 Senior Bonds, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is not prohibited by the Rule. The Department shall give notice of any amendment in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Series 2012 Senior Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate; provided that any such Owner or Beneficial Owner may not take any enforcement action without the consent of the Owners of not less than 25%

(twenty-five percent) in aggregate principal amount of the Series 2012 Senior Bonds that at the time are Outstanding. A default under this Disclosure Certificate shall not be deemed a default under the Senior Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Department to comply with this Disclosure Certificate. No Owner or Beneficial Owner of the Series 2012 Senior Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Department and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, if any, and the Owners and Beneficial Owners from time to time of the Series 2012 Senior Bonds, and shall create no rights in any other person or entity. This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 13. Notices. Any notices or communications to the Department may be given as follows:

Los Angeles World Airports
One World Way
Los Angeles, California 90045
Attention: Ryan Yakubik
Fax: (310) 646-9223
Telephone: (424) 646-5251

Section 14. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Beneficial Owners of the Series 2012 Senior Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 15. Governing Law. This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State of California. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State of California and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this 18th day of December, 2012.

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: _____
Executive Director

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Department of Airports of the City of Los Angeles, California

Name of Bond Issue: [Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Senior Revenue Bonds, 2012 Series A (Private Activity – AMT)]

[Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Senior Revenue Bonds, 2012 Series B (Private Activity – Non-AMT)]

[Department of Airports of the City of Los Angeles, California, Los Angeles International Airport Senior Revenue Bonds, 2012 Series C (Governmental Non-AMT)]

Date of Issuance: December 18, 2012

CUSIP: [_____]

NOTICE IS HEREBY GIVEN that the Department of Airports of the City of Los Angeles, California (the “Department”) has not provided an Annual Report with respect to the above referenced Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated December 18, 2012, executed by the Department for the benefit of the Owners and Beneficial Owners of the above referenced Bonds. The Department anticipates that the Annual Report will be filed by _____, 20__.

Dated: _

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: _____
Authorized Representative

APPENDIX G

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

The information in Appendix H – “CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES” has been reproduced from relevant portions of Appendix A to the Official Statement of the City dated June 27, 2012, as supplemented on July 6, 2012, in connection with the City’s 2012 Tax and Revenue Anticipation Notes, which is available from the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system. The Department is relying upon, and has not independently confirmed or verified, the accuracy or the completeness of the information in Appendix H or the LACERS Reports, or other information incorporated by reference therein. See also “THE DEPARTMENT OF AIRPORTS – Retirement Plan” herein.

RECENT DEVELOPMENTS RELATING TO THE FINANCIAL CONDITION OF THE CITY

In the wake of the fall in housing prices beginning in 2007 and the financial crisis in 2008, the City has experienced budgetary pressures unlike anything seen in recent decades. The length and depth of the economic downturn resulted in unprecedented declines in most of the City’s various sources of revenues. In addition, the City has had to address a number of expenditure pressures, including increased costs due to labor agreements, rising unfunded retirement liabilities resulting from investment losses and benefit enhancements in prior years, rising health care costs for current employees, and increased projected health care costs for retirees.

In response to the challenges, the City has made major cuts in its budgeted appropriations as part of its last six adopted budgets (including Fiscal Year 2012-13) and through various interim actions. The City has eliminated positions through early retirement, transfers of previously general-funded positions to special funds, hiring freezes and layoffs. In addition, the City has negotiated deferrals of salary increases and increases in employee contributions for health care and retirement for some employees, and obtained voter approval of a new tier of retirement benefits for sworn employees hired after July 1, 2011. Nonetheless, the City anticipates facing significant financial pressure in the future from labor and associated benefit and retirement costs.

The City periodically prepares a multi-year General Fund budget outlook (the “Budget Outlook”) to identify future budget challenges, including whether budget gaps are likely to occur. The City’s most recent Budget Outlook projects that, based on then current assumptions, the City would face a budget gap of \$216 million in Fiscal Year 2013-14, which could grow even larger in subsequent years if not addressed. The City is required by law to maintain a balanced budget.

While the City is subjected to numerous lawsuits, one suit is of special significance due to the size of the potential liability. *Ardon v. City of Los Angeles* is a class action challenging the validity of the City’s telephone users’ tax based on a federal government interpretation of the federal excise tax in 2006, prior to the City’s voter-approved amendment in 2008 to update the tax ordinance. On July 25, 2011, the State Supreme Court held that class actions against municipalities for refunds of local taxes are permitted under State law, and remanded the matter back to the trial court for consideration on the merits. While the ultimate resolution of this case may be several years away, it is possible that this matter could be resolved as soon as Fiscal Year 2012-13. If the plaintiffs prevail on the merits of the underlying complaint, the City’s liability could be up to \$750 million. The City has not reserved for this liability, and may issue judgment obligation bonds if plaintiffs prevail. (See “MAJOR GENERAL FUND REVENUE SOURCES—Utility Users’ Taxes” and “LITIGATION,” herein.)

BUDGET AND REVENUES

Budget Pressures and Responses

Beginning with the downturn in the housing market in 2007, and continuing through the collapse of the financial markets in 2008, the City has experienced the most challenging budgetary pressures since the Great Depression. Declines in revenues, combined with increasing retirement contributions due to investment losses, rising costs of other employee benefits such as health care and negotiated compensation increases have resulted in continuing budgetary pressures.

In response to these challenges, the City has made major cuts in its budgeted appropriations. In adopting a balanced budget during the past few years, the City has projected initial gaps as high as \$552 million, assuming that a number of expenditure factors were left unchanged. During this same period, the City has identified substantial shortfalls during the course of the fiscal year that required additional interim budget actions. Table 9 summarizes the gaps identified as part of the Mayor’s Proposed Budget for the past five years, which were addressed in the

balancing of the Adopted Budget, and gaps subsequently identified as part of the City’s interim reporting process, which were addressed by various actions throughout the year. Some of these interim actions were required to adjust for measures taken in the Adopted Budget that failed to generate projected savings; therefore, the two columns should not be totaled.

Table 9
BUDGET DEFICITS ADDRESSED IN BUDGET AND THROUGH INTERIM ACTIONS
(in millions)

<u>Fiscal Year</u>	<u>Addressed in Adopted Budget⁽¹⁾</u>	<u>Addressed Through Mid-Year Adjustments⁽²⁾</u>
2008-09	\$535	\$ 110
2009-10	552	209
2010-11	492	54
2011-12	336	72
2012-13	238	NA

⁽¹⁾ As identified in the Mayor’s Proposed Budget for each respective fiscal year.

⁽²⁾ As of the date of the Mid-Year Financial Status Report for each respective fiscal year.

Source: City of Los Angeles, Office of the City Administrative Officer.

As part of its adopted budgets and through various interim actions, the City implemented a number of ongoing and one-time budget solutions, including various transfers from special funds; the elimination of in excess of 5,300 General Fund financed-positions, made possible through an early retirement program, transfers of employees to vacant special funded positions, and layoffs; the freezing of hiring for most civilian (non-safety) positions and the slowing of hiring of new police recruits; a modified deployment plan for fire department resources; elimination of several small departments; reduced overtime funding; and mandated unpaid furlough days for employees. In addition, the City has negotiated deferrals of salary increases and increases in employee contributions for health care and retirement, which reduce City contributions. Specifically, the City negotiated bargaining agreements that have secured a 4% active employee contribution toward retiree healthcare for approximately 70% of its civilian workforce, secured a 2% active employee contribution toward retiree healthcare for approximately 64% of its sworn workforce, restructured cost-of-living adjustments, decreased salaries by 1.5% or froze salaries for one-year for certain bargaining groups, reduced the starting salaries for sworn employees by 20%, and obtained voter approval of a new tier of retirement benefits for sworn employees hired after July 1, 2011. For those civilian and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen at the current level. See “FINANCIAL OPERATIONS—Labor Relations”, “—Retirement and Pension Systems” and “—Other Post-Employment Benefits”, herein.

The City anticipates that budget pressures will continue into the foreseeable future. In the Year-End Financial Status report dated June 5, 2012, the CAO indicates that “it is likely that the City will once again be faced with a significant deficit by the middle of the next fiscal year.” The City’s latest Budget Outlook projects that absent corrective measures the City will experience Fiscal Year 2013-14 budget gap of \$216 million, growing to \$327 million in Fiscal Year 2014-15 if not addressed.

While the City’s budget balancing has attempted to address structural deficits through position elimination and increased employee retirement contributions, it has also relied heavily on one-time solutions to close the budget gaps. These one-time solutions have included the receipt of revenues earmarked for specific purposes and over a short period of time (e.g. grants), expenditure deferrals for capital improvements, the use of one-time revenues for ongoing programs, hiring freezes, and furloughs. Furthermore, even structural solutions such as the elimination of positions have not always been based on a strategic plan that takes into consideration the needs of departments and whether the impacted services are core services of the City. Rather, vacant positions were targeted for elimination to achieve the highest savings possible with the least layoff impact. As the CAO indicated in a report dated April 6, 2012, “while this form of crisis management offers immediate budgetary relief, it also creates an environment with little to no planning for the City’s future, limited investment in capital improvements, and an avoidance of

answering the central question of what services the City should no longer provide.” The CAO further noted that that “failure to adopt and implement [various proposed budget balancing] strategies collectively, without viable alternatives in their place, will at best result in the status quo method of budgeting: relying on one-time budget transfers, deferring maintenance, and over-estimating revenues. At worst, straying from the path set forth [in his report] is likely to result in fiscal insolvency. Either outcome will undoubtedly continue the crisis management mode in which the City has been operating for the last decade—a mode that hampers innovation and productivity; demoralizes employees; fractures service delivery; limits economic recovery; and lowers the standard of living in the City.”

Beginning in 2010, the CAO has issued a series of reports on a proposed “Three Year Plan for Fiscal Sustainability” (“the Plan”). The Plan contains the CAO’s recommendations to restore the City’s long-term financial health and sustainability while continuing to address the most critical needs of the City’s residents, and is centered on the following guiding principles:

1. Adhere to responsible management and fiscal practices by maintaining a healthy Reserve Fund, pursuing ongoing solutions to the deficit instead of one-time fixes, and preparing for unpredictable liabilities.
2. Focus on core services by prioritizing, implementing efficiencies, and eliminating redundancies.
3. Pursue alternative service delivery models that reduce the costs of providing quality services while maintaining or even enhancing services.
4. Maintain a sustainable workforce through a fair and equitable compensation system, managed healthcare costs, and controlled pension obligations.
5. Raise new revenues through the support of constituents and through efforts that grow the economy and stimulate job creation, while protecting and maximizing existing revenue sources through a responsive collection system and full-cost recovery of services rendered.

The five guiding principles and the CAO recommendations for their implementation provide a framework for eliminating the structural deficit through ongoing and structural measures. They emphasize the City’s need to reduce expenditures by addressing its key cost drivers: employee health care, workers’ compensation, employee compensation, and retirement benefits. They also recognize the needs of the City’s residents for a base level of service and outline an approach to strategically maintain or even enhance services through cost-sharing partnerships with non-profit organizations and the private sector.

Fiscal Year 2010-11 Results

The City’s Fiscal Year 2010-11 Adopted Budget closed a projected \$492 million General Fund budget gap that was identified in the Mayor’s Proposed Budget. During the fiscal year, additional budget challenges were identified, and addressed through a combination of new revenue, interfund and intrafund transfers, and actions to reduce expenditures, such as a hiring freeze.

In the Fiscal Year 2010-11 Adopted Budget, the Reserve Fund was projected to be \$177.2 million as of July 1, 2011. In her Preliminary Financial Report for Fiscal Year 2010-11, dated September 20, 2011, the Controller reported an estimated July 1 Reserve Fund balance of \$200.7 million. The higher balance was primarily the result of higher than projected reversions of previously appropriated funds. See “FINANCIAL OPERATIONS—Reserve Fund,” below.

The City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011 was released February 29, 2012 and reported a growth in the City’s total General Fund fund balance of approximately \$82.9 million. See “Budget and Revenues—Financial Statements” and “–GAAP-Based Fund Balance,” above.

Fiscal Year 2011-12 Adopted Budget

The City’s Fiscal Year 2011-12 Adopted Budget closed a projected \$336.3 million General Fund budget gap that was identified in the Mayor’s Proposed Budget. The following table summarizes the major actions taken to address the budget gap.

Table 10
BUDGET GAP
(\$ in millions)

<u>Budget Balancing Actions</u>	<u>Total</u>
Increase in Projected Revenue	\$ 18.6
Special Parking Revenue Fund Transfer	16.7
Reduction in Number of Working Days (Furloughs) and/or Employee Concessions	98.4
Police Sworn Salary Savings/ Police Officer Concessions	41.0
Fire Department Savings	19.4
Other Departmental Reductions	20.7
Deferral of 1% Capital Improvement Expenditure	37.8
Increased Appropriation of Special Funds	27.2
Reduction in Human Resource Benefits	16.5
Transfer from Rec. and Parks for Water and Electricity	15.9
Net of Other Reductions and Program Increases	<u>24.1</u>
Total Budget Balancing Proposals	<u>\$ 336.3</u>

The City’s Fiscal Year 2011-12 Adopted Budget, which included the General Fund and most special revenue funds, totaled \$6.9 billion, which was a \$122 million (1.8%) increase from the Fiscal Year 2010-11 Adopted Budget. General Fund revenues for Fiscal Year 2011-12 were budgeted at \$4.386 billion, a net increase of \$10 million (0.2%) from the Fiscal Year 2010-11 Adopted Budget, and an increase of \$84 million (1.9%) over estimated actual revenues for Fiscal Year 2010-11. The Fiscal Year 2011-12 Adopted Budget included the elimination of 691 General Fund positions, including 63 positions in the Police Department.

Fiscal Year 2011-12 Interim Financial Status Reports

The CAO released five Financial Status Reports (“FSRs”) during Fiscal Year 2011-12 to update the Mayor and Council on the City’s fiscal condition, and to recommend various adjustments.

As of the Second Financial Status Report released on December 2, 2011, the CAO projected that the City would experience a Fiscal Year 2011-12 budget deficit of \$72.0 million without corrective action. These budget shortfalls were attributed to Police and Fire Department deficits; expenditure increases for petroleum, bank fees, and workers’ compensation; and increased requirements for sworn and civilian retiree health benefits. The report recommended a variety of actions to close the gap.

A subsequent report, the Mid-Year (Third) Financial Status Report, was released on February 9, 2012 (the “Mid-Year Financial Status Report”), and indicated that the previously projected Citywide deficit has been eliminated by a variety of departmental savings, salary savings resulting from a managed hiring process, and savings from originally budgeted retirement contributions. No transfers from the City’s Reserve Fund were required to rebalance the budget. Revenues are, in the aggregate, generally meeting budget expectations.

On April 5, 2012 the CAO released the Fourth Financial Status Report, which reported no changes in projected current year budget gaps, but did recommend a number of interim budget adjustments, including the appropriation of \$5 million from the City’s Unappropriated Balance, an account included in the City’s budget to be available for appropriations later in the fiscal year to meet contingencies as they arise.

On June 5, the CAO released the Year-End Status Report, which identified \$18.4 million in additional budget deficits for the year, attributable to expenditure increases (\$6.3 million) and revenue shortfalls (\$12.1 million). The report recommends various actions to address these issues. These actions are not anticipated to result in a reduction in the City’s Reserve Fund.

Fiscal Year 2012-13 Adopted Budget

On April 20, 2012, the Mayor issued his Proposed Budget for Fiscal Year 2012-13. The Proposed Budget identified a gap of \$238 million, balanced through a combination of expenditure cuts and revenue measures. Included in the budget reductions were the elimination of 669 additional authorized positions.

The City Council has adopted the budget with minimal changes. One such change was to restore 220 of the 669 positions eliminated. However, funding was only provided for six months (\$8 million) for 209 of these positions. Eleven were restored with full funding. The Council will be conducting a thorough review of the duties of the 209 positions to determine whether these 209 positions or other positions should be eliminated by January 1, 2013. It should also be noted that two revenue sources projected in the budget involve unusual risks. The receipt of \$48.6 million in estimated property tax revenue from the dissolution of the City's redevelopment agency is subject to various determinations regarding the agency's prior obligations. An additional \$23.5 million in Medicare-related revenue from the federal government is subject to an appropriation by the federal government and establishment of a funding mechanism by the State.

The following table summarizes the major actions the City took to address the budget gap.

Table 11
CLOSING THE FISCAL YEAR 2012-13 BUDGET GAP
(\$ in millions)

<u>Budget Solution</u>	<u>Amount</u>
Various One-Time Receipts	\$72.2
One-Time Efficiencies/Reductions	16.6
Ongoing Revenue Maximization	61.4
Fees and Fines	13.1
Ongoing Efficiencies/Reductions	51.8
Workforce Reduction	<u>23.2</u>
Total	<u>\$ 238.3</u>

Source: City of Los Angeles, Office of the City Administrative Officer

The City's Fiscal Year 2012-13 Adopted Budget, which includes the General Fund and most special revenue funds, totals \$7.2 billion, a \$375 million (5.5%) increase from the Fiscal Year 2011-12 Adopted Budget. General Fund revenues for Fiscal Year 2012-13 are estimated at \$4.550 billion, a net increase of \$165 million (3.8%) from the Fiscal Year 2011-12 Adopted Budget, and a net increase of \$172 million (3.9%) from the Fiscal Year 2011-12 estimated actual revenues.

The following table presents the Fiscal Year 2012-13 Adopted Budget and the adopted budgets for the three preceding fiscal years. These budgets include the General Fund and most special revenue funds, but exclude those operations not under the direct control of the Council (i.e., Airports, Harbor, Water and Power departments, and the Los Angeles City Employees' Retirement and Fire and Police Pensions systems).

Table 12
CITY OF LOS ANGELES ADOPTED BUDGET
(ALL BUDGETED FUND TYPES)

Revenues	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Fund				
Property Taxes ⁽¹⁾	\$1,418,870,000	\$1,408,529,000	\$1,436,363,000	\$1,457,022,000
Property Tax – Ex-CRA Tax Increment				48,600,000
Other Taxes ⁽²⁾	1,712,475,000	1,677,355,000	1,706,595,000	1,764,726,000
Licenses, Permits, Fees and Fines ⁽³⁾	918,605,115	978,163,540	924,771,271	970,757,118
Intergovernmental ⁽⁸⁾	293,371,000	257,000,000	254,000,000	249,100,000
Other General Fund ⁽⁵⁾	34,389,000	41,766,627	49,683,164	49,777,000
Interest	<u>22,080,000</u>	<u>12,400,000</u>	<u>14,280,000</u>	<u>10,510,000</u>
Total General Fund Revenue	<u>\$4,399,790,115</u>	<u>\$2,966,685,167</u>	<u>\$2,949,329,435</u>	<u>\$4,550,492,118</u>
Special Purpose Funds				
Charges For Services and Operations ⁽⁶⁾	\$1,109,747,625	\$1,186,761,559	\$1,140,224,113	\$1,173,478,896
Transportation Funds ⁽⁷⁾	304,729,363	329,060,960	308,168,317	325,540,467
Intergovernmental ⁽⁸⁾	79,175,622	82,088,671	83,853,558	82,150,321
Special Assessments ⁽⁹⁾	82,368,614	76,543,625	91,473,333	91,856,801
Other Special Funds	347,307,255	315,741,107	401,789,556	447,339,632
Available Balances	<u>398,285,950</u>	<u>404,978,809</u>	<u>292,964,058</u>	<u>410,782,495</u>
Total Special Fund Revenue	<u>\$2,321,614,429</u>	<u>\$2,395,174,731</u>	<u>\$2,318,472,935</u>	<u>\$2,531,148,612612</u>
City Levy for Bond Redemption and Interest	<u>163,385,547</u>	<u>\$ 164,279,912</u>	<u>\$ 167,395,099</u>	<u>\$ 164,475,921</u>
Total Receipts	<u>\$6,884,790,001</u>	<u>\$6,934,668,810</u>	<u>\$6,871,560,469</u>	<u>\$7,246,116,651</u>
Appropriations by Funding Source				
General Fund				
Fire Department	\$ 498,793,827	\$ 488,148,117	\$ 465,735,929	\$ 506,583,509
Police Department	1,135,131,399	1,151,383,228	1,135,507,840	1,221,043,234
Other Budgetary Departments	1,030,140,787	926,499,889	909,003,849	912,029,588
2011 Tax and Revenue Anticipation Notes ⁽¹⁰⁾	665,527,709	742,900,328	895,475,151	860,620,300
Capital Finance Administration ⁽¹¹⁾	196,965,375	210,507,740	193,106,745	201,111,784
Human Resources Benefits	517,660,900	545,731,165	553,488,000	592,508,153
Other General Fund Appropriations	<u>355,570,118</u>	<u>310,043,700</u>	<u>233,374,921</u>	<u>256,595,550</u>
Total General Fund	<u>\$4,399,790,115</u>	<u>\$4,375,214,167</u>	<u>\$4,385,692,435</u>	<u>\$4,550,492,118</u>
Special Purpose Funds				
Budgetary Departments	\$ 864,284,182	\$ 784,575,019	\$ 816,925,851	\$ 869,794,129
Appropriations to Proprietary Departments	--	71,410,325	87,729,621	77,718,048
Capital Improvement Expenditure Program	247,829,198	179,776,985	143,670,271	167,280,201
Wastewater Special Purpose Fund	429,280,600	409,579,230	433,598,197	448,973,671
Appropriations to Special Purpose Funds	<u>780,220,449</u>	<u>754,130,276</u>	<u>836,548,995</u>	<u>967,382,563</u>
Total Special Funds	<u>\$2,321,614,429</u>	<u>\$2,199,471,835</u>	<u>\$2,318,472,935</u>	<u>\$2,531,148,612</u>
Bond Redemption and Interest Funds				
General City Bonds	<u>163,385,457</u>	<u>\$ 174,545,768</u>	<u>\$ 167,395,099</u>	<u>\$ 164,475,921</u>
Total (All Purposes)	<u>\$6,884,790,001</u>	<u>\$6,749,231,770</u>	<u>\$6,871,560,469</u>	<u>\$7,246,116,651</u>

- (1) Property taxes include all categories of the City allocation of one percent property tax collections such as secured, unsecured, State replacement, redemptions and penalties, supplemental receipts and other adjustments and is net of refunds and County charges. Also included are property taxes remitted to the City as replacement revenue for both State Vehicle License Fees and sales and use taxes. See "MAJOR GENERAL FUND REVENUE SOURCES" for a discussion of the State reallocation of revenues known as the "triple flip."
- (2) Other taxes include Utility Users' Tax, Business Tax, Sales Tax, Transient Occupancy Tax, Documentary Transfer Tax, Parking Users' Tax, and Residential Development Tax.
- (3) Also includes State Vehicle License Fees, Parking Fines and Franchise Income.
- (4) Intergovernmental revenues include proprietary department transfers.
- (5) Other General Fund receipts include grant receipts, tobacco settlement, transfers from the Special Parking Revenue Fund, Telecommunications Development Account Fund, and the Reserve Fund.
- (6) Major revenue sources include the Sewer Construction and Maintenance Fund, the Convention Center Revenue Fund, the Special Parking Revenue Fund, the Zoo Enterprise Fund, the Building and Safety Fund, and refuse collection fee revenues.
- (7) Revenue sources include the Special Gas Tax Street Improvement Fund, the Proposition A Local Transit Improvement Fund, and the Proposition C Anti-Gridlock Transit Improvement Fund.
- (8) Intergovernmental receipts include the Community Development Block Grant, the Local Public Safety Fund, and the Workforce Development Trust Fund.

Table 12
CITY OF LOS ANGELES ADOPTED BUDGET
(ALL BUDGETED FUND TYPES)

- | |
|---|
| <p>(9) Includes the Street Lighting Maintenance Assessment Fund and the Stormwater Pollution Abatement Fund.</p> <p>(10) A significant portion of the City's TRAN proceeds are used to prepay the annual contribution to the City Employees' Retirement System and Fire and Police Pension System. The budget line item for TRAN repayment is primarily for principal for this portion of the program, and is made in lieu of direct appropriations for contributions to the two retirement systems. See "FINANCIAL OPERATIONS – Retirement and Pension Systems," herein. Interest due on the TRAN is also included in this line item.</p> <p>(11) This fund is used to make lease payments on various lease revenue bonds, certificates of participation and commercial paper notes.</p> |
|---|

Source: City of Los Angeles, Office of the City Administrative Officer.

Budget Outlook

As part of its budget planning, the CAO prepares a multi-year Budget Outlook, based on the existing budget, known major future expenditure commitments and projections of other revenues and expenditures, to identify future budget challenges, including whether a budget gap is likely to occur. This planning tool helps the City identify potential budgetary pressures and allows for earlier implementation of budget adjustments, either through the annual budget process or through interim action. The Budget Outlook is updated in connection with the City's periodic financial status reports and the budget process.

The City's most recent Budget Outlook projects that, based on a number of assumptions, the City will face a budget gap of \$216 million in Fiscal Year 2013-14. If not addressed, this deficit would grow even larger the subsequent year, peaking at \$327 million in Fiscal Year 2014-15. Among the key expenditure pressures were projected growth in pension system contributions, increased cost of health benefits and employee compensation adjustments. In addition to the footnotes to the table below, see "FINANCIAL OPERATIONS—Labor Relations," "— Retirement and Pension Systems," "— Other Post-Employment Benefits" and "—Projected Retirement and Other Post-Retirement Benefit Expenditures," herein.

It is important to note that the Budget Outlook is constantly changing, and does not include all potential revenues and expenditures. Even though budget deficits are currently projected, as they have been in prior years, these budgets must be balanced when enacted, as required by the City's Charter. The City generally accomplishes such balancing through a combination of revenue increases, expenditure reductions and transfers from reserves.

**Table 13
GENERAL FUND BUDGET OUTLOOK
(\$ millions)**

	<u>Adopted 2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Estimated General Fund Revenue:					
General Fund Base ⁽¹⁾	\$4,385.7	\$4,550.5	\$4,620.6	\$4,729.4	\$4,869.7
Revenue Growth ⁽²⁾					
Property Related Taxes ⁽³⁾	70.0	22.5	40.3	69.5	87.3
Sales and Business Taxes	37.5	26.8	22.9	23.6	24.2
Utility Users' Tax	(5.2)	6.4	6.8	7.4	7.9
License, Permits and Fees	44.8	9.6	23.4	24.1	24.8
Other Fees, Taxes and Transfers ⁽⁴⁾	10.6	19.4	15.3	15.9	16.5
SPRF Transfer	16.1	(14.6)	-	-	-
Transfer from Reserve Fund	(8.9)	-	-	-	-
Total Revenue	\$4,550.5	\$4,620.6	\$4,729.4	\$4,869.7	\$5,030.4
<i>General Fund Revenue Increase (Decrease) %</i>	<i>3.8%</i>	<i>1.5%</i>	<i>2.4%</i>	<i>3.0%</i>	<i>3.3%</i>
<i>General Fund Revenue Increase (Decrease) \$</i>	<i>164.8</i>	<i>70.1</i>	<i>108.8</i>	<i>140.4</i>	<i>160.7</i>
Estimated Expenditures:					
General Fund Base ⁽⁵⁾	\$4,385.7	\$4,550.5	\$4,836.5	\$5,055.9	\$5,166.6
Incremental Changes to Base: ⁽⁶⁾					
Employee Compensation Adjustments ⁽⁷⁾	178.1	109.6	48.2	21.1	2.9
City Employees Retirement System ⁽⁸⁾	(52.8)	40.0	42.0	44.0	28.3
Fire and Police Pensions ⁽⁸⁾	22.0	110.8	79.7	48.3	44.2
Workers Compensation Benefits ⁽⁹⁾	31.0	2.7	3.2	6.3	10.1
Health, Dental and Other Benefits ⁽¹⁰⁾	7.9	32.8	30.7	32.1	31.4
Debt Service ⁽¹¹⁾	8.0	17.3	(2.6)	(24.4)	(6.4)
Delete Reso. Authority/ERIP/One-Time Costs ⁽¹²⁾	(84.2)	-	-	-	-
Unappropriated Balance ⁽¹³⁾	27.3	(8.0)	-	-	-
New Facilities ⁽¹⁴⁾	3.3	2.7	0.6	0.8	0.4
City Elections ⁽¹⁵⁾	17.0	(17.0)	17.5	(17.5)	17.5
CIEP ⁽¹⁶⁾	1.0	-	-	-	-
Appropriation to the Reserve Fund	4.9	(4.9)	-	-	-
Net - Other Additions and Deletions	1.2	-	-	-	-
Subtotal Expenditures	\$4,550.5	\$4,836.5	\$5,055.9	\$5,166.6	\$5,294.9
<i>Expenditure Growth (Reduction) %</i>	<i>3.8%</i>	<i>6.3%</i>	<i>4.5%</i>	<i>2.2%</i>	<i>2.5%</i>
<i>Expenditure Growth (Reduction) \$</i>	<i>164.8</i>	<i>286.0</i>	<i>219.4</i>	<i>110.6</i>	<i>128.4</i>
TOTAL BUDGET GAP		(215.9)	(326.6)	(296.8)	(264.5)
<i>Incremental Increase(Decrease) % in Gap</i>			<i>51.2%</i>	<i>-9.1%</i>	<i>-10.9%</i>
<i>Incremental Increase(Decrease) \$ in Gap</i>			<i>(110.7)</i>	<i>29.8</i>	<i>32.3</i>

Revenue:

- ⁽¹⁾ General Fund (GF) Base: The revenue base for each year represents the prior year's estimated revenues.
- ⁽²⁾ Revenue Growth: Revenue projections reflect the consensus of economists that economic recovery will be slow and that economy-sensitive revenues will take several years to return to pre-recession levels. Amounts represent projected incremental change to the base. Any one-time receipts are deducted from the estimated revenue growth for the following fiscal year.
- ⁽³⁾ Property tax increase from FY 2012-13 to 2013-14 is based on expectations of receiving additional ex-CRA tax increment revenue.
- ⁽⁴⁾ California Senate Bill SB89 of 2011 eliminated, effective July 1, 2011, Vehicle License Fee (VLF) revenue allocated under California Revenue and Taxation Code 11005 to cities. As a part of the Legislature's efforts to solve the state's chronic budget problems, the bill shifted all city VLF revenues to fund law enforcement grants that previously had been paid by a temporary state tax and, prior to that, by the state general fund. The League of California Cities has challenged this action in court as a Constitutional violation. The projected ongoing loss in City revenue is approximately \$15 million.

Estimated General Fund Expenditures:

- ⁽⁵⁾ Estimated Expenditure General Fund Base: Using the 2011-12 General Fund budget as the baseline year, the General Fund base is the "Total Obligatory and Potential Expenditures" carried over to the following fiscal year.
- ⁽⁶⁾ The 2012-13 incremental changes reflect funding adjustments to the prior fiscal year General Fund budget. The Four-Year Outlook expenditures included for subsequent years are limited to those obligatory and major expenses known at this time and are subject to change. Amounts represent projected incremental change to the base.
- ⁽⁷⁾ Employee Compensation Adjustments: This includes cost of living adjustment ("COLA"), change in number of working days, salary step and turnover effect, and full funding for partially financed positions from the prior year. The Outlook reflects various labor agreements and assumes

Table 13
GENERAL FUND BUDGET OUTLOOK
(\$ millions)

the layoff of 209 positions in January 2013.

Coalition of Los Angeles City Unions and Management Attorneys (“Coalition”): Salary adjustments are based on the Amendment to the Letter of Agreement between the City and Coalition, dated April 8, 2011, for the period April 2, 2011 to June 30, 2014. All Coalition bargaining units, except units 9, Plant Equipment Operators and Repair, and 29, Deputy City Attorneys, ratified the Amendment. Highlights of the agreement are presented in Table 1.

Table 1
Highlights of the April 2011 Coalition MOUs (except MOUs 09 and 29)

July 1, 2011 to June 30, 2014	2010-11*	2011-12	2012-13	2013-14
COLA - July 1 st	n/a	0.75% (2.25% -1.5%)	3.75% (2.25%+1.5%)	1.75%
Step Adjustment - Jan. 1 st	n/a	0%	0%	5.5%
Deferral Recovery – July 1 st	n/a	0%	0%	0%
Cash Payment - Nov. 1 st	n/a	0%	None (1.75% converted to paid Time off in 2012-13)	0%
Holiday Closure Days/n/a in exchange for above 1.5% pay cut (see above Cash Pay’t note)	4 paid			
Retiree Health Contribution - July 1 st (Apr.2011)2% (4% total)	none	2%		

*For 2010-11 salary adjustments, refer to Table 2

Memorandum of Understanding (“MOU”) 09, Plant Equipment Operators and MOU 29, Deputy City Attorneys: Salary adjustments are made in accordance with Table 2 below. The one-time furlough savings of \$9.4 million for City Attorney (MOU 29, 32) will be restructured into a permanent salary reduction for FY 2013-14.

Table 2
2007-12 Coalition MOUs Applicable to MOU 09 and 29
(Revised for 2010-11 Budget)

	2009-10	2010-11	2011-12	2012-13
COLA - July 1 st	0%	3%	2.25%	2.25%
Step Adjustment - Jan. 1 st	0%	2.75%	2.75%	2.75%
Deferral Recovery – July 1 st	0%	0%	0%	1.75%
Cash Payment - Nov. 1 st	n/a	0%	0%	1.75%
Retirement Contribution	n/a	n/a	n/a	n/a

MOUs 8, Professional Engineering and Scientific, and 17, Supervisory Professional Engineering & Scientific: The term of MOUs 8 and 17, members of Service Employees International Union (“SEIU”), is July 1, 2010 to June 30, 2014 (Table 3).

MOU 32, Management Attorneys: Amendment No. 1 to the 2007-2012 MOU expires June 30, 2012 (Table 3).

Table 3
Highlights of Other MOUs

(Various Terms)	2011-12	2012-13	2013-14
MOUs 8 and 17 (SEIU):			
Contribution Offset – July 3 rd	0.5% (2% -1.5%)	0%	
Contribution Offset - June 30 th	0%	3%	
Holiday Closure Days continued 1.5% pay cut	4 paid in exchange for above 1.5% pay cut		4 paid in exchange for
Retiree Health Contribution - July 1 st	4%		
MOU 32 Management Attorneys:			
COLA – July 1 st	2.25%	n/a	n/a
Step Adjustment – June 29 th	2.75%	n/a	n/a
Furloughs Days	13	n/a	
Retiree Health Contribution - July 1 st	4%		

Engineers and Architects Association (“EAA”): Table 4 reflects the City’s contract with EAA for the period July 1, 2011 through June 30, 2014.

Table 13
GENERAL FUND BUDGET OUTLOOK
(\$ millions)

MOU 00, Non-represented Employees, and MOU 61, Senior Administrative and Administrative Analysts: The term of MOUs 00 and 61 is July 1, 2010 to June 30, 2013 (Table 4). With adoption of the EAA MOU, FPPA members will receive a 2.5 percent increase on July 1, 2012.

MOU 05, Inspectors (“MCIA”): The term of MOU 05 is July 1, 2011 to June 30, 2014 (Table 4).

MOU 28, GSD Police Officers: The term of MOU 28 is July 1, 2009 to June 30, 2014 (Table 4).

Table 4
Highlights of Other MOUs

(Various Terms)	2010-11	2011-12	2012-13	2013-14
EAA				
COLA – July 1 st	0%	0%	2.5%	1.5%
Retiree Health Contribution – July 1 st	0%	0%	4%	n/a
Furlough Days	10	26	5	n/a
MOU 00 and 61				
(Non-Rep & FPPA):				
Contribution Offset – Jan. 1 st	0%	3%	3%	n/a
“Me Too” clause w/ EAA	0%	0%	2.5%	n/a
Unpaid Holidays	n/a	4	4	n/a
Retiree Health Contribution – July 1 st	n/a	2%		n/a
Retiree Health Contribution – Jan. 1 st	n/a		2% (4% total)	n/a
MOU 05 MCIA:				
Contribution Offset – July 3rd	n/a	2%	0%	0%
Contribution Offset – Jan. 1 st	n/a	0%	1.5%	1.5%
Unpaid Holidays (GF only)	n/a	6	5	4
Retiree Health Contribution - July 1 st	n/a	4%		
MOU 28 GSD Police Officers				
COLA – July 1 st	n/a	n/a	1%	1%
COLA – Jan. 1 st	n/a	n/a	1%	1%
Retiree Health Contribution – July 1 st	n/a	4%	n/a	n/a

Sworn Fire and Police Officers: Table 5 reflects the City’s contract with the Los Angeles Police Protective League (“LAPPL”) and the United Firefighters of Los Angeles (“UFLAC”) MOU for the period July 1, 2011 through June 30, 2014.

Sworn MOUs	2011-12	2012-13	2013-14	2014-15
LAPPL and UFLAC				
COLA – July 1 st	0%	1%	1%	n/a
COLA – Jan. 1 st	0%	2%	0%	n/a
COLA - Nov. 1 st	0%	0%	1%	0%
COLA – March 1 st	0%	0%	2%	0%

(8) City Employment Retirement System (“LACERS”) and Fire & Police Pensions (“Pensions”): The LACERS and Pensions contribution are estimated based on information from the departments’ actuaries and include COLA assumptions as noted above. The amounts reflected in the outlook represent incremental changes. The estimates are mostly driven by changes in assumptions and investment returns.

Table 6
LACERS and Pensions

Assumptions	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
LACERS						
6/30 th Investment Returns	0%	7.75%	7.75%	7.75%	7.75%	7.75%
Rate without Retiree Health Contribution	27.66%					
Blended Contribution Rate		24.14%	26.07%	28.47%	31.10%	32.79%

Table 13
GENERAL FUND BUDGET OUTLOOK
(\$ millions)

Pensions						
6/30 th Investment Returns	0%	7.75%	7.75%	7.75%	7.75%	7.75%
Contribution Rate	39.07%	39.94%	47.13%	52.35%	55.98%	59.30%

- (9) Workers Compensation Benefits (“WC”): The 2012-13 WC budget increase of approximately \$20 million for medical claims is based on the draft January 2012 actuarial analysis that projects annual medical inflation of seven percent, a five percent annual cost increase in permanent disability costs and an increase in lien payments to fire and police medical providers. The WC line-item also includes increases in the State Assessment Fee (\$1.5 million) and the following contracts: Third Party Administrator (TPA) for sworn claims (\$1.5 million); new Utilization Review (\$8 million); and Alternative Dispute Resolution (\$1 million).
- (10) Health and Dental Benefits: Projections are based upon the City subsidy amounts provided in the MOUs as of January 1, 2012, assumed enrollment, as well as the civilian plan rate forecast provided by Mercer Consulting. Civilian FLEX medical premiums are expected to increase by 10.8% for 2013; 9.07% for 2014; 8.70% for 2015; 8.04% for 2016; and 7.67% for 2017. Police and Fire health benefits are historically higher due to the subsidy increases and type and level of coverage elected by sworn employees. Police and Fire enrollment projections are consistent with the hiring plan. It is anticipated that the health care reform laws of 2010 may cause changes to health plans starting in 2014; however, its impact is unknown at this time.
- (11) Debt Service: The debt service amounts include Capital Finance and Judgment Obligation Bond budgets.
- (12) Delete One-time Resolution Authorities and Other Costs: Reflects City practice of deleting programs and costs that are limited-term and temporary in nature at the start of the budget process. Funding for these positions, programs, and expenses is reviewed on a case-by-case basis and dependent upon continuing need for the fiscal year. Continued or new items added are embedded in the “Net – Additions and Deletions” line item of the forecast. None are deleted in subsequent years to provide a placeholder for continuation of resolution authority positions for various programs, as well as equipment, and other one-time expenses incurred annually. As such, these costs are therefore incorporated into the beginning General Fund base of subsequent years.
- (13) Unappropriated Balance (UB): One-time UB items are eliminated while ongoing items are continued the following year to provide a placeholder for various ongoing and/or contingency requirements in the future.
- (14) New Facilities: Funding projections are based on preliminary departmental estimates for ongoing staffing and expenses that have not been prioritized.
- (15) Elections: Citywide elections occur bi-annually.
- (16) Capital Improvement Expenditure Program (CIEP): The 2012-13 Proposed Budget includes \$7.5 million for various capital projects. For future years, the CIEP amounts do not assume compliance with the policy of budgeting 1% of the General Fund Revenue for capital improvement projects.

Source: City of Los Angeles, Office of the City Administrative Officer.

GAAP-Based Fund Balance

The table below presents the City’s year-end unreserved fund balance, as reported in the City’s annual Basic Financial Statements for Fiscal Years 2005-06 through 2009-10, prepared in accordance with GAAP on a modified accrual basis prior to the implementation of GASB Statement No. 54. The table also compares the City’s General Fund unreserved fund balance with its General Fund revenues. Designations of the General Fund balance represent the amount allocated to the Emergency Reserve Account in the City’s cash-based Reserve Fund, as well as certain advances and technical adjustments. (See “FINANCIAL OPERATIONS—Reserve Fund,” below, which is not presented on a GAAP basis). The declines in total Unreserved General Fund balances in Fiscal Years 2006-07 and 2007-08 were, in part, a result of above-budget revenues or below budget expenditures from the prior fiscal year being appropriated to help balance the budget in subsequent fiscal years. The declines in Fiscal Years 2008-09 and 2009-10 were, in part, a result of declines in revenues not being completely offset by expenditure reductions.

Table 16
ANALYSIS OF UNRESERVED GENERAL FUND BALANCES
GAAP BASIS
(\$ in millions)

Fiscal Year	Unreserved General Fund Balance as of June 30			General Fund Revenues ⁽¹⁾	Unreserved Fund Balance as Percent of Revenues
	Designated	Undesignated	Total		
2005-06	\$118.5	\$452.7	\$571.2	\$4,016.2	14.2%
2006-07	132.0	303.2	435.2	4,394.2	9.9
2007-08	162.8	255.9	418.7	4,523.4	9.3
2008-09	159.8	156.7	316.5	4,620.9	6.8
2009-10	157.1	114.9	272.0	4,518.0	6.0

⁽¹⁾ Includes Operating Transfers In.

Source: City of Los Angeles, Comprehensive Annual Financial Reports.

The Government Accounting Standards Board (GASB) has provided new guidance for the presentation of fund balance in the General Fund and other governmental funds, effective with financial statements for periods beginning after June 15, 2010. Statement No. 54 provides a new hierarchy of fund balance classifications. A description of the new classifications appears in “Note 1 (E) Assets, Liabilities and Net Assets or Equity,” in the City’s CAFR for the Fiscal Year Ended June 30, 2011. The table below restates the historical fund balances for the General Fund for Fiscal Years 2006-07 through 2009-10 under this new hierarchy. A restatement beginning in Fiscal Year 2002-03 can be found in the Statistical Section of the CAFR. The City has not attempted to compare the restated fund balance to its revenues, as a market convention for such analysis has not yet emerged.

Table 17
GASB 54 GENERAL FUND BALANCE
(\$ in millions)

	Fiscal Year Ending June 30					
	2006	2007	2008	2009	2010	2011
General Fund						
Nonspendable ⁽¹⁾	\$ 41,449	\$ 59,638	\$ 30,304	\$ 27,879	\$ 29,771	\$ 26,299
Assigned ⁽²⁾	296,999	391,023	352,416	233,761	182,835	239,877
Unassigned ⁽³⁾	<u>446,942</u>	<u>257,249</u>	<u>215,227</u>	<u>221,811</u>	<u>224,574</u>	<u>253,882</u>
Total Fund Balance	\$785,390	\$707,910	\$597,947	\$483,451	\$437,180	\$520,058

⁽¹⁾ Includes inventories and certain advances to other funds.

⁽²⁾ Includes encumbrances, various revolving funds, and certain net receivables

⁽³⁾ Primarily consists of the City’s reserve fund.

Source: City of Los Angeles, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

MAJOR GENERAL FUND REVENUE SOURCES

Utility Users' Taxes

Utility users' taxes represent 13.7% of General Fund revenues in the Fiscal Year 2012-13 Adopted Budget. The City imposes taxes on users of natural gas, electricity and telephone services within the City's limits. The tax is 9% of utility charges on taxable communication services, 10% for natural gas and residential electricity, and 12.5% for commercial and industrial electricity.

An exemption from the utility users' tax is available to senior citizens over the age of 62 and to disabled individuals, provided that the combined adjusted gross income of all household members is below the "very low income" limitation for a family of two persons under the Section 8 housing programs. As provided by the State Constitution, insurance companies are exempt from the tax. In addition, County, State, Federal and foreign governments within the City are not subject to this tax, as the City has no authority to impose a tax on these entities. Exemptions account for approximately 10% of the total tax base.

Utility users' tax receipts can be volatile, as they reflect not only power, gas and telephone rates, but also business activities and changing technologies. Both electricity and natural gas sales are sensitive to weather (warm winters and cool summers reduce demand).

The City's telephone users' tax ordinance has been the subject of litigation challenging application of the tax to certain telecommunications services as a result of outdated ordinance definitions or references to outdated federal laws. One outstanding suit, *Ardon v. City of Los Angeles*, is potentially of particular significance. The suit is a class action challenging the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. On July 25, 2011, the State Supreme Court held that class actions against municipalities for refunds of local taxes are permitted under State law, and remanded the matter back to the trial court for consideration on the merits. While the ultimate resolution of this case may be several years away, it is possible that this matter could be resolved as soon as Fiscal Year 2012-13. If the plaintiffs prevail on the merits of the underlying complaint, the City's liability could be up to \$750 million, which represents the amount of telephone users' tax collected between the time federal law changed in 2006 and the electorate approved a measure in 2008 that modernized the City's ordinance. (See "RECENT DEVELOPMENTS RELATING TO THE FINANCIAL CONDITION OF THE CITY" and "LITIGATION" herein.)

The electorate approved Proposition S on the February 5, 2008 election ballot. This measure replaced the prior telephone users' tax ordinance with a modern communications tax ordinance. The measure reduced the rate of the City tax on users of communications services from 10% to 9%, and distributed the tax burden to a broader tax base than the prior ordinances, including private communication services, voice mail, paging services, text messaging and pay-phone usage. The new tax applies to all users of telephone services, whether traditional "land line," wireless, or broadband telephone service to the extent permitted by federal law. Federal law currently prohibits the taxing of internet access (such as charges from internet service providers for access to the internet) and accordingly internet access is not taxed.

The table below shows the actual and budgeted receipts from the Utility Users' Tax:

Table 22
UTILITY USERS' TAX RECEIPTS⁽¹⁾
(in millions)

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u> <u>(Estimated)</u>	<u>2012-13</u> <u>(Adopted Budget)</u>
Electric Users' Tax	\$278,208	\$293,554	\$303,812	\$306,832	\$313,105
Gas Users' Tax	81,258	70,397	72,410	71,000	73,000
Telephone Users' Tax	<u>288,357</u>	<u>267,097</u>	<u>251,847</u>	<u>243,000</u>	<u>236,500</u>
	<u>\$647,822</u>	<u>\$631,048</u>	<u>\$628,069</u>	<u>\$620,832</u>	<u>\$622,605</u>

⁽¹⁾ Cash basis.

Source: City of Los Angeles, Office of the City Administrative Officer.

FINANCIAL OPERATIONS

Reserve Fund

The Reserve Fund was created by the City Charter. The City may transfer moneys from the Reserve Fund as part of the Adopted Budget or throughout the fiscal year for appropriation, or may transfer funds as a loan to other funds. The City also transfers moneys to the Reserve Fund from time to time throughout the year. All unencumbered cash amounts in the General Fund revert to the Reserve Fund at the end of the fiscal year; some of those funds will be reappropriated at the beginning of the following fiscal year (primarily for General Fund capital projects).

In March, 2011, voters approved a provision in the City's Charter to formalize current financial policies adopted by the Mayor and Council and established a minimum balance equal to 2.75% of General Fund revenue that must be kept in reserves for emergencies. The measure amended Section 302 of the Charter to require the Reserve Fund accounts described below.

The Reserve Fund is composed of two accounts—a Contingency Reserve Account and an Emergency Reserve Account. Amounts in the Emergency Reserve Account, representing 2.75% of General Fund revenues, are restricted for funding an "urgent economic necessity" upon a finding by the Mayor and Council of such necessity and to be replenished in the subsequent fiscal year except in the case of a catastrophe. The balance of the available Reserve Fund is allocated to the Contingency Reserve Account, and is available to address unexpected expenditures relating to existing programs or revenue shortfalls upon authorization by the Mayor and City Council. The Reserve Fund was reported as part of the Unreserved General Fund fund balance in the City's Financial Statements through Fiscal Year 2009-10. Beginning with Fiscal Year 2010-11 and the implementation of GASB 54, the Reserve Fund is reported as part of the Unassigned Fund Balance. See "BUDGET AND REVENUES—GAAP-Based Fund Balance," above.

The table below contains a five-year history of the City's Reserve Fund balances as of July 1. This balance is reported as of the beginning of the fiscal year in order to avoid overstating the balance as a result of year-end reversions, many of which are reappropriated as of July 1. The Fiscal Year 2012-13 Adopted Budget set the Reserve Fund at \$218 million, which is 4.79 percent of the General Fund budget.

Table 32
RESERVE FUND
As of July 1st
(\$ in millions)

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Emergency Reserve	\$125.2	\$121.0	\$120.3	\$120.6	\$125.1
Contingency Reserve	<u>40.6</u>	<u>31.9</u>	<u>51.1</u>	<u>80.1</u>	<u>92.9</u>
Total	\$165.8	\$152.9	\$171.4	\$200.70	\$218.0
% of General Fund Revenues	3.64%	3.45%	3.92%	4.58%	4.79%

Source: City of Los Angeles, Office of the City Administrative Officer.

Labor Relations

In 1971, the City adopted an employee relations ordinance under the provisions of the Meyers-Milias-Brown Act (“MMBA”). Under the MMBA, management must bargain with recognized employee organizations on terms and conditions of employment, including wages, hours, and other working conditions. The CAO is the formal management representative on employee relations matters, representing the Mayor and Council in negotiations with bargaining units. The CAO receives direction from the Executive Employee Relations Committee (“EERC”), consisting of the Mayor, the President of the Council, the President Pro-Tempore of the Council and the chairpersons of the Council’s Budget and Finance and Personnel and Animal Welfare Committees. Formal Memoranda of Understanding (“MOUs”) are executed between the City and the bargaining units incorporating the negotiated wages and working conditions.

There are 42 individual MOUs, representing about 36,000 full-time City employees (these bargaining units include employees of the Airport and Harbor departments, but exclude DWP employees). The 42 MOUs are represented by 22 labor unions/employee associations and 757 employees are not represented. Employees that are members of the Los Angeles City Employees’ Retirement System (“LACERS”) are considered to be “civilian” employees. Employees that are members of the City of Los Angeles Fire and Police Pension Plan (“FPPP”) are considered to be “sworn” or “safety” employees.

Over the last three fiscal years, the CAO, at the direction of the EERC, has worked with labor unions to reduce the City’s labor expenses by reducing the workforce through an Early Retirement Incentive Program (ERIP), reducing working hours for civilians (e.g., unpaid holidays), deferring or eliminating cost-of-living adjustments, reducing or eliminating cash overtime, changing active civilian employee healthcare benefits, and beginning to reform its pension plans, including retiree healthcare benefits. During this time, the City also eliminated funded positions, transferred hundreds of employees into vacant non-General Fund positions, implemented furloughs on City civilian workers and executed layoffs. The City’s adopted authorized staffing level for Fiscal Year 2012-13 is 31,816, the lowest level in 19 years, since Fiscal Year 1993-94.

During Fiscal Year 2010-11, the City negotiated and implemented significant reductions in the ongoing cost of its workforce. The City entered into an agreement with labor unions representing nearly 14,000 full-time civilian employees that offset over \$60 million in Fiscal Year 2011-12. The agreement secured a 4% active employee contribution towards retiree healthcare, restructured cost-of-living-adjustments, decreased salaries by 1.5%, and froze scheduled salary step increases for one year. In exchange, these employees will receive future salary increases, including a 5.5% increase on January 1, 2014, and the City will deem their post-employment health subsidy benefits as vested. The 5.5% salary increase is anticipated to cost approximately \$28 million in Fiscal Year 2013-14. In addition, the City entered into a separate agreement with a labor union representing over 4,000 civilian employees that offset \$19 million by securing concessions, including 10 unpaid holidays, changing employee healthcare benefits, flat-rating bonuses, and extending salary step movement by an additional six months.

On June 5, 2012, the City continued to declare a fiscal emergency by adopting an Emergency Resolution, authorizing departments to continue utilizing reduced work schedules or alternative means of generating payroll

savings and to reduce total employee compensation costs, including pension and retiree healthcare. The City has adopted a similar Emergency Resolution each of the last 3 years. The actions authorized could be in the form of working hour reductions, layoffs, unpaid floating holidays, office closures, abolishment of positions, or any other methods necessary to ensure and improve the City's fiscal stability. In addition, pursuant to the Emergency Resolution, the City suspended the annual contribution to the Matching Campaign Funds Trust Fund for Fiscal Year 2012-13. As a result of a similar emergency resolution passed in May 2011, some civilian employees in certain bargaining units were furloughed in Fiscal Year 2011-12 to save approximately \$27 million. Furloughs for some civilian employees will continue in Fiscal Year 2012-13 to save approximately \$9 million.

In addition, the City has implemented significant reductions to its expenditures related to sworn employees. In March 2011, voters approved a Charter amendment for a new sworn retirement tier that is anticipated to save \$152 million over the next 10 years. Multi-year agreements have also been reached with the Los Angeles Police Protective League, representing approximately 9,917 sworn employees, and with the United Firefighters of Los Angeles City, representing 3,328 sworn employees. These contracts will expire in 2014 with salary increases occurring in Fiscal Years 2012-13 and 2013-14 (as shown on the table below). In addition to the MOU, an agreement was reached that gives members the option to contribute an additional 2% (post-tax) toward vesting their current retiree health benefit and any future increases; approximately 70% of the eligible sworn workforce (representing 64% of the total sworn workforce) has elected to make this contribution. Those that did not choose to make the additional contribution had their current subsidy level frozen.

The following table summarizes the membership and status of the largest unions and employee associations. See also "BUDGET AND REVENUES—Budget Outlook," including the footnotes to Table 13.

Table 35
STATUS OF LABOR CONTRACTS
LARGEST EMPLOYEE ORGANIZATIONS
(As of June 1, 2012)

<u>Organization</u>	<u>Authorized Number of Full-Time Employees Represented⁽¹⁾</u>	<u>Number of Bargaining Units</u>	<u>Status of Memorandum of Understanding</u>	<u>Cost of Living Adjustment</u>
Los Angeles Police Protective League	9,813	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
United Firefighters of Los Angeles City	3,239	1	Contract expires 6/30/14	1% on 7/1/12 2% on 1/1/13 1% on 7/1/13 1% on 11/1/13 2% on 3/1/14
Coalition of Los Angeles City Unions ⁽²⁾	13,820	16	Contract expires 6/30/14 April/May 2011 contracts restructured.	3% on 7/1/2010 2.75% on 1/1/2011 2.25% on 7/1/11 2.25% on 7/1/12 32 hours time-off in lieu of compensation (11/1/12) 1.75% deferral recovery on 7/1/13 5.5% on 1/1/14
Engineers and Architects Association	4,670	4	Contract expires 7/1/13	2.5% on 7/1/12 1.5% on 7/1/13
Service Employees International Union – Units 8 & 17	1,733	2	Contract expires 6/30/14.	2% on 7/3/11 3% on 6/30/13
Municipal Construction Inspectors Association (MCIA)	837	1	Contract expires 6/30/14.	2% on 7/3/11 1.5% first full pay period January 2013 1.5% first full pay period January 2014

⁽¹⁾ Total authorized employees in all departments except DWP.

⁽²⁾ Excludes IBOE, Local 501 and Deputy City Attorneys who maintain the original Coalition contract expiring 6/30/13. Remaining coalition member units are represented by Service Employee International Union, Local 721, American Federation of State, County and Municipal Employees, Laborers' International Union of North America Local 777, Los Angeles/Orange County Building & Construction Trades Council, and the Teamsters, Local 911.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below shows total authorized City staffing for all departments except the City's three proprietary departments: Airports, Harbor, and DWP. The Police Department represents the single largest department in terms of authorized positions.

Table 36
AUTHORIZED CITY STAFFING⁽¹⁾

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	Estimated <u>2011-12</u>	Adopted Budget <u>2012-13</u>
Police	<u>14,253</u>	<u>14,012</u>	<u>13,740</u>	13,677	13,647
All Others	<u>22,718</u>	<u>21,852</u>	<u>19,225</u>	<u>18,594</u>	<u>18,169</u>
Total	<u>36,971</u>	<u>35,864</u>	<u>32,965</u>	32,271	31,816

⁽¹⁾ Excludes the Departments of Airports, Harbor, and Water and Power.

Source: City of Los Angeles, Office of the City Administrative Officer.

Retirement and Pension Systems

General

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees' Retirement System ("LACERS"), the City of Los Angeles Fire and Police Pension Plan ("FPPP"), and the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan"). No General Fund monies of the City are allocated to the Water and Power Plan.

Both LACERS and FPPP (collectively, the "Pension Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although from time to time phasing-in of changes has resulted in a small net pension obligation or net OPEB obligation for specific years.

The Pension Systems' annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. The valuation incorporates a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, and inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities contemplated based on the assumptions. The contribution rates in the next year's valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial valuation of assets that are lower or higher than the market value of assets. As discussed below, both systems have recently amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the

table below. For planning purposes, the City is assuming that both systems will experience 0% returns for Fiscal Year 2011-12. Any return below the actuarial assumed rate of return (currently 7.75% for both of the Pension Systems) represents an actuarial investment loss.

Table 37
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

<u>Fiscal Year</u>	<u>LACERS⁽¹⁾</u>	<u>FPPP⁽²⁾</u>
2001-02	(5.25)%	(7.97)%
2002-03	3.61%	5.47%
2003-04	18.84%	16.92%
2004-05	9.71%	9.83%
2005-06	12.34%	12.40%
2006-07	19.1%	18.3%
2007-08	(5.8)%	(5.0)%
2008-09	(20.3)%	(20.7)%
2009-10	12.8%	14.7%
2010-11	21.3%	21.2%

⁽¹⁾ As of June 30, 2011, the 10-year annualized average rate of return for LACERS is 6.2%. The 20-year average is 8.4%.

⁽²⁾ As of June 30, 2011, the 10-year annualized average rate of return for FPPP is 5.85%. The 20-year average is 8.76%.

Source: City of Los Angeles, Office of the City Administrative Officer.

The City has never issued pension obligation bonds to fund either of its Pension Systems.

This section, “Retirement and Pension Systems,” and the following section, “Other Post-Employment Benefits,” contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent accountants and their actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites, at <http://www.lacers.org/aboutlacers/reports/index.html> and <http://www.lafpp.com/LAFPP/financial.html>, respectively. Such information is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the “Notes to the City’s Basic Financial Statements” in the City’s Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is “forward looking” information. Such “forward looking” information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the amount of assets that the Pension Systems will be required to accumulate to fund future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

Los Angeles City Employees’ Retirement System (LACERS)

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2011, the date of its most recent actuarial valuation, LACERS had 25,449 active members, 17,197 retired members and beneficiaries, and 5,623 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City’s Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Projected Unit Credit Cost Method, a method under which the projected benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years.

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS' actuary, The Segal Company, in preparing LACERS' actuarial report as of June 30, 2011.

Table 38
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
Actuarial Assumptions
As of June 30, 2011

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.65% to 11.25%
Cost of living adjustments for pensioners	3.00%

Source: LACERS Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2011.

Based on the results of its recent triennial experience study dated September 30, 2011 for the three-year period from July 1, 2008 through June 30, 2011, LACERS adopted new actuarial assumptions, including a reduced assumed investment return from 8% to 7.75%. The impact of these new actuarial assumptions would have increased the City's contribution rate by approximately 1.39% in Fiscal Year 2012-13. However, LACERS' Board approved phasing in impacts of these changes in assumptions over 5 years, which will result in a projected 0.28% increase to the City's contribution rate beginning with Fiscal Year 2012-13.

Over the past several years, LACERS' Board took several actions to change its asset smoothing method. First, it extended the period of time over which it recognizes market gains and loss from five to seven years, effective with the June 30, 2010 actuarial evaluation. Under this asset smoothing, only 1/7th of annual market gains or losses are recognized in the actuarial value of assets each year. LACERS also amended the manner by which it recognizes extraordinary losses or gains in the market value of assets. LACERS, like a number of pension systems, maintains a policy that whenever market value falls outside a certain range or "corridor" relative to actuarial value, the excess portion must be recognized in that year's valuation. Previously, losses that resulted in market value being less than 80% of the calculated actuarial value, or gains resulting in market values greater than 120% of actuarial values, had to be recognized immediately. Because of investment losses for Fiscal Year 2008-09 of approximately 20%, LACERS' actuary estimated that the actuarial value would be greater than 120% of the market value of assets. Application of this corridor meant that losses would be recognized more quickly than would occur under normal smoothing. LACERS' Board adopted a wider corridor, effective June 30, 2009, requiring immediate recognition of assets whose actuarial value was greater than 150% of the market value or less than 50% of the market value. The effect of this action was to defer the actuarial recognition of extraordinary market losses, reducing the City's Fiscal Year 2010-11 contribution by \$84 million and reducing the contribution by \$80 million in Fiscal Year 2011-12. However, the unrecognized losses will have to be paid in future years. In connection with the revised smoothing method discussed above, LACERS again, as of June 30, 2010, revised its market corridor, narrowing it to 60%-140%.

The following table shows unrecognized gains and losses as of June 30, 2011. As of the valuation date, approximately \$587.0 million of net investment return losses are being deferred. These deferred losses will be reflected in future valuations and will likely increase the City's contribution in the future, unless offset by other favorable plan experience.

Table 39
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2011

<u>Year Ended June 30</u>	<u>Original Actuarial Gain (Loss)</u>	<u>Percent Not Yet Phased in</u>	<u>Amount Not Recognized</u>
2011	\$1,208,621,516	85.71%	\$1,035,961,299
2010	392,956,483	71.43%	280,683,202
2009	(2,964,832,484)	53.33%	(1,581,243,991)
2008	(1,549,293,380)	36.00%	(557,745,617)
2007	1,054,377,186	20.00%	210,875,437
2006	366,478,652	6.67%	24,431,910
Total unrecognized return (loss)			\$ (587,037,760)

Source: LACERS Actuarial Valuation and Review of Pension and Other Postemployment Benefits (OPEB) as of June 30, 2011.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Existing liabilities as of July 1, 2005 have been amortized over a fixed period of 30 years. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 30 years for retiree health care benefits and retirement benefits, respectively. LACERS shortened certain amortization periods beginning with the June 30, 2010 actuarial valuation; for example, liabilities caused by early retirement incentives will be funded over 5 years; other benefit changes will be amortized over 15 years.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

Table 40
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
(Dollars in Thousands)⁽¹⁾

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL ⁽²⁾	Funded Ratio ⁽³⁾	Covered Payroll ⁽⁴⁾	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll ⁽⁵⁾
2002	\$7,060,188	\$ 7,252,118	\$ 191,930	97.4%	\$1,334,335	14.4%
2003	6,999,647	7,659,846	660,199	91.4%	1,405,058	47.0%
2004	7,042,108	8,533,864	1,491,756	82.5%	1,575,285	94.7%
2005	7,193,142	9,321,525	2,128,383	77.2%	1,589,306	133.9%
2006	7,674,999	9,870,662	2,195,663	77.8%	1,733,340	126.7%
2007	8,599,700	10,526,874	1,927,174	81.7%	1,896,609	101.6%
2008	9,438,318	11,186,404	1,748,085	84.4%	1,977,645	88.4%
2009	9,577,747	12,041,984	2,464,237	79.5%	1,816,171	135.7%
2010	9,554,027	12,595,025	3,040,998	75.9%	1,817,662	167.3%
2011	9,691,011	13,391,704	3,700,693	72.4%	1,833,392	201.9%

⁽¹⁾ Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.

⁽²⁾ Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.

⁽³⁾ Actuarial value of assets divided by actuarial accrued liability.

⁽⁴⁾ Annual payroll for members of LACERS.

⁽⁵⁾ UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2011.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 41
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
(Dollars in Thousands)⁽¹⁾

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) Liability ⁽²⁾	Funded Ratio (Market Value) ⁽³⁾	Covered Payroll ⁽⁴⁾	Unfunded Liability as a Percentage Of Covered Payroll (Market Value) ⁽⁵⁾
2004	\$6,879,278	8,533,864	\$1,654,586	80.6%	1,575,285	105.03%
2005	7,393,707	9,321,525	1,927,818	79.3%	1,589,306	121.30%
2006	8,204,603	9,870,662	1,666,059	83.1%	1,733,340	96.12%
2007	9,708,718	10,526,874	818,156	92.2%	1,896,609	43.14%
2008	9,059,551	11,186,404	2,126,853	81.0%	1,977,645	107.54%
2009	7,122,911	12,041,984	4,919,073	59.2%	1,816,171	270.85%
2010	7,804,223	12,595,025	4,790,802	62.0%	1,817,662	263.57%
2011	9,186,697	13,391,704	4,205,007	63.6%	1,833,392	229.36%

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) Unfunded liability divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuation as of June 30, 2011.

The table below summarizes the City's payments to LACERS over the past five years. This table includes costs for retirement, as well as for retiree health care (see "FINANCIAL OPERATIONS —Other Post-Employment Benefits"), and other miscellaneous benefits.

Table 42
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
(Dollars in Thousands)⁽¹⁾

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	Estimated ⁽³⁾ <u>2011-12</u>	Adopted Budget <u>2012-13</u>
Sources of Contributions					
Contributions for Council-Controlled Departments	\$312,661	\$298,217	\$339,136	\$394,969	\$342,188
Airport and Harbor Departments	<u>57,527</u>	<u>57,548</u>	<u>72,701</u>	<u>87,530</u>	<u>77,618</u>
Total	\$370,188	\$355,765	\$411,837	\$482,499	\$419,806
Percent of payroll	20.2%	19.4%	24.49%	27.66%	24.14%
Uses of Contributions					
Current Service Liability (Normal cost)	\$235,148	\$238,536	\$230,398	\$236,164	\$184,070
UAAL	134,527	116,618	180,559	245,569	234,729
Adjustments ⁽²⁾	<u>513</u>	<u>611</u>	<u>880</u>	<u>766</u>	<u>1,007</u>
Total	\$370,188	\$355,765	\$411,837	\$482,499	\$419,806

⁽¹⁾ Includes funding for other post-employment benefits.

⁽²⁾ Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund.

⁽³⁾ The City contribution noted above reflects the projected contribution based on the City's 2011-12 Adopted Budget. The actual amount paid to LACERS for Council-Controlled Departments, Airports and Harbor as of May 17, 2012 was reduced to \$427.5 million due to subsequent amendments to various employee agreements. However, LACERS has advised that the amount includes an overpayment of approximately \$3.7 million which is expected to be credited in 2012-13. The portion of the respective credit attributable to Council-Controlled Departments, Airports and Harbor is currently being reconciled. (See "FINANCIAL OPERATIONS—Labor Relations, herein.") The actual contribution for Council Controlled Departments as of May 17, 2012 totaled \$352 million.

Source: City of Los Angeles, Office of the City Administrative Officer.

The City makes its contributions to LACERS in July of each fiscal year. Recent civilian labor agreements with unions representing approximately 70% of the civilian workforce will have the effect of reducing the City's contributions to LACERS. As a result of ongoing negotiations with the remaining unions, the City's payment to LACERS for Fiscal Year 2011-12 was reduced from the contribution assumed in the Adopted Budget of \$395 million to \$352 million, as of May 17, 2012. However, following a recalculation of a supplemental contribution rate for Fiscal Year 2011-12, which accounted for freezing retiree health care benefits for certain employees, LACERS advised that the City's \$352 million payment is \$3.7 million higher than the required contribution. The surplus is expected to be applied as a credit toward the fiscal year 2012-13 contribution. The portion of the respective credit attributable to Council-Controlled Departments, Airports and Harbor is currently being reconciled.

The following table sets forth LACERS' investments and asset allocation targets as of June 30, 2011.

Table 43
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
(in millions)
As of June 30, 2011

<u>Asset Class</u>	<u>Market Value</u>	<u>Current Asset Allocation Mix⁽¹⁾</u>	<u>Target Asset Allocation Mix</u>
U.S. Equity			
Common Stock	\$ 4,112.5	39.1%	37.0%
Non-U.S. Equity			
Common Stock	2,076.3	19.7	
Preferred Stock	36.5	0.3	
Others	<u>0.3</u>	<u>0.0</u>	
		20.0	20.0
Fixed Income Securities			
Domestic	2,239.6	21.3	
International	<u>238.9</u>	<u>2.3</u>	
		23.6	26.0
Alternative Investment			
Domestic	932.5	8.9	
International	<u>147.8</u>	<u>1.4</u>	
		10.3	9.0
Real Estate	579.2	5.5	7.0
Unallocated Cash	<u>151.0</u>	<u>1.4</u>	<u>1.0</u>
Total MV	<u>\$10,514.6</u>	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Total does not add due to rounding.

Source: City of Los Angeles Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical and dental insurance. These retiree health benefits are accounted for as "Other Post-Employment Benefits" ("OPEB").

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the four years beginning Fiscal Year 2007-08, less than the ARC was contributed to the FPPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB liabilities are made by the same actuaries that perform the analysis of the Pension Systems, and generally rely on the same actuarial assumptions, other than those assumptions specific to OPEB. For example, effective July 2011, the FPPP Board adopted a medical inflation rate of 9% (from the previous rate 10%) for the first two years, then reduced by 0.5% each year until an ultimate rate of 5.0% is reached in 2020.

As of June 30, 2011, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 50
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
(Dollars in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll ⁽⁴⁾
2006	\$ 990,270	\$1,730,799	\$740,529	57.2%	\$1,733,340	42.7%
2007	1,185,544	1,730,400	544,856	68.5%	1,896,609	28.7%
2008	1,342,920	1,928,043	585,123	69.7%	1,977,645	29.6%
2009	1,342,497	2,058,177	715,680	65.2%	1,816,171	39.4%
2010	1,425,726	2,233,874	808,148	63.8%	1,817,662	44.5%
2011	1,546,884	1,968,708	421,824	78.6%	1,833,392	23.0%

- (1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuations.

Table 51
OTHER POST-EMPLOYMENT BENEFITS
FIRE AND POLICE PENSION PLAN
(Dollars in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded Or (Overfunded) AAL ⁽¹⁾	Funded Ratio ⁽²⁾	Covered Payroll ⁽³⁾	Underfunded or (Overfunded) AAL as a Percentage Of Covered Payroll ⁽⁴⁾
2006	\$613,782	\$1,631,187	\$1,017,405	37.6%	\$1,092,814	93.1%
2007	687,096	1,656,653	969,557	41.5%	1,135,592	85.4%
2008	767,647	1,836,840	1,069,193	41.8%	1,206,589	88.6%
2009	809,677	2,038,659	1,228,982	39.7%	1,357,249	90.6%
2010	817,276	2,537,825	1,720,549	32.2%	1,356,986	126.8%
2011	882,890	2,557,607	1,674,716	34.5%	1,343,963	124.6%

- (1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The Fire and Police Pension System Actuarial Valuations.

Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining

agreements that will reduce the City's contributions for OPEB benefits, that include a 4% active employee contribution toward retiree healthcare for 70% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 70% of its eligible sworn workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the current maximum subsidy level. The combined reduction to the City contribution rate resulting from members electing the additional contribution or medical subsidy freeze are projected to reduce City OPEB contributions by approximately \$71 million in Fiscal Year 2011-12 to both systems

The FPPP Board requested and obtained an outside legal opinion that advised that members have a vested right to certain retiree medical benefits. The City retained its own outside counsel, who concluded that the subsidy increase is not a vested right. The FPPP Board acknowledged the opinions but stated that neither of them necessarily reflected the opinion of the Board. The City has concluded that it has the right to freeze retiree health subsidies.

Subsequent to the receipt of these opinions, on November 21, 2011, the California Supreme Court in *Retired Employees Association of Orange County, Inc. v. County of Orange* held that a vested right to retiree health benefits may be implied from an ordinance or resolution where the language therein or the circumstances associated with its passage evidenced a clear legislative intent to create "private rights of a contractual nature," despite the absence of any express vesting language or other such guarantee. The City does not believe that it has passed any legislation, ordinance or resolution from which a vested right in health benefits for City retirees may be implied.

Two lawsuits were filed challenging the City's actions relative to freezing OPEB benefits (*Los Angeles City Attorneys Association v. City of Los Angeles* and *Engineers & Architects v. City of Los Angeles*). Relying in part on the Orange County decision, the plaintiffs allege that the City's OPEB benefits, including increases to reflect medical inflation, are a vested contractual retirement benefit. The plaintiffs seek, among other things, invalidation of the ordinance which froze OPEB benefits for those employees who are not contributing to this benefit. If the plaintiffs were to prevail, the City's costs would increase; as noted above, the benefit of freezing such benefits and instituting employee contributions toward retiree health benefits is estimated to save the City approximately \$71 million during Fiscal Year 2011-12. While the Engineers & Architects Association has agreed to withdraw its lawsuit, the City continues to monitor the remaining complaint and its potential financial impacts.

Projected Retirement and Other Post-Retirement Benefit Expenditures

The table below sets forth the City's projected contributions to LACERS for the next four fiscal years, based on information provided by LACERS actuary and which take into account recent labor negotiations and concessions by a majority of active LACERS members. These contributions include the projected cost of both pension and other post-employment benefits. These projections reflect deferred investment losses from the previous years and the actuarial assumptions described above.

Table 52
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	Adopted Budget 2012-13	2013-14	2014-15	2015-16	2016-17
LACERS					
Contributions for Council- Controlled Departments ⁽¹⁾⁽²⁾	<u>\$342,188</u>	<u>\$382,175</u>	<u>\$424,187</u>	<u>\$468,161</u>	<u>\$496,423</u>
Percentage of payroll	24.14%	26.07%	28.47%	31.10%	32.79%
Incremental Change	(\$52,781)	\$39,987	\$42,012	\$43,974	\$28,262
% Change		11.7%	11.0%	10.4%	6.0%

⁽¹⁾ Includes the General Fund and various special funds.

⁽²⁾ Assumes 0% return on market value of assets for 2011-12 and 7.75% per year thereafter.

Source: City of Los Angeles, Office of the City Administrative Officer.

The table below sets forth the City's projected contributions to FPPP, including the projected cost of pension and other post-employment benefits, for the next four fiscal years, based on one of various potential scenarios provided by FPPP's actuary. These contributions include the projected cost of other post-employment benefits. These illustrations, which are based on the June 30, 2011 actuarial valuation, reflect the deferred investment losses from the previous years, the actuarial assumptions described above, and certain benefit enhancements implemented with the adoption of the Tier 5 plan in 2002. Potential savings from the establishment of the new Tier 6 pension plan, as approved by City voters in March 2011, are not reflected in these estimates. Savings will occur as current active employees are replaced by new employees in Tier 6.

The triennial experience study adopted by the FPPP board reflected demographic changes, including changes to mortality rates that will increase the City's costs. Increased liabilities arising from the experience study will be phased in over three years. The City currently estimates that the first year budget impact could be \$15 million.

Table 53
LOS ANGELES FIRE AND POLICE PENSION PLAN
PROJECTED CONTRIBUTIONS
(Dollars in Thousands)

	Adopted Budget 2012-13	2013-14	2014-15	2015-16	2016-17
General Fund ⁽¹⁾	\$506,086	\$616,909	\$696,658	\$744,965	\$789,146
Percentage of Payroll	39.94%	47.13%	52.35%	55.98%	59.30%
Incremental Change	\$22,012	\$110,823	\$79,749	\$48,307	\$44,181
% Change		21.9%	12.9%	6.9%	5.9%

⁽¹⁾ Assumes 0% return on market value of assets for 2011-12 and 7.75% per year thereafter.

Source: City of Los Angeles, Office of the City Administrative Officer.

The projections in Tables 52 and 53 illustrate that the City's contribution rates for LACERS and FPPP will increase substantially over the next few years. See "BUDGET AND REVENUES—Budget Outlook," above. A number of factors will determine actual contributions; for example, if investment returns are lower than investment assumptions, actual contribution rates could be higher than these projections.

LITIGATION

The following is a list prepared by the Office of the City Attorney updated as of June 6, 2012, of completed, pending or threatened litigation involving the City, excluding most personal injury cases and single plaintiff cases, in which the City has a possible financial exposure of \$5 million or more which, either individually or in the aggregate, could materially affect the City's General Fund financial position.

With regard to all other pending litigation, the City Attorney expects that the final determination of such litigation, either individually or in the aggregate, would not materially affect the City's General Fund financial position.

A number of claims have been filed in connection with the City's utility users' tax on telephone services, which was amended in 2008 to clarify such claims (see "MAJOR GENERAL FUND REVENUE SOURCES — Utility Users' Taxes" herein.). *Ardon v. City of Los Angeles* is a class action challenging the validity of the City's telephone users' tax based on a federal government interpretation of the federal excise tax. On the issues related to class actions, the appellate court held that class actions against local taxes are not permitted under State law. The plaintiffs appealed to the California Supreme Court, which reversed the appellate court decision on July 25, 2011. The Supreme Court concluded that class claims for tax refunds against a local governmental entity are permissible, and remanded the matter back to the trial court. The class has not yet been certified. If the class is certified and plaintiffs prevail on the merits, City liability could be up to \$750 million. In *Nextel Boost of California LLC v. City of Los Angeles*, the plaintiff, a provider of prepaid wireless services, seeks a refund of \$6.3 million, which it alleges it overpaid for the period February 2007 through February 2008 in connection with the telephone users' tax. The matter has been stayed pending resolution of the *Ardon* matter. In *J2 Global Communications, Inc. v. City of Los Angeles*, the plaintiff seeks a \$5.5 million refund for telephone users' taxes incurred for the years 2005, 2006 and 2007. Plaintiffs argue that the City's amendment to the Municipal Code was improper prior to voter approval in 2008. The plaintiffs in the *J2 Global Communications, Inc.* case filed a second lawsuit for \$175,000 in damages in which they claim that the City's utility users tax as amended does not apply to telecommunications services it purchased in connection with its service of delivering faxes to customers' email accounts. The City prevailed on its motion for summary judgment and the plaintiff recovered nothing, although the plaintiff intends to appeal. In *Sprint Telephone PCS, L.P. v. City of Los Angeles*, the plaintiff seeks a refund in the amount of \$8,320,000 for overpaid telephone users tax for the period January 1, 1998 through f 1, 2003 (the "Refund Period"). Plaintiff argues that it was not subject to the federal excise tax during the Refund Period. In *TracFone Wireless, Inc. v. City of Los Angeles*, the plaintiff, a national vendor of prepaid telephone cards, filed a complaint in December 2006, seeking a refund of amounts remitted to the City. The trial court and Court of Appeal have issued various decisions on various procedural matters. Sprint Communications recently filed a lawsuit seeking a \$2.5 million refund related to the telephone users' tax. The Nextel Boost, TracFone, Ardon, the first J2 Global case and the two Sprint cases were consolidated and the trial court placed a stay on all but Ardon. Sprint Communications filed a lawsuit for \$2.5 million and T-Mobile filed a claim for \$1.4 million related to the utility users' tax.

In addition to the cases listed above, the City has been sued by two organizations representing employees of the City Attorney's office (*Los Angeles City Attorneys Association v. City of Los Angeles*) and members of the Engineers & Architects Association (*Engineers & Architects v. City of Los Angeles*), challenging the City's action to freeze the level of retiree health benefits at current levels for employees who elected not to contribute to such benefits. The plaintiffs allege that retiree health benefits, including increases to reflect medical inflation, is a vested contractual retirement benefit, and seeks to invalidate the City's prior action. (See "FINANCIAL OPERATIONS— Other Post-Employment Benefits," above). If the plaintiffs were to prevail, the savings resulting from its retiree health benefit-related actions (approximately \$71 million in Fiscal Year 2011-12) would be reduced. The City continues to review the complaints and its potential financial impacts.

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