

NEW ISSUES – BOOK-ENTRY ONLY

Ratings: See “RATINGS” herein.

In the opinion of Kutak Rock LLP, Bond Counsel, 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 2008 Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2008 Senior Bond for any period during which such Series 2008 Senior Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2008 Senior Bonds or 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 2008 Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax, and (b) interest on the Series 2008 Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2008 Bonds is exempt from State of California personal income taxes. For a more complete description, see “TAX MATTERS” herein.



\$853,300,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT

\$602,075,000
SENIOR REVENUE BONDS
2008 SERIES A (AMT)

\$7,875,000
SENIOR REFUNDING REVENUE BONDS
2008 SERIES B (AMT)

\$243,350,000
SUBORDINATE REVENUE BONDS
2008 SERIES C (Non-AMT)

Dated: Date of Delivery

Due: May 15, as shown on the inside cover

The Department of Airports (the “Department”) of the City of Los Angeles, California (the “City”) Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the “Series 2008A Senior Bonds”) and 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”) are being issued by the Department in accordance with the Charter; the Resolutions; and the Master Senior Indenture and the Ninth Supplemental Senior Indenture, as described herein. The Department’s Los Angeles International Airport Subordinate Revenue Bonds, 2008 Series C (the “Series 2008 Subordinate Bonds,” and together with the Series 2008 Senior Bonds, the “Series 2008 Bonds”) are being issued by the Department in accordance with the Charter; the Resolutions; and the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture, as described herein. Capitalized terms used but not defined on this cover page are defined herein.

The proceeds of the Series 2008 Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred at Los Angeles International Airport, (ii) repay a portion of the Department’s outstanding commercial paper notes, (iii) refund a portion of the Department’s outstanding Senior Bonds, (iv) fund the reserve requirements for the Series 2008 Bonds, (v) pay capitalized interest on the Series 2008A Senior Bonds through May 15, 2010 and (vi) pay costs of issuance of the Series 2008 Bonds.

The Series 2008 Senior Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Pledged Revenues, which will become a pledge of Net Pledged Revenues if certain amendments to the Master Senior Indenture become effective, and (ii) certain funds and accounts held by the Senior Trustee. The Series 2008 Senior Bonds will be issued on a parity with the Existing Senior Bonds. The Series 2008 Subordinate Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues, the definition of which will change if certain amendments to the Master Subordinate Indenture become effective, and (ii) certain funds and accounts held by the Subordinate Trustee. The Series 2008 Subordinate Bonds will be issued on a parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. Additional Senior Bonds and additional Subordinate Obligations may be issued by the Department in the future.

Interest on the Series 2008 Bonds will be payable on each May 15 and November 15, commencing November 15, 2008. The Series 2008 Bonds will be executed and delivered 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 2008 Bonds initially will be issued and delivered in book-entry form only and no physical delivery of the Series 2008 Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Series 2008 Bonds, payments of principal of and interest on the Series 2008 Bonds are expected to be made to beneficial owners by DTC through its participants. **The Series 2008A Senior Bonds and the Series 2008 Subordinate Bonds are subject to optional and mandatory sinking fund redemption prior to maturity. The Series 2008B Senior Bonds are not subject to redemption prior to maturity.**

The Series 2008 Bonds do not constitute obligations of the City, the State of California or any political subdivision of the State. Neither the faith and the credit nor the taxing power of the City, the State or any public agency, other than the Department (to the extent described herein), is pledged to the payment of the principal of or interest on the Series 2008 Bonds. The Department has no power of taxation. None of the properties of the Airport System is subject to any mortgage or lien for the benefit of the owners of the Series 2008 Bonds. The Department is under no obligation to pay the Series 2008 Bonds except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Senior Indenture or the Subordinate Indenture, as applicable.

Purchasers of the Series 2008 Senior Bonds will be deemed to have consented to certain amendments to the Master Senior Indenture, and purchasers of the Series 2008 Subordinate Bonds will be deemed to have consented to certain amendments to the Master Senior Indenture and the Master Subordinate Indenture.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2008 Bonds. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2008 Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Kutak Rock LLP, Bond Counsel, and by Rockard J. Delgadillo, City Attorney of the City, and to certain other conditions. Certain legal matters in connection with the Official Statement will be passed upon for the Department by Nixon Peabody LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Public Resources Advisory Group and Frasca & Associates, L.L.C. serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2008 Bonds will be made through DTC on or about August 6, 2008.

Goldman, Sachs & Co.

Bear, Stearns & Co. Inc.

De La Rosa & Co.

Citi

Siebert Brandford Shank & Co., LLC

Ramirez & Co., Inc.

Loop Capital Markets, LLC

Morgan Stanley & Co. Incorporated

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

**\$602,075,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
SENIOR REVENUE BONDS
2008 SERIES A**

\$283,010,000 Serial Bonds

<u>Maturity Date</u> <u>(May 15)</u>	<u>Principal Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP*</u> <u>(544435)</u>
2011	\$3,740,000	3.75%	3.80%	XQ8
2011	6,110,000	5.00	3.80	XR6
2012	3,755,000	4.00	4.06	XS4
2012	6,540,000	5.00	4.06	XT2
2013	10,775,000	5.00	4.24	XU9
2014	2,620,000	5.00	4.41	XV7
2014	8,695,000	5.50	4.41	XW5
2015	105,000	4.50	4.58	XX3
2015	1,890,000	5.00	4.58	XY1
2015	9,925,000	5.50	4.58	XZ8
2016	250,000	4.625	4.73	YA2
2016	12,315,000	5.50	4.73	YB0
2017	250,000	4.75	4.87	YC8
2017	1,055,000	5.00	4.87	YD6
2017	11,950,000	5.50	4.87	YE4
2018	100,000	4.75	4.99	YF1
2018	2,765,000	5.00	4.99	YG9
2018	11,115,000	5.50	4.99	YH7
2019	14,730,000	5.50	5.14C	YJ3
2020	15,545,000	5.50	5.27C	YK0
2021	16,395,000	5.50	5.35C	YL8
2022	17,300,000	5.50	5.38C	YM6
2023	18,250,000	5.25	5.40	YN4
2024	19,210,000	5.25	5.42	YP9
2025	20,215,000	5.375	5.45	YQ7
2026	21,305,000	5.375	5.49	YR5
2027	22,450,000	5.375	5.52	YS3
2028	23,655,000	5.375	5.55	YT1

\$51,190,000 5.375% 2008 Series A Term Bonds due May 15, 2030 – Yield 5.60%, CUSIP No.* 544435YU8

\$87,580,000 5.375% 2008 Series A Term Bonds due May 15, 2033 – Yield 5.61%, CUSIP No.* 544435YV6

\$180,295,000 5.375% 2008 Series A Term Bonds due May 15, 2038 – Yield 5.65%, CUSIP No.* 544435YW4

**\$7,875,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
SENIOR REFUNDING REVENUE BONDS
2008 SERIES B**

\$7,875,000 Serial Bonds

<u>Maturity Date</u> <u>(May 15)</u>	<u>Principal Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP*</u> <u>(544435)</u>
2009	\$ 595,000	3.00%	2.52%	YX2
2010	1,070,000	5.00	3.29	YY0
2011	1,125,000	5.00	3.80	YZ7
2012	1,180,000	5.00	4.06	ZA1
2013	1,240,000	5.00	4.24	ZB9
2014	1,300,000	5.00	4.41	ZC7
2015	1,365,000	5.00	4.58	ZD5

* Copyright 2008 American Bankers Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw Hills Companies, Inc. CUSIP numbers are provided for convenience of reference only. Neither the Department nor the Underwriters assume any responsibility for the accuracy of such numbers.

C Priced to the par call date of May 15, 2018.

\$243,350,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
SUBORDINATE REVENUE BONDS
2008 SERIES C

\$130,890,000 Serial Bonds

<u>Maturity Date</u> <u>(May 15)</u>	<u>Principal Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP*</u> <u>(544435)</u>
2009	\$3,200,000	3.00%	2.00%	ZE3
2010	4,225,000	3.00	2.65	ZF0
2011	4,355,000	3.125	3.15	ZG8
2012	4,490,000	3.375	3.43	ZH6
2013	4,640,000	3.50	3.62	ZJ2
2014	4,800,000	3.75	3.78	ZK9
2015	4,985,000	3.875	3.93	ZL7
2016	5,175,000	4.00	4.07	ZM5
2017	1,650,000	4.125	4.24	ZN3
2017	3,735,000	5.00	4.24	ZP8
2018	2,210,000	4.30	4.35	ZQ6
2018	3,425,000	5.00	4.35	ZR4
2019	1,105,000	4.50	4.51	ZS2
2019	4,800,000	5.00	4.51C	ZT0
2020	2,000,000	4.625	4.64	ZU7
2020	4,195,000	5.00	4.64C	ZV5
2021	775,000	4.70	4.75	ZW3
2021	5,720,000	5.25	4.75C	ZX1
2022	225,000	4.75	4.82	ZY9
2022	6,605,000	5.25	4.82C	ZZ6
2023	2,825,000	4.75	4.88	A26
2023	4,365,000	5.00	4.88C	A34
2024	7,540,000	5.00	4.94C	A42
2025	7,920,000	5.25	5.00C	A59
2026	8,335,000	5.00	5.04	A67
2027	8,750,000	5.00	5.08	A75
2028	9,190,000	5.00	5.13	A83
2029	9,650,000	5.00	5.19	A91

\$43,745,000 5.125% 2008 Series C Term Bonds due May 15, 2033 – Yield 5.29%, CUSIP No.* 544435B25

\$68,715,000 5.25% 2008 Series C Term Bonds due May 15, 2038 – Yield 5.35%, CUSIP No.* 544435B33

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C Priced to the par call date of May 15, 2018.

No dealer, broker, salesperson or other person has been authorized by the City or 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 City or 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 2008 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2008 Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Senior Indenture and the Subordinate Indenture are exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2008 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 2008 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2008 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY OF LOS ANGELES OFFICIALS

Antonio R. Villaraigosa, Mayor
Rockard J. Delgadillo, City Attorney
Laura N. Chick, City Controller
Raymond Cirrana, Interim City Administrative Officer
Antoinette Christovale, General Manager, Office of Finance
Joya C. De Foor, City Treasurer
Karen E. Kalfayan, Interim City Clerk

CITY COUNCIL

Ed P. Reyes (District 1)
Wendy Greuel (District 2)
Dennis P. Zine (District 3)
Tom LaBonge (District 4)
Jack Weiss (District 5)

Tony Cardenas (District 6)
Richard Alarcón (District 7)
Bernard C. Parks (District 8)
Jan Perry (District 9)
Herb J. Wesson, Jr. (District 10)

Bill Rosendahl (District 11)
Greig Smith (District 12)
Eric Garcetti (District 13)
José Huizar (District 14)
Janice Hahn (District 15)

BOARD OF AIRPORT COMMISSIONERS

Alan Rothenberg, President
Valeria C. Velasco, Vice President
Joseph A. Aredas, Commissioner
Michael A. Lawson, Commissioner

Sylvia Reyes-Patsouras, Commissioner
Fernando Torres-Gil, Commissioner
Walter Zifkin, Commissioner

THE LOS ANGELES WORLD AIRPORTS STAFF

Gina Marie Lindsey, Executive Director
Stephen C. Martin, Chief Operating Officer
Samson Mengistu, Deputy Executive Director, Administration
Jeff Fitch, Deputy Executive Director, Operations and Maintenance
Roger Johnson, Deputy Executive Director, Facilities and Environmental Planning
Debbie L. Bowers, Deputy Executive Director, Commercial Development
Ryan Yakubik, Director of Capital Development and Budget
Kelly M. Martin, General Counsel

SENIOR TRUSTEE

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

SUBORDINATE TRUSTEE

U.S. Bank National Association

BOND COUNSEL

Kutak Rock LLP

DISCLOSURE COUNSEL

Nixon Peabody LLP

CO-FINANCIAL ADVISORS

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

AIRPORT CONSULTANT

Ricondo & Associates, Inc.

VERIFICATION AGENT

Causey Demgen & Moore Inc.

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OFFICIAL STATEMENT

\$853,300,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT

\$602,075,000
SENIOR REVENUE BONDS
2008 SERIES A (AMT)

\$7,875,000
SENIOR REFUNDING REVENUE BONDS
2008 SERIES B (AMT)

\$243,350,000
SUBORDINATE REVENUE BONDS
2008 SERIES C (Non-AMT)

INTRODUCTION

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

General

The purpose of this Official Statement, which includes the cover page, inside cover pages, table of contents and appendices, 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 \$602,075,000 aggregate principal amount of Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the "Series 2008A Senior Bonds"), \$7,875,000 aggregate principal amount of 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") and \$243,350,000 aggregate principal amount of Los Angeles International Airport Subordinate Revenue Bonds, 2008 Series C (the "Series 2008 Subordinate Bonds" and together with the Series 2008 Senior Bonds, the "Series 2008 Bonds"). Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C-1 – "CERTAIN DEFINITIONS."

The Issuer and the Airport System

The City is a municipal corporation and chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the "State") and the Charter of the City of Los Angeles. The City, acting through the Department, operates and maintains Los Angeles International Airport ("LAX"), LA/Ontario International Airport ("LA/ONT"), Van Nuys Airport ("VNY") and LA/Palmdale Regional Airport ("LA/PMD") (collectively, the "Airport System"). LAX is the major facility in the Airport System accounting for approximately 89.7% of the total passenger traffic, approximately 79.1% of the air cargo volume and approximately 84.6% of the air carrier operations of the Airport System for Fiscal Year 2007. 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 2006 LAX was ranked as the 5th 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 11th busiest airport in the world and the 4th busiest in the United States in terms of volume of air cargo. According to statistics collected by ACI, in calendar year 2007 LAX was ranked as the 5th busiest airport in the world (preliminary) and 3rd busiest in the United States for passenger traffic and the 12th busiest airport in the world (preliminary) and 5th busiest in the United States in terms of cargo volume. LAX is classified by the Federal Aviation Administration (the "FAA") as a large hub airport. See "LOS ANGELES INTERNATIONAL AIRPORT" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for further discussion of aviation activity at LAX. **Certain aviation activity results under the heading "LOS ANGELES**

INTERNATIONAL AIRPORT” in this Official Statement have been updated from the Preliminary Official Statement dated July 11, 2008 to reflect eleven month results.

Plan of Finance

The Series 2008 Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred by the Department at LAX, (ii) repay all of the Department’s outstanding (Los Angeles International Airport) Commercial Paper Notes, Series A (Tax-Exempt–Non-AMT) and Series B (Tax-Exempt–AMT) (the “Refunded Subordinate Commercial Paper Notes”), (iii) refund all of the Department’s outstanding Los Angeles International Airport Revenue Bonds, 1995 Series D as described in more particularity under “PLAN OF FINANCE – Plan of Refunding,” (iv) fund the reserve requirements for the Series 2008 Bonds, (v) pay capitalized interest on the Series 2008A Senior Bonds through May 15, 2010 and (iv) pay costs of issuance with respect to the Series 2008 Bonds, all as further described herein. See “PLAN OF FINANCE” and “DESCRIPTION OF THE SERIES 2008 BONDS.”

Series 2008 Senior Bonds

The Series 2008 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 Ninth Supplemental Trust Indenture, dated as of August 1, 2008 (the “Ninth 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. 23557 adopted by the Board on May 5, 2008 and approved by the City Council of the City (the “City Council”) on June 4, 2008, and Resolution No. 23598 adopted by the Board on July 7, 2008 (collectively, the “Resolutions”), authorizing the issuance of the Series 2008 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 2008 Senior Bonds are secured by a pledge of and first lien on Pledged Revenues (as defined herein), which include certain income and revenue received by the Department from LAX, but specifically exclude income and revenue received by the Department from the Department’s other airports. The Series 2008 Senior Bonds are secured by a pledge of and lien on Pledged Revenues on a parity with the Existing Senior Bonds (as defined under “– Existing Senior Bonds”), any additional bonds issued on a parity with the Series 2008 Senior Bonds and the Existing Senior Bonds under the terms and provisions of the Master Senior Indenture (the “Additional Senior Bonds”) and any other obligations issued on a parity with respect to Pledged Revenues pursuant to the terms of the Master Senior Indenture. For purposes of this Official Statement, “Senior Bonds” shall mean the Series 2008 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds. At the time of this Official Statement, the only obligations the Department has issued pursuant to the Master Senior Indenture are the Existing Senior Bonds. Pledged Revenues are available for the equal and proportionate benefit of all Senior Bonds and any other obligations issued on parity with respect to Pledged Revenues pursuant to the Master Senior Indenture. The Series 2008 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 2008 BONDS – Senior Bonds – Pledged Revenues.”

On and after the Pledge Change Date (as defined herein), the Senior Bonds, including the Series 2008 Senior Bonds, will be secured by a pledge of and first lien on Net Pledged Revenues (as defined herein). See “– Amendments to Master Senior Indenture” and APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS.”

THE SERIES 2008 SENIOR BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE

CITY, THE STATE OR ANY PUBLIC AGENCY (OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES (ON AND AFTER THE PLEDGE CHANGE DATE, NET PLEDGED REVENUES)) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2008 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SENIOR INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY 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 2008 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2008 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 2008 BONDS."

Existing Senior Bonds

The Department has previously issued and as of July 1, 2008 there was outstanding \$124,535,000 in aggregate principal amount of the Department's Los Angeles International Airport Revenue Bonds, 1995 Series C, 1995 Series D, 2002 Series A and 2003 Series B (including the Refunded Senior Bonds, as defined below under "PLAN OF FINANCE – Plan of Refunding") (the "Existing Senior Bonds"). The Existing Senior Bonds are secured by the Pledged Revenues on parity with the Series 2008 Senior Bonds. The Department fully defeased the 1995 Series C Bonds with Department cash on July 15, 2008. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS" and "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE."

Series 2008 Subordinate Bonds

The Series 2008 Subordinate Bonds are being issued pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association, also known as U.S. Bank, N.A., as trustee (the "Subordinate Trustee"), and a Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008 (the "Fourth Supplemental Subordinate Indenture," and together with the Master Subordinate Indenture and all supplements thereto, the "Subordinate Indenture"), by and between the Department and the Subordinate Trustee; the Resolutions; and the Charter.

The Series 2008 Subordinate Bonds are secured by a pledge of and first lien on Subordinate Pledged Revenues, which includes Pledged Revenues less all amounts necessary to pay debt service and reserve requirements on the Senior Bonds. The Series 2008 Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Subordinate Bonds, the payment obligations of the Department under the Subordinate Bond Reimbursement Agreements, any additional bonds issued on parity with the Series 2008 Subordinate Bonds under the terms and provisions of the Master Subordinate Indenture ("Additional Senior Bonds") and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture (all such capitalized terms as defined under "– Existing Subordinate Obligations"). For purposes of this Official Statement, "Subordinate Bonds" shall mean the Series 2008 Subordinate Bonds, the Existing Subordinate Bonds and any Additional Subordinate Bonds, and "Subordinate Obligations" shall mean the Subordinate Bonds, the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the payment obligations of the Department under the Subordinate Bond Reimbursement Agreements and any other obligations issued on parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture. At the time of this Official Statement, the only Subordinate Obligations the Department has outstanding are the Subordinate Commercial Paper Notes (which are authorized to be outstanding, from time to time, up to \$500,000,000 in aggregate principal amount), the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Subordinate Bonds and the payment obligations of the Department under the Subordinate Bond Reimbursement Agreements. Subordinate Pledged

Revenues are available for the equal and proportionate benefit of all Subordinate Obligations. The Series 2008 Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture or the Parity Subordinate Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Subordinate Obligations – Subordinate Pledged Revenues."

On and after the Pledge Change Date, the definition of Subordinate Pledged Revenues will be amended as described in APPENDIX D-2 – "PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS." See also "– Amendments to Master Subordinate Indenture."

THE SERIES 2008 SUBORDINATE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES (SUBJECT TO THE AMENDMENT TO SUBORDINATE PLEDGED REVENUES TO BECOME EFFECTIVE ON THE PLEDGE CHANGE DATE), IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2008 SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SUBORDINATE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY 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 2008 SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2008 SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS."

Existing Subordinate Obligations

Pursuant to the Subordinate Trust Indenture, dated as of April 1, 2002, as amended (the "Parity Subordinate Indenture"), by and between the Department and U.S. Bank Trust National Association, as issuing and paying agent (the "Subordinate Issuing and Paying Agent"), the Department is authorized to issue and have outstanding, from time to time, up to \$500,000,000 in aggregate principal amount of its Los Angeles International Airport Commercial Paper Notes, Series A (Tax-Exempt – Non-AMT) (the "Series A Subordinate Commercial Paper Notes"), Series B (Tax-Exempt – AMT) (the "Series B Subordinate Commercial Paper Notes") and Series C (Federally Taxable) (the "Series C Subordinate Commercial Paper Notes," and together with the Series A Subordinate Commercial Paper Notes and the Series B Subordinate Commercial Paper Notes, the "Subordinate Commercial Paper Notes"). As of July 1, 2008, Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately \$330,000,000 (including the Refunded Subordinate Commercial Paper Notes). In connection with the Subordinate Commercial Paper Notes, the Department entered into a Reimbursement Agreement, dated as of April 1, 2007 (the "CP Reimbursement Agreement"), with Citibank, N.A. ("Citibank") and State Street Bank and Trust Company ("State Street"), as banks (collectively, the "CP Banks"), and Citibank, as administrative agent, pursuant to which the CP Banks issued an irrevocable transferable direct pay letter of credit (the "CP Letter of Credit") to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes.

Additionally, the Department has previously issued and, as of July 1, 2008 there was outstanding \$81,100,000 aggregate principal amount of its Los Angeles International Airport, Subordinate Revenue Bonds, 2002 Subseries C1, 2002 Subseries C2 and 2003 Series A (the "Existing Subordinate Bonds"). In connection with the Existing Subordinate Bonds, the Department entered into Reimbursement Agreements, dated as of March 1, 2005 (the "Subordinate Bond Reimbursement Agreements"), with BNP Paribas, acting through its San Francisco Branch ("BNP"), pursuant to which BNP issued irrevocable transferable direct-pay letters of credit (the "Subordinate Bond

Letters of Credit”) to secure the timely payment of the principal or purchase price of and interest on the Existing Subordinate Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Subordinate Obligations” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE.”

Investment Considerations

The purchase and ownership of the Series 2008 Bonds involve investment risks. Prospective purchasers of the Series 2008 Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2008 Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS.”

Amendments to Master Senior Indenture

The Ninth Supplemental Senior Indenture will amend certain provisions of the Master Senior Indenture (the “Fifty-One Percent Master Senior Indenture Amendments”) that will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Senior Bonds Outstanding and the consent of the CP Banks and BNP (the “Fifty-One Percent Master Senior Indenture Consent Requirement”). The Fifty-One Percent Master Senior Indenture Amendments include, among other amendments, changes to the definition of Senior Aggregate Annual Debt Service, changes to the test for issuing Additional Senior Bonds and changes to the provisions regarding the issuance of Special Facility Bonds. See APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a complete description of the Fifty-One Percent Master Senior Indenture Amendments. By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. At the time of issuance of the Series 2008 Senior Bonds, the owners of more than 51% in aggregate principal amount of all of the Senior Bonds Outstanding will have consented to the Fifty-One Percent Master Senior Indenture Amendments. However, the Department does not expect to receive the consents of the CP Banks or BNP to the Fifty-One Percent Master Senior Indenture Amendments (except BNP is expected to consent to the amendments regarding the issuance of Special Facilities Bonds) at the time of issuance of the Series 2008 Senior Bonds. At this time there can be no assurance that the Fifty-One Percent Master Senior Indenture Consent Requirement will be met within any definite time frame.

Additionally, the Ninth Supplemental Senior Indenture will amend certain other provisions of the Master Senior Indenture, which amendments will include, among other amendments, changes to the flow of funds whereby LAX Maintenance and Operation Expenses will be payable from Pledged Revenues prior to payment being made on the Senior Bonds and the Subordinate Obligations (the “Senior Pledge Change Amendment”) and changes to the timing of deposits to the Senior Debt Service Funds from once every month to requiring deposits to be made just five Business Days prior to each principal and interest payment date of the Senior Bonds (the “Senior Debt Service Deposit Amendment,” and collectively with the Senior Pledge Change Amendment, the “One-Hundred Percent Master Senior Indenture Amendments”). See APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a complete description of the One-Hundred Percent Master Senior Indenture Amendments. The Senior Pledge Change Amendment will not become effective until (a) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks and BNP (the “Senior Pledge Change Consent Requirement”), and (b) the Subordinate Pledge Change Consent Requirement (as defined in “ – Amendments to Maser Subordinate Indenture” below) has been met. The date when both the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement have been met is referred to in this Official Statement as the “Pledge Change Date.” The Senior Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds (the “Senior Debt Service Deposit Consent Requirement”). By the purchase and acceptance of the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds, the owners of the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds, respectively, will be deemed to have irrevocably consented to the Senior Pledge Change Amendment, and by the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds will be deemed to have irrevocably consented to the Senior Debt Service Deposit Amendment. At the time of issuance of the Series 2008 Bonds, the owners of approximately 84% of the Outstanding Senior Bonds and the owners of approximately 75% of the Outstanding Subordinate Bonds will have

consented to the Senior Pledge Change Amendment; however, the Department does not expect to receive the consent of any of the owners of the Outstanding Subordinate Commercial Paper Notes or the consents of the CP Banks and BNP to the Senior Pledge Change Amendment at the time of issuance of the Series 2008 Senior Bonds and does not expect the Subordinate Pledge Change Consent Requirement will be met. At the time of issuance of the Series 2008 Senior Bonds, the owners of approximately 84% of the Outstanding Senior Bonds will have consented to the Senior Debt Service Deposit Amendment. At this time there can be no assurance that the Senior Pledge Change Consent Requirement, the Subordinate Pledge Change Consent Requirement or the Senior Debt Service Deposit Consent Requirement will be met within any definite time frame.

In addition to the Fifty-One Percent Master Senior Indenture Amendments and the One-Hundred Percent Master Senior Indenture Amendments, the Ninth Supplemental Senior Indenture will amend certain other provisions of the Master Senior Indenture (the "Other Master Senior Indenture Amendments") that do not require the consent of the owners of the Senior Bonds. The Other Master Senior Indenture Amendments include, among other amendments, various changes to the definitions in the Master Senior Indenture and the establishment of Third Lien Obligations. Even though the Other Master Senior Indenture Amendments do not require the consent of the owners of the Senior Bonds, certain of the Other Master Senior Indenture Amendments (including the establishment of Third Lien Obligations) require the consents of the CP Banks (which the Department does not expect to receive at the time of issuance of the Series 2008 Bonds) and BNP (which the Department expects to receive at the time of issuance of the Series 2008 Bonds). See APPENDIX D-1 – "PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – OTHER MASTER SENIOR INDENTURE AMENDMENTS" for a description of the Other Master Senior Indenture Amendments that require the consent of the CP Banks and BNP and that will not be effective at the time of the issuance of the Series 2008 Bonds. All of the Other Master Senior Indenture Amendments not described in APPENDIX D-1 – "PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – OTHER MASTER SENIOR INDENTURE AMENDMENTS" have been incorporated throughout this Official Statement, including under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS" and Appendices C-1 through C-5.

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

Amendments to Master Subordinate Indenture

The Fourth Supplemental Subordinate Indenture will amend certain provisions of the Master Subordinate Indenture (the "Fifty-One Percent Master Subordinate Indenture Amendments") that will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Subordinate Bonds Outstanding and the consent of BNP (the "Fifty-One Percent Master Subordinate Indenture Consent Requirement"). The Fifty-One Percent Master Subordinate Indenture Amendments include, among other amendments, changes to the definition of Subordinate Aggregate Annual Debt Service, changes to the test for issuing Additional Subordinate Bonds and changes to the rate covenant under the Master Subordinate Indenture. See APPENDIX D-2 – "PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE– FIFTY-ONE PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS" for a complete description of the Fifty-One Percent Master Subordinate Indenture Amendments. By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Subordinate Indenture Amendments. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of more than 51% in aggregate principal amount of all of the Subordinate Bonds Outstanding will have consented to the Fifty-One Percent Master Subordinate Indenture Amendments. However, the Department does not expect to receive the consent of BNP to the Fifty-One Percent Master Subordinate Indenture Amendments at the time of issuance of the Series 2008 Subordinate Bonds. At this time there can be no assurance that the Fifty-One Percent Master Subordinate Indenture Consent Requirement will be met within any definite time frame.

Additionally, the Fourth Supplemental Subordinate Indenture will amend certain other provisions of the Master Subordinate Indenture, which amendments will include, among other amendments, changes to the definition of Subordinate Pledged Revenues whereby Subordinate Pledged Revenues will mean Pledged Revenues remaining

after the payment of LAX Maintenance and Operation Expenses and debt service and reserve requirements on the Senior Bonds (the "Subordinate Pledge Change Amendment"), and changes to the timing of deposits to the Subordinate Debt Service Funds from once every month to requiring deposits to be made just five Business Days prior to each principal and interest payment date of the Subordinate Bonds (the "Subordinate Debt Service Deposit Amendment," and collectively with the Subordinate Pledge Change Amendment, the "One-Hundred Percent Master Subordinate Indenture Amendments"). See APPENDIX D-2 – "PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE–ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS" for a complete description of the One-Hundred Percent Master Subordinate Indenture Amendments. The Subordinate Pledge Change Amendment will not become effective until (1) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and the consent of BNP, and the Department has made similar conforming amendments to the Parity Subordinate Indenture (which amendments will require the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks) (collectively, the "Subordinate Pledge Change Consent Requirement"), and (2) the Senior Pledge Change Consent Requirement is met. The Subordinate Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and the consent of BNP (the "Subordinate Debt Service Deposit Consent Requirement"). By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the One-Hundred Percent Master Subordinate Indenture Amendments. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the One-Hundred Percent Master Subordinate Indenture Amendments. However, at the time of issuance of the Series 2008 Subordinate Bonds, (a) with respect to the Subordinate Pledge Change Amendment (i) the Department does not expect to receive the consent of BNP and the Department will not have made similar amendments to the Parity Subordinate Indenture (or received the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks for such amendments), which are required under the Subordinate Pledge Change Consent Requirement, and (ii) the Department does not expect the Senior Pledge Change Consent Requirement will be met, and (b) with respect to the Subordinate Debt Service Consent Requirement, the Department does not expect to receive the consent of BNP. At this time there can be no assurance that the Subordinate Pledge Change Consent Requirement, the Senior Pledge Change Consent Requirement or the Subordinate Debt Service Deposit Consent Requirement will be met within any definite time frame.

In addition to the Fifty-One Percent Master Subordinate Indenture Amendments and the One-Hundred Percent Master Subordinate Indenture Amendments, the Fourth Supplemental Subordinate Indenture will amend certain other provisions of the Master Subordinate Indenture (the "Other Master Subordinate Indenture Amendments") that do not require the consent of the owners of the Subordinate Bonds. The Other Master Subordinate Indenture Amendments include, among other amendments, various changes to the definitions in the Master Subordinate Indenture, changes to the test for issuing Additional Subordinate Bonds (the coverage requirements under the test will be increased from 110% to 115%), changes to the rate covenant under the Master Subordinate Indenture (the coverage requirements under the rate covenant will be increased from 110% to 115%) and certain references to Third Lien Obligations. Even though the Other Master Subordinate Indenture Amendments do not require the consent of the owners of the Subordinate Bonds, certain of the Other Master Subordinate Indenture Amendments (including the changes to the test for issuing Additional Subordinate Bonds, the changes to the rate covenant under the Master Subordinate Indenture and certain of the references to Third Lien Obligations) require the consent of BNP (which the Department expects to receive at the time of issuance of the Series 2008 Subordinate Bonds). Most of the Other Master Subordinate Indenture Amendments have been incorporated throughout this Official Statement, including under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS" and Appendices C-1 through C-5.

Certain of the Other Master Subordinate Indenture Amendments, as described under APPENDIX D-2 – "PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – OTHER MASTER SUBORDINATE INDENTURE AMENDMENTS," will not become effective until the effective date of the Other Master Senior Indenture Amendments. At this time there can be no assurance that the Other Master Subordinate Indenture Amendments, as described under APPENDIX D-2 – "PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – OTHER MASTER SUBORDINATE INDENTURE AMENDMENTS," will become effective within any definite time frame.

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

Continuing Disclosure

The Department has covenanted for the benefit of the owners of the Series 2008 Bonds to provide annually certain financial information and operating data concerning the Department to each Nationally Recognized Municipal Securities Information Repository certified by the Commission (each, a "NRMSIR") and to provide notice to the Municipal Securities Rulemaking Board or to the NRMSIRs of certain enumerated events, pursuant to the requirements of Rule 15c2-12 of the Commission. See "CONTINUING DISCLOSURE" and APPENDIX G – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Report of the Airport Consultant

Included as APPENDIX A to this Official Statement is a Report of the Airport Consultant dated July 11, 2008 (the "Report of the Airport Consultant"), prepared by Ricondo & Associates, Inc. (the "Airport Consultant"), in conjunction with the issuance of the Series 2008 Bonds. The Report of the Airport Consultant includes, among other things, a description of the underlying economic base of LAX's Air Trade Area (as defined in the Report of the Airport Consultant); a description of historical air traffic activity at LAX; the Airport Consultant's projections for air traffic activity at LAX through 2014 and a description of the assumptions on which such projections are based; a description of existing and planned facilities at LAX; and the Airport Consultant's projections of debt service, expenses and revenues through 2014 and a description of the assumptions on which such projections were based. No assurances can be given that the projections and expectations discussed in the Report of Airport Consultant will be achieved. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2008 Bonds. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety. See "– Forward Looking Statements" and "CERTAIN INVESTMENT CONSIDERATIONS – Assumptions in the Report of the Airport Consultant" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Forward-Looking Statements

The statements contained in this Official Statement and in the Appendices hereto 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. It is important to note that the Department's actual results likely will differ, and could differ materially, from those in such forward-looking statements.

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

Additional Information

Brief descriptions of the Series 2008 Bonds, the Department, the Airport System, LAX, the Senior Indenture, the Subordinate Indenture, the Parity Subordinate Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department or LAX since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department and purchasers or owners of any of the Series 2008 Bonds. The Department maintains a website at www.lawa.org. Information on such website is not part of this Official Statement nor has such information been incorporated by reference herein, and such website should not be relied upon in deciding whether to invest in the Series 2008 Bonds.

PLAN OF FINANCE

The Series 2008 Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred by the Department at LAX; (ii) repay the Refunded Subordinate Commercial Paper Notes, (iii) refund the Refunded Senior Bonds (defined below under “– Plan of Refunding”), (iv) fund the reserve requirements for the Series 2008 Bonds, (v) pay capitalized interest on the Series 2008A Senior Bonds through May 15, 2010 and (vi) pay costs of issuance with respect to the Series 2008 Bonds.

The 2008 Projects

The proceeds of the Series 2008A Senior Bonds and the Series 2008 Subordinate Bonds will be used, among other things, to finance certain improvements to the Tom Bradley International Terminal (“TBIT”) and the South Airfield (collectively, the “2008 Projects”) (including reimbursing the Department for prior expenditures), and to repay the Refunded Subordinate Commercial Paper Notes, the proceeds of which were used to finance a portion of the 2008 Projects.

Tom Bradley International Terminal Project

Improvements at TBIT include, among others, major interior renovations, installation of an in-line explosive detection bag screening system, replacement and upgrade of baggage handling systems and baggage makeup rooms, renovations to airline lounges and renovations to certain passenger lounges and the creation of a second boarding gate for new large aircraft such as the Airbus 380 and the Boeing 747-800 (collectively, the “TBIT Improvement Project”). Construction of the TBIT Improvement Project began in February 2007 and is expected to be substantially completed by June 2010. The total expected cost of the TBIT Improvement Project is \$723.5 million, of which approximately \$366 million had been spent as of May 31, 2008. Approximately \$500 million of the cost of the TBIT Improvement Project is expected to be paid (or reimbursed) from proceeds of the Series 2008A Senior Bonds. The balance has been or is expected to be funded with Transportation Security Administration (“TSA”) grant proceeds, Department funds and the proceeds of Additional Senior Bonds and/or Additional Subordinate Bonds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information on the TBIT Improvement Project. There are also future improvements planned at TBIT that will not be financed with the proceeds of the Series 2008 Bonds and are not included in the TBIT Improvement Project. These other projects are discussed in Section 3.4 of APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

South Airfield Improvement Project

Improvements to the South Airfield include, among others, (i) a new parallel taxiway between the two south airfield runways already in operation at LAX and (ii) the relocation of the southern-most runway, Runway 7R-25L (collectively, the “South Airfield Improvement Project”). The primary purpose of the South Airfield

Improvement Project is to enhance the safety of the runways at LAX. The South Airfield Improvement Project is not designed, nor is it expected, to increase the airfield capacity of LAX. Construction of the South Airfield Improvement Project began in March 2006 and was completed in June 2008. The total expected cost of the South Airfield Improvement Project is \$333 million, of which approximately \$303 million had been spent as of May 31, 2008. \$225 million of the cost of the South Airfield Improvement Project is expected to be paid (or reimbursed) from proceeds of the Series 2008 Subordinate Bonds. The balance has been or is expected to be funded with AIP discretionary grant proceeds (described under “CAPITAL IMPROVEMENT PLANNING – Federal Grants”) and Department funds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for additional information on the South Airfield Improvement Project.

Plan of Refunding

The proceeds of the Series 2008B Senior Bonds will be used, among other things, together with moneys held in certain funds and accounts for the Refunded Senior Bonds, to refund all of the Department’s Outstanding Los Angeles International Airport Revenue Bonds 1995 Series D (the “Refunded Senior Bonds”). The specific Refunded Senior Bonds that will be refunded as a result of the issuance of the Series 2008B Senior Bonds are listed below.

<u>Series</u>	<u>Maturity Date</u> <u>(May 15)</u>	<u>Redemption</u> <u>Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>	<u>CUSIP Number*</u>
1995 Series D	2009	8/24/2008	5.500%	\$1,025,000	544435WB2
1995 Series D	2010	8/24/2008	5.500	1,080,000	544435WC0
1995 Series D	2011	8/24/2008	5.600	1,140,000	544435WD8
1995 Series D	2012	8/24/2008	5.625	1,205,000	544435WE6
1995 Series D	2013	8/24/2008	5.625	1,275,000	544435WF3
1995 Series D	2015	8/24/2008	5.500	2,765,000	544435WG1

*CUSIP numbers are provided for convenience of reference only. Neither the Department nor the Underwriters assume any responsibility for the accuracy of such numbers.

A portion of the proceeds of the Series 2008B Senior Bonds, together with other available moneys released from the debt service fund for the Refunded Senior Bonds, will be deposited with the Senior Trustee, as trustee and escrow agent and held in an escrow fund (the “Escrow Fund”) created under the terms of an escrow agreement (the “Escrow Agreement”), between the Department, acting through the Board, and the Senior Trustee, as trustee and escrow agent. Proceeds deposited into the Escrow Fund will be invested in direct, noncallable obligations of the United States Treasury (“Government Obligations”) or held uninvested in cash, and such amounts, together with the earnings thereon, if any, will be used to redeem the Refunded Senior Bonds on August 24, 2008 at a redemption price of 100% of the principal amount thereof, plus accrued interest due on such redemption date.

Causey Demgen & Moore Inc., independent certified public accountants, will verify that the amounts deposited to the Escrow Fund at the time of issuance of the Series 2008 Bonds will be sufficient to pay all principal and interest due on the Refunded Senior Bonds on August 24, 2008. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

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ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2008 Bonds and certain other funds described in the table below:

	Series 2008A Senior Bonds	Series 2008B Senior Bonds	Series 2008 Subordinate Bonds	Total
SOURCES:				
Principal Amount	\$602,075,000.00	\$7,875,000.00	\$243,350,000.00	\$853,300,000.00
Net Original Issue Premium / (Discount)	(8,799,279.75)	218,809.60	(1,280,054.45)	(9,860,524.60)
Funds Released from Debt Service Fund	--	<u>559,487.85</u>	--	<u>559,487.85</u>
TOTAL:	<u>\$593,275,720.25</u>	<u>\$8,653,297.45</u>	<u>\$242,069,945.55</u>	<u>\$843,998,963.25</u>
USES:				
Costs of TBIT Improvement Project and Repayment of Series B Subordinate Commercial Paper Notes	\$500,625,000.00	--	--	\$500,625,000.00
Costs of South Airfield Improvement Project and Repayment of Series A Subordinate Commercial Paper Notes	--	--	\$224,550,618.00	224,550,618.00
Deposit to Escrow Fund	--	\$8,619,587.25	--	8,619,587.25
Deposit to Series 2008A Senior Bonds Interest Account ⁽¹⁾	54,446,499.51	--	--	54,446,499.51
Deposit to Senior Reserve Fund	34,339,020.67	--	--	34,339,020.67
Deposit to Subordinate Reserve Fund	--	--	15,983,398.76	15,983,398.76
Costs of Issuance ⁽²⁾	<u>3,865,200.07</u>	<u>33,710.20</u>	<u>1,535,928.79</u>	<u>5,434,839.06</u>
TOTAL:	<u>\$593,275,720.25</u>	<u>\$8,653,297.45</u>	<u>\$242,069,945.55</u>	<u>\$843,998,963.25</u>

⁽¹⁾ Represents capitalized interest on the Series 2008A Senior Bonds through May 15, 2010.

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

DESCRIPTION OF THE SERIES 2008 BONDS

General

The Series 2008 Bonds will bear interest at the rates and mature on the dates set forth on the inside front cover pages of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2008 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 November 15, 2008 (each an "Interest Payment Date"). Interest due and payable on the Series 2008 Bonds on any Interest Payment Date will be payable to the person who is the registered owner as of the Record Date. Each Series 2008 Bond bears 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 2008 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 2008 Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before November 1, 2008, in which event such Series 2008 Bond will bear interest from its date of delivery. If interest on the Series 2008 Bonds is in default, Series 2008 Bonds issued in exchange for Series 2008 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 2008 Bonds surrendered.

The Series 2008 Bonds will be issued in denominations of \$5,000 and integral multiples thereof ("Authorized Denominations"). The Series 2008 Bonds will be issued in fully registered form and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York New York ("DTC"). DTC will act as securities depository for the Series 2008 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2008 Bonds

purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2008 Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2008 Bonds.

So long as Cede & Co. is the registered owner of the Series 2008 Bonds, the principal of and interest on the Series 2008 Bonds are payable by wire transfer by the Senior Trustee or the Subordinate Trustee, as applicable, to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Direct and Indirect Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX F – “BOOK ENTRY ONLY SYSTEM.”

Redemption Provisions

Optional Redemption. The Series 2008 Bonds maturing on or before May 15, 2018 are not subject to redemption prior to maturity. The Series 2008A Senior Bonds and the Series 2008 Subordinate Bonds maturing on or after May 15, 2019 are subject to optional redemption prior to maturity from any moneys that may be provided for such purpose in whole or in part on any date on or after May 15, 2018 at a redemption price equal to 100% of the principal amount of the Series 2008 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption. The Series 2008A Senior Bonds maturing on May 15, 2030 are subject to mandatory sinking fund redemption at a 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:

Year	Principal Amount
2029	\$24,925,000
2030*	26,265,000

* Final Maturity.

The Series 2008A Senior Bonds maturing on May 15, 2033 are subject to mandatory sinking fund redemption at a 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:

Year	Principal Amount
2031	\$27,680,000
2032	29,165,000
2033*	30,735,000

* Final Maturity

The Series 2008A Senior Bonds maturing on May 15, 2038 are subject to mandatory sinking fund redemption at a 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:

Year	Principal Amount
2034	\$32,385,000
2035	34,125,000
2036	35,960,000
2037	37,895,000
2038*	39,930,000

* Final Maturity.

The Series 2008 Subordinate Bonds maturing on May 15, 2033 are subject to mandatory sinking fund redemption at a 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:

Year	Principal Amount
2030	\$10,130,000
2031	10,650,000
2032	11,195,000
2033*	11,770,000

* Final Maturity.

The Series 2008 Subordinate Bonds maturing on May 15, 2038 are subject to mandatory sinking fund redemption at a 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:

Year	Principal Amount
2034	\$12,375,000
2035	13,025,000
2036	13,705,000
2037	14,425,000
2038*	15,185,000

* Final Maturity.

Except as otherwise provided under the procedures of DTC, on or before the 45th day prior to any mandatory sinking fund redemption date, the Senior Trustee or the Subordinate Trustee, as applicable, will proceed to select for redemption (by lot in such manner as the Senior Trustee or the Subordinate Trustee, as applicable, may determine), from all Series 2008 Bonds subject to such mandatory sinking fund redemption (the “Series 2008 Term Bonds”), an aggregate principal amount of such Series Term 2008 Bonds equal to the amount for such year as set forth in the appropriate table above and will call such Series 2008 Term Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

At the option of the Department, to be exercised by delivery of a written certificate to the Senior Trustee or the Subordinate Trustee, as applicable, on or before the 60th day next preceding any mandatory sinking fund redemption date, it may (a) deliver to the Senior Trustee or the Subordinate Trustee, as applicable, for cancellation Series 2008 Term Bonds or portions thereof (in Authorized Denominations) purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of such Series 2008 Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been purchased or redeemed (otherwise than as described under the provisions of this section) and previously cancelled by the Senior Trustee or the Subordinate Trustee, as applicable, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Series 2008 Term Bond or portion thereof so purchased or redeemed and delivered to the Senior Trustee or the Subordinate Trustee, as applicable, for cancellation will be credited by the Senior Trustee or the Subordinate Trustee, as applicable, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of such Series 2008 Term Bond on such mandatory sinking fund redemption date.

Notices of Redemption. The Senior Trustee or the Subordinate Trustee, as applicable, is required to give notice of redemption, in the name of the Department, to Bondholders affected by redemption 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 2008 Bonds held by DTC by an express delivery service for delivery on the next following Business Day) to each registered owner of a Series 2008 Bond to be redeemed; each such notice will be sent to the registered owner’s registered address.

Each notice of redemption will specify the Series of Series 2008 Bonds to be redeemed, the date of issue and the maturity date thereof, if less than all Series 2008 Bonds of a Series and a maturity are called for redemption

the numbers of the Series 2008 Bonds and the CUSIP number assigned to the Series 2008 Bonds to be redeemed, the principal amount to be redeemed and the interest rate applicable to the Series 2008 Bonds to be redeemed, the date fixed for redemption, the redemption price, the place or places of payment, the Senior Trustee's or the Subordinate Trustee's, as applicable, name, that payment will be made upon presentation and surrender of the Series 2008 Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption and not paid will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue.

Failure to give any required notice of redemption as to any particular Series 2008 Bond will not affect the validity of the call for redemption of any Series 2008 Bond in respect of which no failure occurs. Any notice sent as provided in the Ninth Supplemental Senior Indenture and the Fourth Supplemental Subordinate Indenture will be conclusively presumed to have been given whether or not actually received by the addressee. When notice of redemption is given, Series 2008 Bonds called for redemption become due and payable on the date fixed for redemption at the applicable redemption price. In the event that funds are deposited with the Senior Trustee or the Subordinate Trustee, as applicable, sufficient for redemption, interest on the Series 2008 Bonds to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2008 Bond to be redeemed in part only, the Senior Trustee or the Subordinate Trustee, as applicable, will authenticate for the holder a new Series 2008 Bond or Series 2008 Bonds of the same Series and maturity and equal in principal amount to the unredeemed portion of the Series 2008 Bond surrendered.

The Department may provide that if at the time of mailing of notice of an optional redemption there has not been deposited with the Senior Trustee or the Subordinate Trustee, as applicable, moneys sufficient to redeem all the Series 2008 Bonds called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Senior Trustee or the Subordinate Trustee, as applicable, not later than the opening of business one Business Day prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption will be cancelled and on such cancellation date notice of such cancellation will be mailed to the holders of such Series 2008 Bonds.

Effect of Redemption. On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Ninth Supplemental Senior Indenture or the Fourth Supplemental Subordinate Indenture, as applicable, and sufficient moneys for payment of the redemption price being held in trust by the Senior Trustee or the Subordinate Trustee, as applicable, to pay the redemption price, interest on such Series 2008 Bonds will cease to accrue from and after such redemption date, such Series 2008 Bonds will cease to be entitled to any lien, benefit or security under the Senior Indenture or the Subordinate Indenture, as applicable, and the owners of such Series 2008 Bonds will have no rights in respect thereof except to receive payment of the redemption price. Series 2008 Bonds which have been duly called for redemption under this section and for the payment of the redemption price of which moneys will be held in trust for the holders of the respective Series 2008 Bonds to be redeemed, all as provided in the Ninth Supplemental Senior Indenture or the Fourth Supplemental Subordinate Indenture, as applicable, will not be deemed to be Outstanding under the provisions of the Senior Indenture or the Subordinate Indenture, as applicable.

Selection of Series 2008 Bonds for Redemption; Series 2008 Bonds Redeemed in Part. The Series 2008 Bonds of a Series are subject to redemption in such order of maturity (except mandatory sinking fund payments on the Series 2008 Term Bonds) as the Department may direct and by lot, selected in such manner as the Senior Trustee or the Subordinate Trustee, as applicable, (or DTC, as long as DTC is the securities depository for the Series 2008 Bonds) deems appropriate, within a maturity.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS

Flow of Funds

Pursuant to Section 635 of the Charter of the City, all fees, charges, rentals and revenue from every source collected by the Department in connection with its possession, management and control of its assets are deposited in the City Treasury to the credit of the Airport Revenue Fund. Pursuant to the Charter and the Master Senior

Indenture, the Department has established the LAX Revenue Account in the Airport Revenue Fund and has covenanted to deposit all LAX Revenues in such account and such LAX Revenues will immediately upon receipt thereof become subject to the lien and pledge of the Senior Indenture. The Department has notified the City Treasurer of the pledge of, lien on and interest in LAX Revenues granted by the Senior Indenture and has instructed the City Treasurer that all such LAX Revenues are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Department or the City.

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

The Senior Bonds (including the Series 2008 Senior Bonds) are limited obligations of the Department payable solely from and secured solely by (a) a pledge of Pledged Revenues (on and after the Pledge Change Date, a pledge of Net Pledged Revenues), and (b) certain funds and accounts held by the Senior Trustee.

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 or the Subordinate Obligations; (c) insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation, to the extent the use of such proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds or the Subordinate Obligations, (d) any Transfer and (e) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are excluded from Pledged Revenues, unless designated as Pledged Revenues under the terms of a Supplemental Senior Indenture: (i) Senior Swap Termination Payments or Subordinate Swap Termination Payments paid to the Department pursuant to a Senior Qualified Swap or a Subordinate Qualified Swap, as applicable; (ii) Facilities Construction Credits; (iii) Passenger Facility Charges collected with respect to LAX (“PFCs”); (iv) all revenues of the Airport System not related to LAX; and (v) Released LAX Revenues. Senior Swap Termination Payments, Subordinate Swap Termination Payments, Facilities Construction Credits, PFCs, other revenues of the Airport System not related to LAX and Released LAX Revenues have not been designated as Pledged Revenues under the terms of any Supplemental Senior Indenture. See APPENDIX D-1 – “PROPOSED AMENDMENTS TO MASTER SENIOR INDENTURE” for a description of amendments to the definition of Pledged Revenues.

The Subordinate Obligations (including the Series 2008 Subordinate Bonds) are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date), and (ii) certain funds and accounts held by the Subordinate Trustee.

The Master Subordinate Indenture generally defines “Subordinate Pledged Revenues” to mean, for any given period, the Pledged Revenues for such period less, for such period, amounts required to be deposited in the Senior Debt Service Funds and the amounts required to be deposited to the Senior Reserve Fund and any Senior Debt Service Reserve Fund. See “INTRODUCTION–Amendments to Master Subordinate Indenture” and APPENDIX D-2 – “PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE–ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS” for a description of amendments to the definition of Subordinate Pledged Revenues.

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

FIRST, to the payment of amounts required to be deposited in the Senior Debt Service Funds for the Senior Bonds (including the Series 2008 Senior Bonds) pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;

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

THIRD, to the payment of Subordinate Obligations (including the Series 2008 Subordinate Bonds), but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of such Subordinate Obligations;

FOURTH, to the payment of any reserve requirement for the Subordinate Obligations (including the Subordinate Reserve Fund), if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

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

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

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

See Section 4.2.4 of APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” for a graphic description of the flow of funds described above, and the flow of PFC revenues pursuant to the PFC Resolution (defined under “– Passenger Facility Charges”).

With respect to the application of Pledged Revenues described in subparagraphs FIFTH through SEVENTH 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 Senior Indenture, nothing therein precludes the Department from making the payments described in paragraphs FIRST through SEVENTH above from sources other than Pledged Revenues.

As described under “INTRODUCTION – Amendments to Master Senior Indenture,” the Ninth Supplemental Senior Indenture will amend the flow of funds described above. The Other Master Senior Indenture Amendments (which do not require the consent of the owners of the Senior Bonds or the Subordinate Obligations, but do require the consent of the CP Banks (which consent will not be received at the time of issuance of the Series 2008 Bonds) and BNP (which consent is expected to be received at the time of issuance of the Series 2008 Bonds)), include the establishment of Third Lien Obligations. Third Lien Obligations and any reserve funds established for such Third Lien Obligations will be payable from Pledged Revenues after FOURTH in the flow of funds described above and before FIFTH in the flow of funds described above. The provisions relating to Third Lien Obligations set forth in the Ninth Supplemental Senior Indenture will not become effective until the CP Banks consent to such amendments. See APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – OTHER MASTER SENIOR INDENTURE AMENDMENTS.”

Additionally, as described under “INTRODUCTION – Amendments to Master Senior Indenture,” the Senior Pledge Change Amendment (which will not become effective until the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement are met) include certain amendments to the flow of funds. The Senior Pledge Change Amendment will move the payment of LAX Maintenance and Operation Expenses from SIXTH in the current flow of funds (from EIGHTH in the flow of funds described in the Other Master Senior Indenture Amendments) to FIRST in the flow of funds. As a result of such amendment, the holders of the Senior Bonds will have a second lien on Pledged Revenues and the holders of the Subordinate Obligations will have a third lien on Pledged Revenues. See “INTRODUCTION – Amendments to Master Senior Indenture” “– Amendments to Master Subordinate Indenture,” APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS” and APPENDIX D-2 – “PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS.”

The Charter does not require the deposit of moneys in certain funds, including, among others, the LAX Maintenance and Operation Reserve Account; however, the Department, pursuant to the Senior Indenture, has covenanted to continue using moneys on deposit in the LAX Revenue Account as described in the flow of funds detailed above. The Charter may be amended in the future in any respect by an affirmative vote of a majority of the voters within the City at a special or general election. However, a proposed Charter amendment could not affect the pledge of Pledged Revenues under the Senior Indenture or any Supplemental Senior Indenture to secure the payment of the Senior Bonds (including the Series 2008 Senior Bonds) or the pledge of Subordinate Pledged Revenues under the Subordinate Indenture, any Supplemental Subordinate Indenture or the Parity Subordinate Indenture to secure the payment of the Subordinate Obligations (including the Series 2008 Subordinate Bonds).

Senior Bonds

Following is a summary of certain provisions of the Senior Indenture, including, but not limited to, sections of the Senior Indenture detailing the pledge of Pledged Revenues (on and after the Pledge Change Date, a pledge of Net Pledged Revenues), the rate covenant for the Senior Bonds, debt service deposits for the Senior Bonds, the funding and utilization of the Senior Reserve Fund for the Senior Bonds and the issuance of Additional Senior Bonds. These summaries do not purport to be comprehensive or definitive. See APPENDIX C-2 and APPENDIX C-3 for a more complete description of these provisions of the Senior Indenture. Also see APPENDIX D-1 for a description of the proposed amendments to the Master Senior Indenture.

Pledged Revenues. The Series 2008 Senior Bonds are limited obligations of the Department payable solely from and secured by a pledge of Pledged Revenues. The Series 2008 Senior Bonds are also secured by amounts held in certain funds and accounts pursuant to the Senior Indenture, as further described herein.

On and after the Pledge Change Date, the Series 2008 Senior Bonds will be payable solely from and secured by a pledge of Net Pledged Revenues. See “INTRODUCTION – Amendments to Master Senior Indenture

Amendments” and APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS.”

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

THE SERIES 2008 SENIOR BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES (ON AND AFTER THE PLEDGE CHANGE DATE, NET PLEDGED REVENUES), IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2008 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SENIOR INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY 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 2008 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2008 SENIOR BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE.

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

The Series 2008 Senior Bonds are secured by a pledge of and lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) on a parity with the Existing Senior Bonds and any Additional Senior Bonds. See “– Additional Senior Bonds” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.” The Series 2008 Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture.

Senior Rate Covenant. Under the Master Senior Indenture, the Department has covenanted that, while any of the Senior Bonds remain Outstanding (but subject to all prior existing contracts and legal obligations of the Department), the Department will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that Pledged Revenues in each Fiscal Year will be at least equal to the payments required in such Fiscal Year to be made pursuant to the paragraphs FIRST through SIXTH set forth in “– Flow of Funds” above. The Department has further covenanted that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Net 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.

If the Department violates the above-described covenants, such violation will not be a default under the Senior Indenture and will not give rise to a declaration of a Senior Event of Default if, within 120 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce Pledged Revenues to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent Fiscal Year succeeding the date such violation is discovered, a Senior Event of Default may be declared under the Senior Indenture. The Department may obtain such recommendations from a Consultant as it deems necessary or

appropriate to bring the Department into compliance with such covenants. See APPENDIX D-1 – “PROPOSED AMENDMENTS TO MASTER SENIOR INDENTURE – FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a description of amendments to the rate covenant in the Master Senior Indenture. See also “CERTAIN INVESTMENT CONSIDERATIONS – Rate Covenant Limitations.”

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

Pursuant to the Master Senior Indenture, the Department may exclude from its calculation of Senior Aggregate Annual Debt Service with respect to Senior Bonds, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Senior Bonds whose debt service is payable from amounts not included in Pledged Revenues (including, but not limited to PFCs) which have been irrevocably deposited with and held by the Senior Trustee for the payment of debt service on such Senior Bonds. The Department expects to use PFCs to pay a portion of the debt service on the Series 2008A Senior Bonds and Additional Senior Bonds expected to be issued in the future. See “ – Passenger Facility Charges,” “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” for further discussion of PFCs. See also the Report of the Airport Consultant.

Senior Debt Service Deposits. The Master Senior Indenture provides that the Department will cause the City Treasurer to, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each series of Outstanding Senior Bonds: (a) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on the Senior Bonds, as it becomes due, will be set aside in the Senior Debt Service Funds by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of the Senior Bonds, will be set aside in the Senior Debt Service Funds by not later than the first Business Day of the month prior to the date such principal amount becomes due, and (c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to the Senior Term Bonds will be set aside in the Senior Debt Service Funds by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. See “INTRODUCTION – Amendments to Master Senior Indenture” and APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a description of the Senior Debt Service Deposit Amendment.

Senior Reserve Fund. The Master Senior Indenture established the “Senior Reserve Fund” for all of the Senior Bonds the Department elects to participate in the Senior Reserve Fund. In connection with the issuance of the Existing Senior Bonds, the Department elected to have such Senior Bonds participate in the Senior Reserve Fund. Additionally, in connection with the issuance of the Series 2008 Senior Bonds and pursuant to the Ninth Supplemental Senior Indenture, the Department will elect to have the Series 2008 Senior Bonds participate in the Senior Reserve Fund.

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 2008 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 2008 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 2008 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 its original sale, and (iii) 125% of the average Senior Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2008 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 is 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 2008 Senior Bonds, the Senior Reserve Requirement will be met by depositing a portion of the proceeds of the Series 2008A Senior Bonds into the Senior Reserve Fund. Upon the issuance of the Series 2008 Senior Bonds, the Senior Reserve Requirement will equal \$58,418,437.14.

Moneys or investments held in the Senior Reserve Fund may be used only to pay the principal of and interest on the Series 2008 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds issued pursuant to a Supplemental Senior Indenture under which the Department has elected to have such Series of Additional Senior Bonds participate 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 (including the Series 2008 Subordinate Bonds). The Senior Reserve Fund may be drawn upon if the amounts in the respective Senior Debt Service Funds for the Series 2008 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds issued pursuant to a Supplemental Senior Indenture under which the Department has elected to have such Series of Additional Senior Bonds participate in the Senior Reserve Fund, are insufficient to pay in full any principal or interest then due on the Series 2008 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds issued pursuant to a Supplemental Senior Indenture under which the Department has elected to have such Series of Additional Senior Bonds participate in the Senior Reserve Fund. 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 Series 2008 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds issued pursuant to a Supplemental Senior Indenture under which the Department has elected to have such Series of Additional Senior Bonds participate in 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 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, is at least equal to the Senior Reserve Requirement.

Additional Senior Bonds. The Master Senior Indenture provides the Department with flexibility as to the nature and terms of any Additional Senior Bonds hereafter issued with a lien and charge on Pledged Revenues on a parity with the Series 2008 Senior Bonds and the Existing Senior Bonds. See “INTRODUCTION – Amendments to Master Senior Indenture” and APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a description of the amendments to the test to issue Additional Senior Bonds.

Additional Senior Bonds may be issued under the Master Senior Indenture on a parity with the Series 2008 Senior Bonds and the Existing Senior Bonds, provided, among other things, there is delivered to the Senior Trustee either:

(a) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or

(b) a certificate prepared by a Consultant showing that:

(i) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance

of the proposed Series of Senior Bonds or the establishment of a Senior Program were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service;

(ii) for each Fiscal Year during the period from the date of delivery of such certificate until the latest Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with the rate covenant under the Master Senior Indenture (see "Senior Rate Covenant" above); and

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

The certificate described in (b) above will be delivered by the Airport Consultant in connection with the issuance of the Series 2008 Senior Bonds.

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

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

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants 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 shall certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

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

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

(B) the Senior Bonds being issued constitute Senior Notes and there is delivered to the Senior Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Senior Notes being issued, together with the principal amount of any Senior Notes then Outstanding, does not exceed 10% of the Pledged Revenues for any 12 consecutive months out of the 18 months immediately preceding the issuance of the proposed Senior Notes, and there is delivered to the

Senior Trustee, a Certificate of an Authorized Representative showing that for each of the Fiscal Years during which the Senior Notes will be Outstanding, and taking into account the debt service becoming due on such Senior Notes, the Department will be in compliance with the rate covenant under the Master Senior Indenture.

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

At the time the Fifty-One Percent Master Senior Indenture Consent Requirement is met, certain amendments to the test to issue Additional Senior Bonds will become effective. These amendments will include, among other things, (a) allowing the exclusion of the following amounts from the calculation of Senior Maximum Aggregate Annual Debt Service or Senior Aggregate Annual Debt Service, as the case may be: (i) debt service on Senior Bonds which is payable from PFCs specifically and irrevocably committed thereto, and (ii) debt service on Senior Bonds which is payable from moneys, such as federal grants, specifically and irrevocably committed or deposited with the Senior Trustee to pay such debt service, (b) allowing Transfer to be included in Net Pledged Revenues (subject to certain limits as set forth in such amendment) and (c) changing subparagraph (b) above by requiring the Consultant to test Senior Aggregate Annual Debt Service (instead of Senior Maximum Aggregate Annual Debt Service) against Net Pledged Revenues over different periods of time than those currently set forth in the Master Senior Indenture. See APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a complete description of the amendments being made to the Master Senior Indenture with respect to the test required to be met in connection with the issuance of Additional Senior Bonds. See also “INTRODUCTION–Amendments to Master Senior Indenture.”

Subordinate Obligations

Following is a summary of certain provisions of the Subordinate Indenture, including, but not limited to, sections of the Subordinate Indenture detailing the pledge of Subordinate Pledged Revenues, the rate covenant for the Subordinate Obligations, debt service deposits for the Subordinate Bonds, the funding and utilization of the Subordinate Reserve Fund and the issuance of Additional Subordinate Bonds. These summaries do not purport to be comprehensive or definitive. See APPENDIX C-4 and APPENDIX C-5 for a more complete description of these provisions of the Subordinate Indenture. Also see APPENDIX D-2 for a description of the proposed amendments to the Master Subordinate Indenture.

Subordinate Pledged Revenues. The Series 2008 Subordinate Bonds are limited obligations of the Department payable solely from and secured by a pledge of Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) and other amounts payable under the Subordinate Indenture. The Series 2008 Subordinate Bonds are also secured by amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

On and after the Pledge Change Date, Subordinate Pledged Revenues will mean, for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses less, for such period, amounts required to be deposited in the Senior Debt Service Funds and the amounts required to be deposited to the Senior Reserve Fund and any Senior Debt Service Reserve Fund. See “INTRODUCTION – Amendments to Master Subordinate Indenture” and APPENDIX D-2 – “PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS.”

THE SERIES 2008 SUBORDINATE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT (TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES (SUBJECT TO THE AMENDMENT TO SUBORDINATE PLEDGED REVENUES THAT WILL BECOME EFFECTIVE ON THE PLEDGE CHANGE DATE)) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2008 SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SUBORDINATE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY 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 2008 SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2008 SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE.

Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) are available for the equal and proportionate benefit and security of all Subordinate Obligations.

The Series 2008 Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) on parity with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Subordinate Bonds, the payment obligations of the Department under the Subordinate Bond Reimbursement Agreements, any Additional Subordinate Bonds and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture. See "Additional Subordinate Obligations" below. The Series 2008 Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture.

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

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

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

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

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

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

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

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

(b) The Department has further agreed that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Net Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 110% (will be increased to 115% as part of the Other Master Subordinate Indenture Amendments that will become effective on the date of issuance of the Series 2008 Subordinate Bonds) of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations. For purposes of this subsection (b), the amount of any Transfer taken into account may not exceed 10% (will be increased to 15% as part of the Other Master Subordinate Indenture Amendments that will become effective on the date of issuance of the Series 2008 Subordinate Bonds) of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations in such Fiscal Year.

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

(d) In the event that Net Subordinate Pledged Revenues for any Fiscal Year are less than the amount specified in paragraph (a) or (b), but the Department promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by paragraph (c), such deficiency in Net Subordinate Pledged Revenues will not constitute a Subordinate Event of Default. Nevertheless, if after taking the measures required by paragraph (c) to revise the schedule of rentals, rates, fees and charges, Net Subordinate Pledged Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Department for such Fiscal Year) are less than the amount specified in paragraph (a) or (b), such deficiency in Net Subordinate Pledged Revenues will constitute a Subordinate Event of Default. See APPENDIX D-2 – "PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – FIFTY-ONE PERCENT MASTER SUBORDINATE AMENDMENTS" for a description of amendments to the rate covenant in the Master Subordinate Indenture. See also "CERTAIN INVESTMENT CONSIDERATIONS – Rate Covenant Limitations.

In addition to the covenants set forth in (a) and (b) above, the Department has also covenanted to comply with the rate covenant set forth in the Parity Subordinate Indenture. In addition to the requirements of the Master Subordinate Indenture and the Parity Subordinate Indenture, the Charter requires the Department to set rates and charges at LAX in an amount sufficient to pay debt service and premiums, if any, due upon the redemption of revenue bonds, in addition to all maintenance and operation expenses at LAX for each Fiscal Year.

Pursuant to the Master Subordinate Indenture, the Department may exclude from its calculation of Subordinate Aggregate Annual Debt Service, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Subordinate Bonds whose debt service is payable from amounts not included in Subordinate Pledged Revenues (including, but not limited to PFCs) which have been irrevocably committed or irrevocably deposited with the Subordinate Trustee for the payment of debt service on such Subordinate Bonds. See "– Passenger Facility Charges," "CAPITAL IMPROVEMENT

PLANNING – Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” for further discussion of PFCs. See also the Report of the Airport Consultant. The Department does not expect to use any PFCs to pay debt service on the Series 2008 Subordinate Bonds.

Subordinate Debt Service Deposits. The Master Subordinate Indenture provides that the Department will cause the City Treasurer, not later than the first day of each calendar month, to transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each series of Outstanding Subordinate Bonds: (a) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on the Subordinate Bonds, as it becomes due, will be set aside in the Subordinate Debt Service Funds by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the principal amount of the Subordinate Bonds, will be set aside in the Subordinate Debt Service Funds by not later than the first Business Day of the month prior to the date such principal amount becomes due, and (c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to the Subordinate Term Bonds will be set aside in the Subordinate Debt Service Funds by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. See “INTRODUCTION – Amendments to Master Subordinate Indenture” and APPENDIX D-2 – “PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS” for a description of the Subordinate Debt Service Deposit Amendment.

Subordinate Reserve Fund. Pursuant to the Fourth Supplemental Subordinate Indenture, a Subordinate Debt Service Reserve Fund (the “Subordinate Reserve Fund”) will be established for the Series 2008 Subordinate Bonds and any Additional Subordinate Bonds which the Department elects to have participate in the Subordinate Reserve Fund.

Except as otherwise described below, the Subordinate Reserve Fund is required to be funded at all times in an amount equal to the Subordinate Reserve Requirement. The Subordinate Reserve Requirement equals the least of (i) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2008 Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund, (ii) 10% of the principal amount of the Series 2008 Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to the Series 2008 Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund if such original issue discount exceeded 2% on such Subordinate Bonds at the time of its original sale, and (iii) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2008 Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund. In the event the Department issues any Additional Subordinate Bonds pursuant to a Supplemental Subordinate Indenture under which the Department elects to have such Additional Subordinate Bonds participate in the Subordinate Reserve Fund, the Department will be required to deposit an amount in the Subordinate Reserve Fund sufficient to cause the amount on deposit in the Subordinate Reserve Fund to equal the Subordinate Reserve Requirement. Such deposit to the Subordinate Reserve Fund can be made at the time of issuance of the Additional Subordinate Bonds participating in the Subordinate Reserve Fund or over 12 months following the date of issuance of the Additional Subordinate Bonds participating in the Subordinate Reserve Fund. At the time of issuance of the Series 2008 Subordinate Bonds, the Subordinate Reserve Requirement will be met by depositing a portion of the proceeds of the Series 2008 Subordinate Bonds into the Subordinate Reserve Fund. Upon the issuance of the Series 2008 Subordinate Bonds, the Subordinate Reserve Requirement will equal \$15,983,398.76.

Moneys or investments held in the Subordinate Reserve Fund may be used only to pay the principal of and interest on the Series 2008 Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund. Moneys and investments held in the Subordinate Reserve Fund are not available to pay debt service on the Senior Bonds (including the Series 2008 Senior Bonds), the Subordinate Commercial Paper Notes or any Subordinate Bonds for which the Department has decided will not participate in the Subordinate Reserve Fund. The Subordinate Reserve Fund may be drawn upon if the amounts in the respective Subordinate Debt Service Funds for the Series 2008 Subordinate Bonds or any Additional Subordinate Bonds participating in the Subordinate Reserve Fund are insufficient to pay in full any principal or interest then due on the Series 2008

Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund. In the event any amounts are required to be withdrawn from the Subordinate Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Subordinate Debt Service Funds for the Series 2008 Subordinate Bonds or any Additional Subordinate Bonds participating in the Subordinate Reserve Fund.

The Department may fund all or a portion of the Subordinate Reserve Requirement with a Subordinate Debt Service Reserve Fund Surety Policy. A Subordinate Debt Service Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Subordinate Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Subordinate Debt Service Reserve Fund Surety Policy must either extend to the final maturity of the Series of Subordinate Bonds for which the Subordinate Debt Service Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Subordinate Indenture, that the Department will replace such Subordinate Debt Service Reserve Fund Surety Policy prior to its expiration with another Subordinate Debt Service Reserve Fund Surety Policy, or with cash, and the face amount of the Subordinate Reserve Fund Surety Policy, together with amounts on deposit in the Subordinate Reserve Fund, including the face amount of any other Subordinate Debt Service Reserve Fund Surety Policy, are at least equal to the Subordinate Reserve Requirement. Any such Subordinate Debt Service Reserve Fund Surety Policy deposited to the Subordinate Reserve Fund must secure all of the Subordinate Bonds participating in the Subordinate Reserve Fund.

Additional Subordinate Bonds. The Master Subordinate Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Subordinate Bonds hereafter issued with a lien and charge on Subordinate Pledged Revenues on parity with the Series 2008 Subordinate Bonds, the Existing Subordinate Bonds, the Subordinate Commercial Paper Notes and the payment obligations of the Department under the CP Reimbursement Agreement and the Subordinate Bond Reimbursement Agreements. See “INTRODUCTION – Amendments to Master Subordinate Indenture” and APPENDIX D-2 – “PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE–FIFTY ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a description of the amendments to the test to issue Additional Subordinate Bonds.

Additional Subordinate Bonds may be issued under the Master Subordinate Indenture on a parity with the Series 2008 Subordinate Bonds, the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes provided, among other things, there is delivered to the Subordinate Trustee either:

(a) a certificate prepared by an Authorized Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the 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 110% (will be increased to 115% as part of the Other Master Subordinate Indenture Amendments that will become effective on the date of issuance of the Series 2008 Subordinate Bonds) 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 Subordinate Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then Outstanding; or

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

(i) the Net Subordinate Pledged Revenues (as calculated by said Consultant), for any 12 consecutive months out of the most recent 24 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Bonds or the establishment of a Subordinate Program, were at least equal to 110% (will be increased to 115% as part of the Other Master Subordinate Indenture Amendments that will become effective on the date of issuance of the Series 2008 Subordinate Bonds) of Subordinate Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Bonds and Unissued Subordinate Program Bonds and Subordinate Commercial Paper Notes;

(ii) for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with the rate covenant under the Master Subordinate Indenture (as described above under “Subordinate Rate Covenant”); and

(iii) the estimated Net Subordinate Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 110% (will be increased to 115% as part of the Other Master Subordinate Indenture Amendments that will become effective on the date of issuance of the Series 2008 Subordinate Bonds) of Subordinate Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Bonds and Unissued Subordinate Program Bonds and Subordinate Commercial Paper Notes and calculated as if the proposed Series of Subordinate Bonds, and the full Subordinate Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then Outstanding.

The certificate described in (b) above will be delivered by the Airport Consultant in connection with the issuance of the Series 2008 Subordinate Bonds. The Airport Consultant will use 110% when calculating the coverage requirements set for in (b) above.

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

When issuing Additional Subordinate Bonds, the Department may, for purposes of determining compliance with the additional Subordinate Bonds test described in subparagraphs (a) and (b) above, exclude the following amounts from its calculation of Subordinate Maximum Aggregate Annual Debt Service or Subordinate Aggregate Annual Debt Service, as the case may be: (i) debt service on Subordinate Bonds which is payable from PFCs specifically and irrevocably committed thereto, and (ii) debt service on Subordinate Bonds which is payable from moneys, such as federal grants, specifically and irrevocably committed or deposited with the Subordinate Trustee to pay such debt service.

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

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

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

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

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

(3) if the Subordinate Bonds being issued are to pay costs of completing a Specified LAX Project for which Subordinate Bonds have previously been issued and the principal amount of such Subordinate Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Subordinate 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 Subordinate Trustee (i) a Consultant’s certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (ii) a certificate of an Authorized Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the Subordinate Construction Fund allocable to such Specified LAX Project) of the original Subordinate Bonds issued to finance such Specified LAX Project have been or will be used to pay Costs of the Specified LAX Project and (B) the then estimated Costs of the Specified LAX Project exceed the sum of the Costs of the Specified LAX Project already paid plus moneys available in the Subordinate Construction Fund established for the Specified LAX Project (including unspent proceeds of Subordinate Bonds previously issued for such purpose).

At the time the Fifty-One Percent Master Subordinate Indenture Consent Requirement is met, certain amendments to the test to issue Additional Subordinate Bonds will become effective. These amendments will include, among other things, (a) allowing Transfer to be included in Net Subordinate Pledged Revenues (subject to certain limits as set forth in such amendment) and (b) changing subparagraph (b) above by requiring the Consultant to test Subordinate Aggregate Annual Debt Service (instead of Subordinate Maximum Aggregate Annual Debt Service) against Net Subordinate Pledged Revenues over different periods of time than those currently set forth in the Master Subordinate Indenture. See APPENDIX D-2 – “PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – FIFTY-ONE PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS” for a complete description of the amendments (except the Other Master Subordinate Indenture Amendments) being made to the Master Subordinate Indenture with respect to the test required to be met in connection with the issuance of Additional Subordinate Bonds. See also “INTRODUCTION – Amendments to Master Subordinate Indenture.”

The Department has covenanted in the Parity Subordinate Indenture that it will not issue any additional Subordinate Commercial Paper Notes or Subordinate Bonds in excess of a combined \$300 million aggregate principal amount, unless the Rating Agencies then rating the Subordinate Commercial Paper Notes confirm their respective ratings and there is first delivered to the Subordinate Issuing and Paying Agent (a) a certificate to be prepared by an Authorized Representative showing that Net Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed additional Subordinate Commercial Paper Notes or Additional Subordinate Bonds were at least equal to 110% of maximum aggregate annual debt service with respect to the Senior Bonds, the Subordinate Commercial Paper Notes and the Subordinate Bonds calculated as if the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes were then Outstanding; or (b) a certificate prepared by a Consultant showing that (i) the

Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes were at least equal to 110% of maximum aggregate annual debt service with respect to the Senior Bonds, the Subordinate Commercial Paper Notes and the Subordinate Bonds; and (ii) the estimated Net Pledged Revenues (as calculated by such Consultant) for two Fiscal Years following the date of issuance of the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes will be at least equal to 110% of maximum aggregate annual debt service with respect to the Senior Bonds, the Subordinate Commercial Paper Notes and the Subordinate Bonds, taking into account the rates, fees and charges in effect at the time of issuance of the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes. The certificate described in (b) above will be delivered by the Airport Consultant in connection with the issuance of the Series 2008 Subordinate Bonds.

Passenger Facility Charges

Pledged Revenues do not include PFCs unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. To date, the Department has not elected to include PFCs in Pledged Revenues or otherwise pledged PFCs to the payment of the Senior Bonds or the Subordinate Obligations. However, even though PFCs are not included in Pledged Revenues and have not otherwise been pledged to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations, the Department may (if approved by the FAA) use PFCs to pay the debt service on the Senior Bonds and/or the Subordinate Obligations. Pursuant to a resolution adopted by the Board on July 7, 2008 (the "PFC Resolution"), the Department has irrevocably committed to use \$19 million of PFCs in each year between 2011 and 2014 to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations issued to finance projects authorized to be financed with PFCs (collectively, the "PFC Eligible Bonds"). The Department currently anticipates, and the forecasts in the Report of the Airport Consultant assume, that it will pay approximately 45% of the debt service on the Series 2008A Senior Bonds (which is greater than the irrevocable commitment provided for in the PFC Resolution) with PFC revenues. Additionally, the Department expects, and the forecasts in the Report of the Airport Consultant assume, that a portion of the debt service on Additional Senior Bonds to be issued in the future will be paid from PFC revenues. The Department received approval from the FAA pursuant to an amendment to the Department's 5th PFC Application (see "CAPITAL IMPROVEMENT PLANNING-Passenger Facility Charges") to use approximately \$468 million of PFCs to pay debt service on PFC Eligible Bonds. The Department expects to file additional applications with the FAA to collect additional PFCs that will be used to pay the debt service on PFC Eligible Bonds. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "CERTAIN INVESTMENT CONSIDERATIONS" for a discussion of some reasons PFC collections might be lower than anticipated.

Debt service paid with PFCs is not included in the calculation of the rate covenants set forth in the Master Senior Indenture, the Master Subordinate Indenture or the Parity Subordinate Indenture. Additionally, debt service on Additional Subordinate Bonds expected to be paid from irrevocably committed PFCs is not included in the additional bonds tests set forth in the Master Subordinate Indenture and, upon effectiveness of the Fifty-One Percent Master Senior Indenture Amendments, debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFCs will not be included in the additional bonds test set forth in the Master Senior Indenture. See APPENDIX D-1 – "PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE-FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS"

Permitted Investments

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

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

Subordinate Indenture and subject to restrictions imposed upon the Department by the Charter. Investments held in the Subordinate Reserve Fund cannot exceed a maturity of five years.

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

Events of Default and Remedies; No Acceleration

Senior Events of Default under the Senior Indenture and related remedies are described in APPENDIX C-2 – "SUMMARY OF THE MASTER SENIOR INDENTURE–Senior Events of Default and Remedies" and APPENDIX C-3 – "SUMMARY OF THE NINTH SUPPLEMENTAL SENIOR INDENTURE – Additional Senior Event of Default." The occurrence of a Senior Event of Default does not grant any right to accelerate payment of the Senior Bonds to either the Senior Trustee, the Subordinate Trustee, the Subordinate Issuing and Paying Agent or the Holders of the Series 2008 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.

Subordinate Events of Default under the Subordinate Indenture and related remedies are described in APPENDIX C-4 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE–Subordinate Events of Defaults and Remedies" and APPENDIX C-5 – "SUMMARY OF THE FOURTH SUPPLEMENTAL SUBORDINATE INDENTURE – Additional Subordinate Event of Default." The occurrence of a Subordinate Event of Default does not grant any right to accelerate payment of the Subordinate Bonds, the Subordinate Commercial Paper Notes or the Senior Bonds to either the Subordinate Trustee, the Subordinate Issuing and Paying Agent, the Senior Trustee, or the Holders of the Series 2008 Subordinate Bonds, the Existing Subordinate Bonds, the Subordinate Commercial Paper Notes or the Senior Bonds. However, pursuant to the CP Reimbursement Agreement and the Subordinate Bond Reimbursement Agreements, the Department granted to the CP Banks and BNP, respectively, the right to accelerate any payments due the CP Banks or BNP, respectively, upon an event of default under the CP Reimbursement Agreement or the Subordinate Bond Reimbursement Agreements. The Subordinate Trustee is authorized to take certain actions upon the occurrence of a Subordinate Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture. See APPENDIX C-4 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE–Subordinate Events of Default and Remedies–Application of Moneys."

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and as of July 1, 2008 there was outstanding \$124,535,000 aggregate principal amount of Existing Senior Bonds (including the Refunded Senior Bonds). The Existing Senior Bonds are secured by a pledge and lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) on parity with the Series 2008 Senior Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS–Flow of Funds." The following table sets forth information about the Existing Senior Bonds (including the Refunded Senior Bonds) that were outstanding as of July 1, 2008.

TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SENIOR BONDS
(as of July 1, 2008)

Series	Original Principal Amount	Principal Amount Outstanding	Final Maturity Date (May 15)
1995C ¹	\$30,275,000	\$ 475,000	2010
1995D ²	84,375,000	8,490,000	2015
2002A	32,450,000	32,450,000	2019
2003B	<u>103,625,000</u>	<u>83,120,000</u>	2015
Total	<u>\$250,725,000</u>	<u>\$124,535,000</u>	

¹ Fully defeased on July 15, 2008.

² See “PLAN OF FINANCE – Plan of Refunding” for a discussion of the planned refunding and defeasance of the Refunded Senior Bonds.

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 July 1, 2008 there was outstanding \$81,100,000 aggregate principal amount of its Existing Subordinate Bonds. Additionally, pursuant to the Parity Subordinate Indenture, the Department is authorized to issue and to have outstanding, from time to time, up to \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. As of July 1, 2008, there were Subordinate Commercial Paper Notes outstanding with a maturity value of approximately \$330 million (including the Refunded Subordinate Commercial Paper Notes). The Existing Subordinate Bonds and the Subordinate Commercial Paper Notes are secured by a pledge and lien on Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) on parity with the Series 2008 Subordinate Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Flow of Funds.” The following table sets forth the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes (including the Refunded Subordinate Commercial Paper Notes) which were outstanding as of July 1, 2008.

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TABLE 2
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SUBORDINATE BONDS AND SUBORDINATE
COMMERCIAL PAPER NOTES
(as of July 1, 2008)

Subordinated Obligation	Original Principal Amount	Principal Amount Outstanding	Final Maturity Date
Existing Subordinate Bonds			
- Subseries 2002C1	\$37,400,000	\$37,400,000	1/1/2020
- Subseries 2002C2	20,000,000	20,000,000	1/1/2020
- Series 2003A	<u>23,700,000</u>	<u>23,700,000</u>	1/1/2016
Total Existing Subordinate Bonds	<u>\$81,100,000</u>	<u>\$81,100,000</u>	
Subordinate Commercial Paper Notes ¹			
- Series A ³	Various ¹	\$158,400,000	Various ²
- Series B ³	Various ¹	75,000,000	Various ²
- Series C	Various ¹	<u>97,015,000⁴</u>	Various ²
Total Subordinate Commercial Paper Notes		<u>\$330,415,000</u>	
Total Existing Subordinate Bonds and Subordinate Commercial Paper Notes		<u>\$411,515,000</u>	

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

² The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.

³ All of the Series A and Series B Subordinate Commercial Paper Notes will be repaid with a portion of the proceeds of the Series 2008 Bonds.

⁴ The Series C Subordinate Commercial Paper Notes are issued as original issue discount obligations.

Source: Department of Airports of the City of Los Angeles

In connection with the issuance of the Existing Subordinate Bonds, the Department entered into the Subordinate Bond Reimbursement Agreements with BNP, pursuant to which BNP issued the Subordinate Bond Letters of Credit to secure the timely payment of the principal and purchase price of and interest on the Existing Subordinate Bonds. The Subordinate Bond Letters of Credit expire on March 10, 2010, but may be terminated earlier upon the occurrence of certain events including, among other events, the conversion of the interest rate on the Existing Subordinate Bonds to a fixed interest rate and an event of default by the Department under the Subordinate Bond Reimbursement Agreements. In the event BNP is required to purchase Existing Subordinate Bonds (Existing Subordinate Bonds so purchased, "BNP Bank Bonds") as a result of a failure by the remarketing agents for the Existing Subordinate Bonds to remarket the Existing Subordinate Bonds, the Department is required pursuant to the Subordinate Bond Reimbursement Agreements to pay all principal of and interest on such BNP Bank Bonds to BNP within three years of BNP's purchase of such BNP Bank Bonds. Upon the happening of an event of default under the Subordinate Bond Reimbursement Agreements (which include, among other events, the Department's failure to pay BNP any amounts due under the Subordinate Bond Reimbursement Agreements, the Department's failure to pay principal of and interest on the Existing Subordinate Bonds, the Department's failure to comply with the covenants under the Subordinate Bond Reimbursement Agreements or the downgrading of Senior Bonds below "BBB-," "Baa3" and "BBB-" by Fitch, Moody's and S&P, respectively), all obligations of the Department to BNP under the Subordinate Bond Reimbursement Agreements will be immediately due and payable. Any repayment obligations of the Department incurred pursuant to the Subordinate Bond Reimbursement Agreements and the Subordinate Bond Letters of Credit will have a parity lien on Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) along with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Subordinate Bonds and the Series 2008 Subordinate Bonds.

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 finance capital projects at LAX and to pay maturing Subordinate Commercial Paper Notes. In connection with the issuance of the Subordinate Commercial Paper Notes, the Department entered into the CP Reimbursement Agreement with the CP Banks, pursuant to which the CP Banks issued the CP Letter of Credit to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. In accordance with the CP Reimbursement Agreement, the CP Banks issued the CP Letter of Credit, on a several, but not joint basis, in the maximum stated amount of \$545 million. Citibank's commitment under the CP Letter of Credit is 70% of the stated amount of the CP Letter of Credit, and State Street's commitment under the CP Letter of Credit is 30% of the stated amount of the CP Letter of Credit. Citibank has granted Landesbank Baden-Württemberg, acting through its New York Branch ("LBBW"), and U.S. Bank National Association ("U.S. Bank") a participation in approximately 66% of Citibank's obligation under the CP Letter of Credit (approximately 46% of the total stated amount of the CP Letter of Credit). Notwithstanding Citibank's grant of a participation to LBBW and U.S. Bank, Citibank remains responsible for 70% of the stated amount of the CP Letter of Credit. The CP Letter of Credit expires on April 1, 2012, but may be terminated earlier upon the occurrence of certain events. In the event the Department does not immediately reimburse the CP Banks for any drawings under the CP Letter of Credit, the Department is required pursuant to the CP Reimbursement Agreement to pay all principal of and interest due to the CP Banks as a result of such drawing within five years of the original date of such drawing. Upon the happening of an event of default under the CP Reimbursement Agreement (which include, among other events, the Department's failure to pay the CP Banks any amounts due under the CP Reimbursement Agreement, the Department's failure to pay principal and interest on the Subordinate Commercial Paper Notes, the Department's failure to comply with the covenants under the CP Reimbursement Agreement or the downgrading of Senior Bonds below "BBB-," "Baa3" and "BBB-" by Fitch, Moody's and S&P, respectively), all obligations of the Department to the CP Banks under the CP Reimbursement Agreement will be immediately due and payable. Any repayment obligations of the Department incurred pursuant to the CP Reimbursement Agreement and the CP Letter of Credit will have a parity lien on Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) along with the Subordinate Commercial Paper Notes, the Existing Subordinate Bonds, the payment obligations of the Department under the Subordinate Bond Reimbursement Agreement and the Series 2008 Subordinate Bonds.

See "CERTAIN INVESTMENT CONSIDERATIONS – Termination or Expiration of Letters of Credit" for further discussion of the termination or expiration of the Subordinate Bond Letters of Credit and the CP Letter of Credit.

Debt Service Requirements

The following table sets forth debt service requirements on the Existing Senior Bonds (including the Refunded Senior Bonds), the Existing Subordinate Bonds and the Series 2008 Bonds:

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

Fiscal Year	Total Debt Service on Existing Senior Bonds⁽¹⁾	Principal Requirements on Series 2008 Senior Bonds	Interest Requirements on Series 2008 Senior Bonds⁽²⁾	Total Debt Service on Series 2008 Senior Bonds⁽²⁾	Total Debt Service on Outstanding Senior Bonds	Total Debt Service on Existing Subordinate Bonds⁽³⁾	Principal Requirements on Series 2008 Subordinate Bonds	Interest Requirements on Series 2008 Subordinate Bonds	Total Debt Service on Series 2008 Subordinate Bonds	Total Debt Service on Outstanding Subordinate Bonds	Total Debt Service
2009	\$17,542,483	\$595,000	\$25,270,851	\$25,865,851	\$43,408,334	\$3,002,034	\$3,200,000	\$9,184,640	\$12,384,640	\$15,386,674	\$58,795,008
2010	17,568,483	1,070,000	32,589,700	33,659,700	51,228,183	3,007,550	4,225,000	11,755,149	15,980,149	18,987,699	70,215,881
2011	17,808,733	10,975,000	32,536,200	43,511,200	61,319,933	3,007,550	4,355,000	11,628,399	15,983,399	18,990,949	80,310,881
2012	17,805,983	11,475,000	32,034,200	43,509,200	61,315,183	3,013,066	4,490,000	11,492,305	15,982,305	18,995,371	80,310,554
2013	17,810,233	12,015,000	31,498,000	43,513,000	61,323,233	3,002,034	4,640,000	11,340,768	15,980,768	18,982,802	80,306,034
2014	17,809,483	12,615,000	30,897,250	43,512,250	61,321,733	3,007,550	4,800,000	11,178,368	15,978,368	18,985,918	80,307,650
2015	4,707,233	13,285,000	30,223,025	43,508,025	48,215,258	16,084,060	4,985,000	10,998,368	15,983,368	32,067,428	80,282,685
2016	8,100,638	12,565,000	29,509,675	42,074,675	50,175,313	14,586,292	5,175,000	10,805,199	15,980,199	30,566,491	80,741,803
2017	8,098,325	13,255,000	28,820,788	42,075,788	50,174,113	14,715,018	5,385,000	10,598,199	15,983,199	30,698,217	80,872,329
2018	8,096,325	13,980,000	28,098,913	42,078,913	50,175,238	14,754,360	5,635,000	10,343,386	15,978,386	30,732,746	80,907,984
2019	11,340,688	14,730,000	27,344,588	42,074,588	53,415,275	14,871,540	5,905,000	10,077,106	15,982,106	30,853,646	84,268,921
2020	-	15,545,000	26,534,438	42,079,438	42,079,438	16,764,920	6,195,000	9,787,381	15,982,381	32,747,301	74,826,739
2021	-	16,395,000	25,679,463	42,074,463	42,074,463	-	6,495,000	9,485,131	15,980,131	30,698,217	58,054,594
2022	-	17,300,000	24,777,738	42,077,738	42,077,738	-	6,830,000	9,148,406	15,978,406	15,978,406	58,056,144
2023	-	18,250,000	23,826,238	42,076,238	42,076,238	-	7,190,000	8,790,956	15,980,956	15,980,956	58,057,194
2024	-	19,210,000	22,868,113	42,078,113	42,078,113	-	7,540,000	8,438,519	15,978,519	15,978,519	58,056,631
2025	-	20,215,000	21,859,588	42,074,588	42,074,588	-	7,920,000	8,061,519	15,981,519	15,981,519	58,056,106
2026	-	21,305,000	20,773,031	42,078,031	42,078,031	-	8,335,000	7,645,719	15,980,719	15,980,719	58,058,750
2027	-	22,450,000	19,627,888	42,077,888	42,077,888	-	8,750,000	7,228,969	15,978,969	15,978,969	58,056,856
2028	-	23,655,000	18,421,200	42,076,200	42,076,200	-	9,190,000	6,791,469	15,981,469	15,981,469	58,057,669
2029	-	24,925,000	17,149,744	42,074,744	42,074,744	-	9,650,000	6,331,969	15,981,969	15,981,969	58,056,713
2030	-	26,265,000	15,810,025	42,075,025	42,075,025	-	10,130,000	5,849,469	15,979,469	15,979,469	58,054,494
2031	-	27,680,000	14,398,281	42,078,281	42,078,281	-	10,650,000	5,330,306	15,980,306	15,980,306	58,058,588
2032	-	29,165,000	12,910,481	42,075,481	42,075,481	-	11,195,000	4,784,494	15,979,494	15,979,494	58,054,975
2033	-	30,735,000	11,342,863	42,077,863	42,077,863	-	11,770,000	4,210,750	15,980,750	15,980,750	58,058,613
2034	-	32,385,000	9,690,856	42,075,856	42,075,856	-	12,375,000	3,607,538	15,982,538	15,982,538	58,058,394
2035	-	34,125,000	7,950,163	42,075,163	42,075,163	-	13,025,000	2,957,850	15,982,850	15,982,850	58,058,013
2036	-	35,960,000	6,115,944	42,075,944	42,075,944	-	13,705,000	2,274,038	15,979,038	15,979,038	58,054,981
2037	-	37,895,000	4,183,094	42,078,094	42,078,094	-	14,425,000	1,554,525	15,979,525	15,979,525	58,057,619
2038	-	39,930,000	2,146,238	42,076,238	42,076,238	-	15,185,000	797,213	15,982,213	15,982,213	58,058,450
	\$146,688,603	\$609,950,000	\$634,888,570	\$1,244,838,570	\$1,391,527,173	\$109,815,974	\$243,350,000	\$232,478,104	\$475,828,104	\$585,644,078	\$1,977,171,251

* Totals may not add due to individual rounding. The Existing Senior Bonds and the Series 2008 Senior Bonds have a parity lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues). The Existing Subordinate Bonds and the Series 2008 Subordinate Bonds, the Subordinate Commercial Paper Notes and the payment obligations of the Department under the CP Reimbursement Agreement and the Subordinate Bond Reimbursement Agreements have a parity lien on Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date). Debt service on the Subordinate Commercial Paper Notes (which may be outstanding from time to time up to \$500 million aggregate principal amount) and payment obligations under the CP Reimbursement Agreement and the Subordinate Bond Reimbursement Agreements are not reflected in this table. Approximately \$100 million of Subordinate Commercial Paper Notes is expected to be outstanding following the issuance of the Series 2008 Bonds and the repayment of Refunded Subordinate Commercial Paper Notes with the proceeds thereof. For additional information on these obligations, see “ – Subordinate Bonds and Subordinate Commercial Paper Notes” above and “ – Other Obligations – Repayment Obligations” below.

(1) Debt service on the Existing Senior Bonds after giving effect to the refunding and defeasance of the Refunded Senior Bonds and the defeasance of the Series 1995C Senior Bonds.

(2) Includes capitalized interest on the Series 2008A Senior Bonds through May 15, 2010, to be paid from proceeds of the Series 2008A Senior Bonds.

(3) Assumes rates of 3.65% on the Series 2002C Subordinate Bonds and 3.85% on the Series 2003A Subordinate Bonds, including letter of credit and remarketing fees.

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

Future Financings

The Department is currently reviewing plans to issue approximately \$179 million of Additional Senior Bonds (exclusive of the Series 2008 Senior Bonds) and/or Additional Subordinate Bonds (exclusive of the Series 2008 Subordinate Bonds) in Fiscal Year 2009 to complete the 2008 Projects, and the forecasts in the Report of the Airport Consultant assume the issuance of such bonds. These forecasts also assume the issuance of approximately \$1.98 billion of Additional Senior Bonds and Additional Subordinate Bonds to fund certain other capital projects (the "Other Included Projects") through the forecast period, which ends in Fiscal Year 2014. During the forecast period, the Department may pursue additional capital projects beyond those described in the preceding sentence and Additional Senior Bonds and/or Additional Subordinate Bonds may be issued to fund such additional projects. These projects and the funding therefor are not included in the projections included in the Report of the Airport Consultant. See "CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness." See also Section 3.5 of the Report of the Airport Consultant for a discussion of certain projects the Department is considering undertaking. Additionally, the Department continuously evaluates refunding opportunities and, when economically beneficial, may refund one or more Series of Senior Bonds and/or Subordinate Bonds.

Other Obligations

General Obligation Bonds

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

Repayment Obligations

Under certain circumstances the obligation of the Department, pursuant to a written agreement, to reimburse the provider of a Credit Facility or a Liquidity Facility (a "Repayment Obligation") may be secured by a pledge of and lien on Pledged Revenues on a parity with the Senior Bonds or by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Bonds and the Subordinate Commercial Paper Notes. See "Subordinate Bonds and Subordinate Commercial Paper Notes" above for further information about the pledge of and lien on Subordinate Pledged Revenues granted to the CP Banks and to BNP in connection with the CP Banks' and BNP's issuance of the CP Letter of Credit and the Subordinate Bond Letters of Credit, respectively. If a Credit Provider or Liquidity Provider advances funds to pay principal of 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. Additionally, if a Credit Provider or Liquidity Provider advances funds to pay principal of or to purchase Subordinate Bonds or Subordinate Commercial Paper Notes, as applicable, all or a portion of the Department's Subordinate Repayment Obligation may be afforded the status of a Subordinate Bond under the Master Subordinate Indenture or a Subordinate Commercial Paper Note under the Parity Subordinate Indenture, as applicable. The Department currently does not have any Senior or Subordinate Repayment Obligations outstanding. See APPENDIX C-2 – "SUMMARY OF THE MASTER SENIOR INDENTURE–Senior Repayment Obligations Afforded Status of Senior Bonds" and APPENDIX C-4 – "SUMMARY OF THE MASTER SUBORDINATE INDENTURE–Subordinate Repayment Obligations Afforded Status of Subordinate Bonds."

LAX Special Facility Obligations

The Department may designate an existing facility or a planned facility as a "LAX Special Facility" and may incur indebtedness to acquire, construct, renovate or improve such facility or to finance the acquisition, construction, renovation or improvement thereof by a third party. Additionally, the Department may provide that certain contractual payments derived from or related to such Special Facility, together with other income and revenues available therefrom, will constitute "LAX Special Facilities Revenue" and will not be included as Pledged Revenues. Such indebtedness will constitute a "LAX Special Facility Obligation" and will be payable solely from the LAX Special Facilities Revenue. When LAX Special Facility Obligations issued for a LAX Special Facility (including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations) are fully paid or otherwise discharged, all revenues received by the Department from such facility will be included as Pledged Revenues. The Master Senior Indenture provides that to the extent LAX Special Facility Revenues exceed the amounts required to pay the principal of and interest on LAX Special Facility Obligations when due, and to the

extent not otherwise encumbered, the excess may constitute Pledged Revenues as determined by the Department. See APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE–LAX Special Facilities and LAX Special Facility Obligations.” Also see APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE – FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a description of certain amendments being made to the Master Senior Indenture with respect to LAX Special Facilities and LAX Special Facility Obligations.” The proposed amendments to the Master Senior Indenture with respect to LAX Special Facilities and LAX Special Facility Obligations will allow the Department to issue LAX Special Facility Obligations that will be payable from LAX Special Facilities Revenues and, provided certain requirements are met (including, among other requirements, meeting the additional bonds tests under the Master Senior Indenture, the Master Subordinate Indenture or the Parity Subordinate Indenture, as applicable), from Pledged Revenues, Subordinate Pledged Revenues and/or other available moneys of the Department.

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

Rental Credits

The Department from time to time has provided credits to its airline (and airline consortium) tenants that may be applied against amounts otherwise due under such tenants’ leases. Because these credits are applied as an offset to amounts owed to the Department by such airlines, the Department receives less money from these airlines than their leases would provide absent the rent credit. Thus, although the credits are not secured by any pledge of the Department’s revenues, the use of such credits results in the creation of a higher payment priority for such credits than for the Senior Bonds, including the Series 2008 Senior Bonds. These credits are discussed in greater detail under “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases – Rental Credits.”

THE DEPARTMENT OF AIRPORTS

General Description

The City, acting through the Department, currently operates and maintains four airports in the Los Angeles area. The airports are LAX, LA/ONT, VNY and LA/PMD. 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 accounting for approximately 89.7% of the total enplaned and deplaned passengers, 79.1% of the air cargo volume and 84.6% of the air carrier operations of the Airport System for Fiscal Year 2007. LAX served approximately 61.5 million enplaned and deplaned passengers in Fiscal Year 2007. In addition to 63 passenger carriers and 5 commuter carriers that served LAX as of June 1, 2008, LAX was also served by 6 unscheduled air passenger and 15 air cargo carriers. See “LOS ANGELES INTERNATIONAL AIRPORT” for additional information on LAX.

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 7.2 million enplaned and deplaned passengers in Fiscal Year 2007, representing approximately 10.3% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2007. In addition to 15 passenger carriers and one commuter carrier that served LA/ONT as of May 1, 2008, LA/ONT was also served by more than 29 unscheduled air passenger and air cargo carriers. The Department operates LA/ONT pursuant to a Joint Powers Agreement with the City of Ontario.

LA/PMD, located in the Antelope Valley, is approximately 60 miles north of LAX. The LA/PMD passenger terminal and runway are located on United States Air Force Plant 42 (“Plant 42”) property and are operated through a Joint Use Agreement with the United States Air Force. The Joint Use Agreement expires in 2017 and may be terminated earlier in certain circumstances. No assurance can be given that it will be extended or that a new lease for this property will be entered into by the Department and the United States Air Force.

United Airlines (“United”) became the only commercial air carrier providing passenger service out of LA/PMD when it began operating two daily roundtrip regional jet flights (operated by United Express) to San Francisco International Airport on June 7, 2007. United has announced that in September 2008 it will replace these

two daily regional jet flights with four daily propeller plane flights resulting in more frequent flights and 20 additional seats per day. In conjunction with its commencement of passenger air service at LA/PMD on June 7, 2007, the Department agreed to provide \$1.1 million for advertising, marketing and promotional support of LA/PMD during the first 18-36 months of United's operations at LA/PMD and approximately \$1.1 million of terminal rent waivers for air carriers through June 2010. In addition the United States Department of Transportation (the "U.S. DOT") has provided a grant to the City of Palmdale to support such service. This grant expires in March 2010. No assurance can be given that United's service will continue after the support, rent waivers and grant expire.

The Department owns approximately 17,750 acres of land east of Plant 42 for the future development of a new airport. LA/PMD is designed to expand from the existing facility as air travel demands increase.

VNY is a general aviation airport located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is the busiest general aviation airport in the world with approximately 386,399 movements in Fiscal Year 2007 as reported by the FAA. More than 100 businesses are located on the airport including six major fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs. As of June 1, 2008, there were approximately 764 aircraft based at VNY including approximately 50 helicopters, 189 jets, 20 military aircraft 485 propeller aircraft and 20 non-flyable aircraft.

Comparison of Four Airports in Airport System

By way of comparison of the airports in the Airport System, certain operating data for each of these airports is set forth below. The Department uses the method of counting passengers and cargo that is used by 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 2007

Airport	Net Operating Revenues (000's) ⁽¹⁾	Enplanements and Deplanements	Aircraft Arrivals and Departures ⁽²⁾	Total Landed Weight ⁽³⁾	Enplaned/ Deplaned Cargo (Tons)
LAX	\$ 81,453	61,534,638	614,335	52,128,707	2,081,633
LA/ONT	6,747	7,054,709	111,849	7,343,098	549,623
VNY	2,395 ⁽⁴⁾	--	326	34,330	5
LA/PMD	(2,657) ⁽⁴⁾	1,271	94	2,209	--
Total ⁽⁵⁾	\$ 87,938	68,590,618	726,604	59,508,344	2,631,261

⁽¹⁾ 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.

⁽²⁾ For revenue-related operations only.

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

⁽⁴⁾ See "Subsidization of Other Airports" below for additional information.

⁽⁵⁾ Numbers may not add due to rounding.

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

Subsidization of Other Airports

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 does not contain any requirement to subsidize the other airports of the Airport System, the Department anticipates that LAX Revenues will continue to be used in the future for subsidizing any deficiencies incurred by the other airports in the Airport System.

The two separate accounts within the Airport Revenue Fund reflect the Department's expectation that LA/ONT will be operated as an entirely self-sufficient enterprise (absent extraordinary circumstances) and that LAX Revenues will 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 to any airports in the Airport System, including LA/ONT as part of its regional planning efforts.

In Fiscal Year 2007, LAX provided a \$7.1 million subsidy to VNY. 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 as well as certain costs associated with VNY. The Department expects to provide subsidies to VNY in the future; no assurance can be given that such subsidies will not be substantially higher than they have been in the past. LAX provided a subsidy of \$2.7 million to PMD in Fiscal Year 2007. The subsidy for LA/PMD is not incorporated in LAX landing fees but rather is paid from discretionary funds and is expected to vary in the future depending on the level of operations at LA/PMD, revenue generated by those operations, the scope of any capital projects undertaken at LA/PMD and payments required to be made as a result of claims or litigation; such subsidies could be sizable. See "AIRPORT SYSTEMS ENVIRONMENTAL MATTERS – Hazardous Substances." LAX Revenues were last used to subsidize operations at LA/ONT in Fiscal Year 2002. No assurance can be given that major catastrophic liabilities or other unanticipated events will not occur with respect to one or more of the airports in the Airport System which would require substantial unanticipated transfers of LAX revenues to such airports.

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") 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. 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
Alan Rothenberg, President	Businessman	September 2005	June 30, 2009
Valeria C. Velasco, Vice President	Attorney	July 2007	June 30, 2012
Joseph A. Aredas	Labor Executive	September 2005	June 30, 2010
Michael A. Lawson	Attorney	June 2006	June 30, 2011
Sylvia Reyes-Patsaouras	Urban Planner	September 2005	June 30, 2009
Fernando Torres-Gil	University Dean	September 2005	June 30, 2013
Walter Zifkin	Entertainment Executive	September 2005	June 30, 2010

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 2008 Bonds on June 4, 2008.

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 46 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 9, 2008 there were 3,763 authorized positions for the Airport

System. The Department reorganized its administrative officers in early 2008. 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-Tac”) where she was responsible for the operations, maintenance and strategic and financial planning of the airport, which serves nearly 30 million passengers a year. 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 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 Executive Council for Next Generation Air Transportation System and the Airport Cooperative Research Board, and also has served on the World Board of Directors for ACI and chaired the Airports Council International-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 as Acting Chief Operating Officer in January 2008. Mr. Martin has over 25 years experience in airport and transportation development and finance. Prior to joining the Department, Mr. Martin served as Executive Vice President and Chief Financial Officer of ACI. Previously, he was a consultant for 10 years with Leigh Fisher Associates in San Francisco where he specialized in finance, project development and privatization. Mr. Martin also held the position of Director of Financial Development in the Office of the Secretary at the United States Department of Transportation from 1993 to 1996. Earlier in his career, Mr. Martin was with the Massachusetts Port Authority 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 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.

Samson Mengistu, Deputy Executive Director, Administration. Mr. Mengistu was appointed Deputy Executive Director Administration in February 2006. He also functions as the Assistant Executive Director. He oversees the Finance and Administration Group which provides Airport System-wide administrative support. In his previous position, Mr. Mengistu was Deputy Executive Director of Board Relations & Special Programs in 2003, and served as the liaison between the Board and the Department. He was also responsible for overseeing the Department’s \$500 million property acquisition and previously served as Chief Assistant to the Executive Director from 1999 to 2003. Mr. Mengistu holds a Bachelor of Arts degree in Economics and a Master of Science degree in Public Administration from California State University, Los Angeles.

Jeff Fitch, Deputy Executive Director, Operations and Maintenance. Mr. Fitch was appointed Deputy Executive Director, Operations and Maintenance on a permanent basis in February 2008. He is responsible for public safety and security and airside, terminal and landside operations at all four Department airports and is also responsible for the Department’s Construction and Maintenance Division. Prior to joining the Department, Mr. Fitch worked at Sea-Tac for 18 years, serving in a variety of roles, including general manager of aeronautical and terminal operations, business manager for the airfield line of business, manager of the construction impact center and director of public safety and security. Mr. Fitch served as Deputy Commander for Operations at Grand Forks Air Force Base in North Dakota prior to working at Sea-Tac. He holds a Master of Aeronautical Science degree from Embry-Riddle Aeronautical University.

Roger Johnson, Deputy Executive Director, Facilities and Environmental Planning. Mr. Johnson was appointed Executive Director, Facilities and Environmental Planning in 2006. He is responsible for oversight of all Engineering, Planning, Facilities, Regional Transportation Planning and Environmental Planning for the four airports in the Airport System, development of the Department-wide sustainability program and Environmental Management System, and planning support services related to the LAX, LA/ONT and LA/PMD master plans. Mr. Johnson has over 30 years experience in environmental management, civil and environmental engineering, planning, construction, and construction management. Prior to joining the department, he was Vice President and Technical Services Manager for Camp Dresser & McKee Inc. While there, he was responsible for management of the Aviation, Planning and Environmental Services Division, provided technical oversight, staffing, and project delivery support for aviation projects in the U.S., Europe and Asia, was responsible for marketing and business

development, staffing, employee development and division profit and loss, and personally managed engineering, planning and environmental projects for multiple major U.S. airports. Mr. Johnson graduated *magna cum laude* from California State Polytechnic University, Pomona with a Bachelor of Science degree in Engineering.

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, and advertising. 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, where she was responsible for land leases, terminal space negotiations, concession management, and policy recommendations on revenue-generating operations. Her tenure at Broward County included positions 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.

Ryan Yakubik, Director of Capital Development and Budget. Mr. Yakubik was appointed Director of Capital Development and Budget (formerly Manager, Financial Planning Division) in October of 2007. He is responsible for overseeing the Department's airline rates and charges, grants administration, operating budget, capital budget and all debt-related functions at LAX and LA/ONT. Previously, he had served as manager of the Debt and Treasury Section since his arrival at the Department in mid-2005. During that time, he also served as Acting Manager of the Operating Budget Section. Mr. Yakubik came to the Department after more than eight years in the financial services industry where he most recently served as a fixed income portfolio manager for institutional clients, managing more than \$900 million in assets. Mr. Yakubik holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles and is a Chartered Financial Analyst.

Kelly M. Martin, General Counsel. Ms. Martin was appointed General Counsel by the City Attorney in February 2007. She advises the Department and the Board on legal matters related to the operation and management of the Department's four airports. Ms. Martin's professional experience includes serving as Chief of Staff to Los Angeles Mayor Richard Riordan, where she was responsible for the day-to-day operations of his administration and for long-term strategic planning. Prior to that, as Deputy Mayor for Finance and Policy, she was responsible for overseeing the operations of City departments, including the proprietary departments, for development and presentation of the annual budget and for implementation of the Mayor's strategic priorities. Prior to her position with the Department, Ms. Martin held a variety of legal positions in the private sector, serving as vice president and general counsel of Merisel, Inc., a publicly traded wholesale distributor of computer products; and as a partner in the law firm of Riordan and McKinzie, specializing in corporate finance and mergers and acquisitions. Ms. Martin was appointed to the Airports Council International-North America legal steering committee in April 2008. Ms. Martin received her Juris Doctor degree from the University of Southern California in 1985 and graduated Order of the Coif. Her Bachelor of Arts degree in history and psychology is from the University of Manitoba.

Employees and Labor Relations

The Department, as part of the City, is a civil service organization, which as of June 9, 2008, had 3,763 authorized positions, of which 3,178 were authorized at LAX, 464 were authorized at LA/ONT and 121 were authorized at VNY and LA/PMD combined. Department employees are employed in more than 246 different civil service classifications. This wide range of job classifications is grouped into eight job categories, including Officials and Administrators, Professionals, Technicians, Protective Service, Paraprofessionals, Administrative Support, Skilled Craft and Service Maintenance.

As a municipal organization, the Department's employee and labor relations are governed by applicable State and City civil service rules and regulations as well as 22 separate labor agreements between management and unions ("Memoranda of Understanding"). Most of the Department's employees are covered by the Memoranda of Understanding. Two Memoranda of Understanding are currently pending City Council approval. The following table lists all Memoranda of Understanding between the Department and labor and management unions as of July 10, 2008.

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

Bargaining Unit	Expires
Service Employees International Union, Local 347	
Equipment Operation and Labor Employees Representation Unit No. 4	June 30, 2012
Service and Craft Representation Unit No. 14	June 30, 2012
Service Employees Representation Unit No. 15	June 30, 2012
Safety/Security Representation Unit No. 18	June 30, 2012
Municipal Construction Inspectors Association, Inc.	
Inspectors Unit No. 5	June 30, 2007*
Los Angeles Professional Managers Association	
Management Employees Unit No. 36	June 30, 2012
American Federation of State, County and Municipal Employees	
Clerical and Support Services Unit No. 3	June 30, 2012
Executive Administrative Assistants Unit No. 37	June 30, 2012
Engineers and Architects Association	
Administrative Unit No. 1	June 30, 2010
Professional Engineering and Scientific Unit No. 8	June 30, 2010
Supervisory Professional Engineering and Scientific Unit No. 17	June 30, 2010
Supervisory Technical Unit No. 19	June 30, 2010
Supervisory Administrative Unit No. 20	June 30, 2010
Technical Rank and File Unit No. 21	June 30, 2010
Local No. 501, International Union of Operating Engineers	
Plant Equipment Operation and Repair Representation Unit No. 9	June 30, 2012
Los Angeles City Supervisors and Superintendents Association, Laborer's International Union of North America, Local 777	
Supervisory Blue Collar Unit No. 12	June 30, 2012
Los Angeles/Orange Counties Building and Construction Trades Council	
Building Trades Rank and File Representation Unit No. 2	June 30, 2012
Supervisory Building Trades and Related Employees Representation Unit No. 13	June 30, 2012
Use of Union Hiring Halls for Temporary Use of Craft Workers No. 35	On-going
Los Angeles Airport Peace Officers Association/Laborer's International Union of North America, Local 777	
Peace Officers Representation Unit No. 30	June 30, 2009
Airport Supervisory Police Officers' Association of Los Angeles	
Supervisory Peace Officers' Unit No. 39	June 30, 2006*
Airport Police Command Officers Association of Los Angeles	
Management Peace Officers' Unit No. 40	June 30, 2009

* Pending tentative agreement.

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

On a few occasions, represented employees have held one day protests. In 2006, members of the Engineers and Architects Association held strikes. The Department obtained an injunction which prevented critical employees from participating in the strike. The strike and the protests did not cause any material adverse impact on the Department's operations or finances. There are no strikes threatened at this time.

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 46 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 participate in the Los Angeles City Employees' Retirement System ("LACERS"), administered by the City. Such plan is the obligation of the City, which is responsible for the funding of LACERS and for the determination and resolution of any unfunded LACERS liabilities. The Department makes contributions to LACERS with respect to its employees in amounts determined by the City. According to the LACERS's Actuarial Valuation and Review of Retirement Program as of June 30, 2007, LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$1.9 billion as of June 30, 2007 and a funded ratio of 81.69%. As of June 30, 2006, LACERS had a UAAL of \$2.2 billion and a funded ratio of 77.76%.

Under requirements of the City Charter, the Department makes contributions to LACERS based upon determinations made by the City. In Fiscal Year 2007 the Department contributed approximately \$34.6 million to LACERS with respect to LAX, up 3.3% from Fiscal Year 2006. The Department's retirement expenses with respect to LAX associated with LACERS were approximately \$29.8 million in the first nine months of Fiscal Year 2008, up 13.5% from the first nine months of Fiscal Year 2007. Contributions for the first nine months of Fiscal Year 2008 may not be indicative of contributions for the full Fiscal Year. The Department estimates that it will contribute approximately \$37.9 million to LACERS with respect to LAX for the Fiscal Year ending June 30, 2009, which may change depending on the number of employees of the Department and other factors.

Retired members and surviving spouses and domestic partners of LACERS members are eligible for certain subsidies toward their costs of medical and dental insurance. LACERS has been advance funding retiree health insurance benefits for current retirees and active eligible members for many years, funding the annual contribution recommended by its actuaries. There are no member contributions for health subsidy benefits; all such costs are funded out of the employer's contribution and investment returns thereon.

According to Actuarial Valuation and Review of Other Postemployment Benefits, as of June 30, 2007, the UAAL of LACERS for retiree health care benefits, based on the actuarial cost method and assumptions used for the related pension plans, was approximately \$545 million and the funded ratio was 68.51%. As of June 30, 2006, the UAAL for LACERS for retiree health care benefits, based on the same method and assumptions, was approximately \$741 million and the funded ratio was 57.21%.

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 3,651 acres in an area generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the south by the Imperial Highway and on the west by the Pacific Ocean. The LAX site, originally known as Mines Field, has been in use as an aviation field since 1928. During World War II it was used for military flights. Commercial airline service started in December 1946 and the present terminal complex was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX offers commercial air service to every major city in the United States and to virtually every major international destination and is classified by the FAA as a large hub airport.

LAX is the major facility in the Airport System and accounted for approximately 89.7% of the total enplaned and deplaned passengers, 79.1% of the air cargo volume and 84.6% of the air carrier operations of the Airport System for Fiscal Year 2007.

For an airport where no airline dominates in shares of enplaned passengers or provides formal "hubbing" activity, LAX has a relatively high percentage of connecting passengers. In calendar year 2007, 75% of enplanements at LAX represented originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining 25% of enplanements represented connections to or from regional markets as well as domestic connections to or from international markets. The relatively high percentage of connecting passengers at LAX is due primarily to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets along the west coast of the United States; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the alliances among airlines serving LAX.

Facilities

The central terminal complex features a decentralized design concept with nine individual terminals constructed on two levels lining a U-shaped two-level roadway (the "Central Terminal Area"). The total terminal area is approximately 4.4 million square feet. Although many of the terminals are physically connected, they function as independent terminals with separate ticketing, baggage, security checkpoints and passenger processing systems. The terminals share a common aircraft gate access system.

Passenger terminal facilities include ticketing and baggage check-in on the upper departure level and baggage claim on the ground level, fronting on the lower-level roadway. Passenger terminal facilities provide access to upper-level concourses and/or underground tunnels to field arrival/departure areas. LAX currently has a total of 158 gate positions, three of which are not currently operational. 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. A portion of the proceeds of the Series 2008 Bonds will finance and refinance modifications to the south airfield complex. See "PLAN OF FINANCE – The 2008 Projects – South Airfield Improvement Project."

Approximately 21,000 public parking spaces are available at LAX, including approximately 10,000 parking spaces in eight parking garages in the Central Terminal Area and 11,000 parking spaces in two economy-rate, remote surface parking lots. To help reduce vehicle traffic congestion in the Central Terminal Area, the Department also provides a 79-space cell phone waiting lot where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside.

Cargo facilities at LAX provide approximately 2.1 million square feet of building space in 26 buildings on 194 acres of land devoted exclusively to cargo. Rental car company facilities, major commercial airline maintenance hangars and office buildings, a 12-story administration building, a control tower, a central utilities plant, two flight kitchens, a fuel farm, and FAA, TSA and U.S. Coast Guard facilities are also located at LAX.

Air Carriers Serving LAX

The following table sets forth the air carriers serving LAX as of June 1, 2008. See "AIRLINE INDUSTRY INFORMATION."

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TABLE 6
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR CARRIERS SERVING LAX
AS OF JUNE 1, 2008

<u>Scheduled U.S. Carriers (20)</u>	<u>Foreign Flag Carriers (43)</u>	<u>Nonscheduled Carriers (6)</u>	<u>All-Cargo Carriers (15)</u>
AirTran	Aer Lingus	Allegiant Air	Aerotransporte De Carga Union
Alaska	Aeroflot	Clay Lacy Aviation	Aerotransporte Mas De Carga
American	AeroLitoral	Miami Air	Air Transport International
American Eagle	AeroMexico	Pace	Astar
Continental	Air Canada	Skybird	Cargolux
Delta ¹	Air Canada Jazz	World Airways	China Cargo
ExpressJet	Air China		DHL/Airborne
Frontier ²	Air France		FedEx
Hawaiian	Air India		Florida West
Horizon	Air Jamaica		Kalitta Air
Mesa	Air New Zealand		Nippon Cargo
Midwest	Air Pacific		Polar
Northwest ¹	Air Tahiti Nui		Shanghai Airlines Cargo
SkyWest	Alitalia		Singapore Airlines Cargo
Southwest	All Nippon		United Parcel Service
Spirit	Asiana		
Sun Country	Avianca		
United	British Airways		
US Airways	Cathay Pacific		
Virgin America	China		
	China Eastern		
	China Southern		
	CMA Mexicana		
	Copa		
	El Al Israel		
	Eva Airways		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	LTU International		
	Lufthansa German		
	Malaysia		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	Taca		
	Thai Airways		
	Virgin Atlantic		
	WestJet		

¹ In April 2008, Delta and Northwest announced plans to merge subject to regulatory approval.

² Filed for bankruptcy protection in April 2008 but continues to operate at LAX.

Source: Department of Airports of the City of Los Angeles

Aviation Activity

For calendar year 2006, LAX ranked as the 5th busiest airport in the world and the 3rd busiest in the United States in terms of total number of enplaned and deplaned passengers (totaling 61.0 million) according to ACI. For calendar year 2006, ACI statistics ranked LAX as the 11th busiest airport in the world and the 4th busiest in the United States in terms of total cargo with 1.9 million enplaned and deplaned metric tons. According to statistics collected by ACI for calendar year 2007, LAX was ranked as the 5th busiest airport in the world (preliminary) and the 3rd busiest in the United States for passenger traffic and the 12th busiest airport in the world (preliminary) and the 5th busiest in the United States in terms of cargo volume. LAX is consistently ranked first in the nation in the number of origin-destination passengers it serves. The following table shows the air passenger activity, total operations and cargo volume at LAX relative to the world's busiest airports.

TABLE 7
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PRELIMINARY TOP 15 WORLDWIDE RANKINGS – CALENDAR YEAR 2007

Rank	Airport	Total Passengers	Airport	Total Operations	Airport	Total Cargo (metric tons) ¹
1	Atlanta (ATL)	89,379,287	Atlanta (ATL)	994,346	Memphis (MEM)	3,840,574
2	Chicago (ORD)	76,159,324	Chicago (ORD)	927,834	Hong Kong (HKG)	3,772,673
3	London (LHR)	68,068,554	Dallas (DFW)	684,779	Anchorage (ANC)	2,826,499
4	Tokyo (HND)	66,671,435	Los Angeles (LAX)	681,445	Seoul (ICN)	2,555,582
5	Los Angeles (LAX)	61,895,548	Denver (DEN)	614,169	Shanghai (PVG)	2,494,808
6	Paris (CDG)	59,919,383	Las Vegas (LAS)	609,169	Paris (CDG)	2,297,896
7	Dallas (DFW)	59,784,876	Houston (IAH)	603,836	Tokyo (NRT)	2,252,654
8	Frankfurt (FRA)	54,161,856	Paris (CDG)	552,721	Frankfurt (FRA)	2,169,025
9	Beijing (PEK)	53,736,923	Phoenix (PHX)	538,063	Louisville (SDF)	2,078,290
10	Madrid (MAD)	52,122,214	Charlotte (CLT)	522,541	Miami (MIA)	1,922,982
11	Denver (DEN)	49,863,389	Philadelphia (PHL)	498,963	Singapore (SIN)	1,918,159
12	New York (JFK)	47,810,630	Frankfurt (FRA)	492,569	Los Angeles (LAX)	1,877,876
13	Amsterdam (AMS)	47,793,602	Madrid (MAD)	483,284	Dubai (DXB)	1,668,506
14	Las Vegas (LAS)	47,595,140	London (LHR)	481,356	Amsterdam (AMS)	1,651,385
15	Hong Kong (HKG)	46,995,000	Detroit (DTW)	467,230	Taipei (TPE)	1,605,681

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

Source: *ACI Traffic Data 2007*, Airports Council International (preliminary dated 3/12/08)

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The following table presents historical total revenue operations (landings and takeoffs) and total domestic and international enplanements and deplanements at LAX for Fiscal Years 1998 through 2007 and for the first eleven months of Fiscal Years 2007 and 2008.

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

Fiscal Year ⁽¹⁾	Revenue Operations		Enplanements and Deplanements			Passenger Growth
	Total Operations	Operations Growth	Domestic ⁽²⁾	International ⁽²⁾	Total ⁽²⁾	
1998	735,596	-	45,879,451	15,135,442	61,014,893	-
1999	769,938	4.7%	47,173,340	15,404,356	62,577,696	2.6%
2000	745,421	-3.2	49,570,344	16,510,467	66,080,811	5.6
2001	795,723	6.7	49,639,031	17,553,941	67,192,972	1.7
2002	625,457	-21.4	41,490,373	14,623,209	56,113,582	-16.5
2003	605,514	-3.2	40,761,700	14,571,467	55,333,167	-1.4
2004	596,915	-1.4	42,335,711	15,704,827	58,040,538	4.9
2005	616,482	3.3	44,240,522	17,024,908	61,265,430	5.6
2006	606,277	-1.7	44,058,954	17,376,983	61,435,937	0.3
2007	614,335	1.3	44,691,774	16,842,864	61,534,638	0.2
First Eleven Months⁽³⁾						
2007	563,600	-	40,612,387	15,339,340	55,951,727	-
2008	577,488	2.5	40,800,508	15,922,372	56,722,880	1.4

⁽¹⁾ Fiscal Year ended June 30.

⁽²⁾ Enplaned and deplaned passengers.

⁽³⁾ July 1 through May 31. Results for the first eleven months of Fiscal Year 2008 may not be indicative of results for the full fiscal year.

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

Passenger enplanements and deplanements at LAX grew 2.6% in Fiscal Year 1999, 5.6% in Fiscal Year 2000 and 1.7% in Fiscal Year 2001. Following the events of September 11, 2001 and the economic slowdown in the early part of this decade, passenger enplanements and deplanements at LAX decreased 16.5% in Fiscal Year 2002 and 1.4% in Fiscal Year 2003, as compared to an 8.2% decline and a 2.4% increase respectively, nationwide. From Fiscal Year 2003 through Fiscal Year 2007, total enplaned and deplaned passengers at LAX increased at a compounded annual growth rate of 2.7%, as compared to a national compounded annual growth rate of 4.5% during the same period. Several factors contributed to slower growth at LAX including decreased demand levels along the West Coast of the United States, secondary impacts of the economic downturn of the Silicon Valley area in Northern California and systemwide changes in the airlines' route structures and seat capacity, including the elimination of Shuttle by United service and a small shift of regional demand to the region's other airports, as described under the heading "Historical Airport Activity" in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." The fiscal year used for national comparisons is different from the Department's fiscal year. For the first eleven months of Fiscal Year 2008, enplanements and deplanements at LAX were up 1.4% over the same period in Fiscal Year 2007. Operations at LAX increased 2.5% in the first eleven months of Fiscal Year 2008 as compared to the first eleven months of Fiscal Year 2007. In the last few months a number of airlines have ceased operating or have announced systemwide cutbacks, including at LAX, as described under "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines." No assurance can be given that other airlines will not eliminate or reduce service at LAX.

Enplanements at LAX for the largest air carriers for the previous five Fiscal Years and for the first eleven months of Fiscal Years 2007 and 2008 are shown in the table below.

**TABLE 9
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
(RANKED BY FISCAL YEAR 2007 RESULTS)
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE^{1/}**

	Airline	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007		First 11 months FY 2007		FY 2008 ^{2/}	
		Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1	United	4,883,723	17.6%	4,871,677	16.8%	4,858,603	15.9%	4,825,156	15.7%	4,826,434	15.7%	4,408,317	15.8%	3,962,674	14.0%
2	American	3,807,194	13.7	3,927,869	13.5	4,492,113	14.7	4,642,853	15.1	4,679,905	15.2	4,258,167	15.2	4,212,636	14.9
3	Southwest	3,498,799	12.6	3,589,396	12.3	3,763,817	12.3	3,930,014	12.8	3,817,855	12.4	3,451,287	12.4	3,498,178	12.4
4	Delta ^{3/}	2,029,728	7.3	2,266,517	7.8	2,329,863	7.6	2,230,835	7.3	2,312,650	7.5	2,082,082	7.5	2,144,995	7.6
5	Alaska	1,149,826	4.1	1,333,670	4.6	1,436,584	4.7	1,459,669	4.8	1,479,679	4.8	1,344,702	4.8	1,279,542	4.5
6	Skywest	1,144,935	4.1	1,215,879	4.2	1,277,811	4.2	1,317,516	4.3	1,425,685	4.6	1,304,190	4.7	1,263,859	4.5
7	US Airways ^{4/}	1,288,118	4.6	1,328,661	4.6	1,506,080	4.9	1,287,043	4.2	1,238,267	4.0	1,131,759	4.1	1,015,158	3.6
8	Continental	874,142	3.2	885,956	3.0	970,303	3.2	1,085,628	3.5	1,170,936	3.8	1,059,363	3.8	1,037,240	3.7
9	Northwest ^{3/}	1,004,893	3.6	1,026,338	3.5	1,103,405	3.6	1,118,732	3.6	1,129,526	3.7	1,023,107	3.7	1,028,196	3.6
10	Qantas	470,189	1.7	553,265	1.9	569,952	1.9	594,801	1.9	620,142	2.0	565,623	2.0	563,156	2.0
11	CMA Mexicana	517,025	1.9	505,384	1.7	618,550	2.0	712,492	2.3	572,616	1.9	525,234	1.9	579,174	2.0
12	American Eagle	552,337	2.0	520,660	1.8	512,923	1.7	502,148	1.6	509,076	1.7	467,248	1.7	446,108	1.6
13	Air Canada	448,456	1.6	434,406	1.5	449,757	1.5	487,446	1.6	508,083	1.7	464,465	1.7	440,915	1.6
14	Air New Zealand	460,305	1.7	464,886	1.6	441,285	1.4	433,578	1.4	381,369	1.2	350,761	1.3	358,941	1.3
15	Korean	306,087	1.1	327,165	1.1	344,808	1.1	356,190	1.2	338,740	1.1	306,267	1.1	305,109	1.1
16	Frontier ^{5/}	129,241	0.5	225,304	0.8	240,639	0.8	215,757	0.7	317,062	1.0	286,859	1.0	261,316	0.9
17	Cathay Pacific	154,251	0.6	191,058	0.7	215,110	0.7	301,119	1.0	312,261	1.0	281,391	1.0	296,036	1.0
18	British Airways	218,813	0.8	232,513	0.8	254,371	0.8	289,601	0.9	274,435	0.9	245,980	0.9	268,395	1.0
19	Air France	236,064	0.9	246,393	0.8	253,446	0.8	250,465	0.8	273,314	0.9	248,126	0.9	250,974	0.9
20	Eva Airways	165,298	0.6	202,916	0.7	204,483	0.7	227,505	0.7	256,952	0.8	234,429	0.8	232,057	0.8
	Other ^{6/}	<u>4,370,904</u>	<u>15.8</u>	<u>4,729,934</u>	<u>16.3</u>	<u>4,704,348</u>	<u>15.4</u>	<u>4,386,598</u>	<u>14.3</u>	<u>4,338,022</u>	<u>14.1</u>	<u>3,904,187</u>	<u>14.0</u>	<u>4,888,731</u>	<u>17.3</u>
	Airport Total ^{7/}	27,710,328	100.0%	29,079,847	100.0%	30,548,251	100.0%	30,655,146	100.0%	30,783,009	100.0%	27,943,544	100%	28,333,390	100%

^{1/} For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the activity for the airlines that are now a part of the surviving airline is included in the information presented.

^{2/} Results for the first eleven months of Fiscal Year 2008 may not be indicative of full year results.

^{3/} In April 2008, Delta and Northwest announced plans to merge subject to regulatory approvals.

^{4/} On September 27, 2005, US Airways completed its merger with America West. The FAA granted US Airways a single operating certificate on September 26, 2007.

^{5/} Frontier filed for bankruptcy in April 2008 but has continued to operate at LAX while in bankruptcy proceedings.

^{6/} For the first eleven months of Fiscal Year 2008, "Other" includes ExpressJet, Horizon Air Industries, Inc. and Virgin America (among other airlines), which are ranked 12th, 16th and 19th, respectively. For the first eleven months of Fiscal Year 2008, Frontier, Air France and Eva Airways were ranked 21st, 22nd and 24th, respectively, for such period.

^{7/} Totals may not add due to individual rounding.

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

The following table presents the total revenue landed weight for the largest air carriers serving LAX for the previous five Fiscal Years and the first eleven months of Fiscal Years 2007 and 2008.

TABLE 10
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT
(RANKED ON FISCAL YEAR 2007 RESULTS)
(000 LBS.)

Airline	FY 2003 Landed Weight	FY 2004 Landed Weight	FY 2005 Landed Weight	FY 2006 Landed Weight	FY 2007 Landed Weight	Share	First 11 months			
							FY 2007		FY 2008 ^[1]	
							Total Weight	% Share	Total Weight	% Share
1 United	8,321,019	7,740,449	7,255,290	7,261,268	7,144,632	13.7%	6,587,115	13.8%	6,004,849	12.6%
2 American	6,650,156	6,513,413	6,530,522	6,216,216	6,327,454	12.1	5,801,470	12.1	5,697,842	11.9
3 Southwest	4,674,214	4,634,360	4,880,226	5,004,196	4,982,430	9.6	4,565,302	9.6	4,652,766	9.8
4 Delta ^[2]	3,503,886	3,535,878	3,277,142	2,990,123	3,116,374	6.0	2,837,668	5.9	2,791,102	5.9
5 FedEx	1,888,808	1,840,006	1,956,507	1,936,856	1,876,769	3.6	1,724,867	3.6	1,642,177	3.4
6 Alaska	1,612,857	1,785,885	1,747,446	1,714,678	1,831,490	3.5	1,676,431	3.5	1,542,100	3.2
7 Skywest	1,534,142	1,502,103	1,579,730	1,640,735	1,748,625	3.4	1,605,928	3.4	1,637,342	3.4
8 Northwest ^[2]	1,657,263	1,635,986	1,644,806	1,698,251	1,650,884	3.2	1,510,262	3.2	1,433,550	3.0
9 Qantas Airways	1,044,321	1,223,094	1,338,635	1,409,692	1,435,397	2.8	1,315,340	2.8	1,327,430	2.8
10 Continental	1,261,222	1,330,107	1,292,606	1,329,656	1,421,707	2.7	1,289,421	2.7	1,264,172	2.7
11 Korean	1,079,371	1,041,396	1,166,751	1,147,742	1,116,542	2.1	1,022,858	2.1	1,044,890	2.2
12 Cathay Pacific Airways	594,960	629,371	693,234	909,054	926,376	1.8	849,920	1.8	853,240	1.8
13 America West ^[3]	873,024	1,020,905	1,186,957	1,003,338	907,645	1.7	843,359	1.8	--	--
14 CMA Mexicana	738,864	717,313	871,919	955,836	842,123	1.6	780,259	1.6	771,514	1.6
15 Eva Airways	612,965	687,792	749,455	793,100	776,928	1.5	718,165	1.5	706,495	1.5
16 Air New Zealand	905,443	940,778	860,046	851,797	732,190	1.4	674,050	1.4	685,597	1.4
17 China	662,148	685,940	685,498	719,650	728,974	1.4	667,600	1.4	679,606	1.4
18 Air Canada	666,836	624,295	601,590	647,190	668,138	1.3	612,959	1.3	569,054	1.2
19 American Eagle	781,095	719,565	690,923	662,888	659,198	1.3	608,554	1.3	563,929	1.2
20 British Airways	457,380	467,460	515,340	594,090	594,090	1.1	537,390	1.1	623,070	1.3
Other ^[4]	<u>12,277,034</u>	<u>12,289,847</u>	<u>12,703,107</u>	<u>12,300,025</u>	<u>12,640,741</u>	<u>24.4</u>	<u>11,546,137</u>	<u>24.2</u>	<u>13,210,497</u>	<u>27.7</u>
Airport Total^[5]	51,797,008	51,565,943	52,227,730	51,786,381	52,128,707	100.0%	47,775,055	100%	47,701,222	100%

[1] Results for the first eleven months of Fiscal Year 2008 may not be indicative of full year results.

[2] In April 2008 Delta and Northwest announced plans to merge subject to regulatory approvals.

[3] America West merged with US Airways on September 25, 2005 and began operating as US Airways in September 2007. America West's results do not include US Airways results. US Airways (including results attributable to America West) was ranked 11th for the first eleven months of Fiscal Year 2008 with 2.5% of revenue landed weight during such period.

[4] For the first eleven months of Fiscal Year 2008, "Other" includes US Airways and ExpressJet (among other airlines), which were ranked 11th and 18th, respectively. For the first eleven months of Fiscal Year 2008, American Eagle was ranked 21st for such period.

[5] Totals may not add due to rounding.

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

In Fiscal Year 2007, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 2 million tons. According to ACI, LAX ranked 11th in the world in air cargo volume in calendar year 2006 and, based on preliminary statistics, ranked 12th in the world in air cargo in calendar year 2007. The following chart provides information concerning cargo traffic over the last ten Fiscal Years and the first eleven months of Fiscal Years 2007 and 2008.

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

Fiscal Year⁽¹⁾	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
1998	1,187,727	-	870,297	-	2,058,024	-
1999	1,197,765	0.8%	888,012	2.0%	2,085,776	1.3%
2000	1,263,279	5.5	965,904	8.8	2,229,183	6.9
2001	1,112,803	(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)
First Eleven Months⁽²⁾						
2007	896,635		1,014,836		1,911,471	
2008	811,079	(9.5)	1,043,389	2.8	1,854,468	(3.0)

(1) Fiscal Year ended June 30.

(2) July 1 through May 31. Results for the first eleven months of Fiscal Year 2008 may not be indicative of results for the full fiscal year.

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

Cargo volumes at LAX for Fiscal Years 2006 and 2007 and the first eleven months of Fiscal Year 2008 have declined as shown in the table above. Similar to the passenger airlines, global air cargo has been impacted in recent years by the global economy, increasing fuel costs, continued decreases to the U.S. dollar, uncertainties in the Middle East, and new security regulations. The worldwide gross domestic product remains the primary driver for air cargo industry growth. As a leading economic indicator, air cargo traffic growth has slowed, or even decreased in certain markets (including LAX) in recent years, both from the increased prices of jet fuel since 2006 (particularly since late 2007), and the more recent U.S. economic downturn. Results for the first eleven months of Fiscal Year 2008 may not be indicative of full year results.

See "CERTAIN INVESTMENT CONSIDERATIONS" for discussion of some factors that may impact future aviation activity at LAX. See "AGREEMENTS FOR THE 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

The LAX market area includes the five-county area of Los Angeles, Orange, Riverside, San Bernardino and Ventura counties, and, for long range and international markets, extends as far north as Santa Barbara and as far south as San Diego. There are six air carrier airports within the five-county region. According to statistics collected from individual airports and by ACI, LAX is the primary airport in the five county region, with approximately 70%

of the region's total enplaned passengers and approximately 76% of the region's cargo in calendar year 2007, down from 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 26% of the region's air service for calendar year 2007. One other secondary airport, Long Beach Airport ("LGB"), provides limited air service to destinations outside of the Los Angeles region and accounted for approximately 3% of the region's air service in 2007. Scheduled passenger service was initiated at LA/PMD (which is a part of the Airport System) in June 2007, with two daily nonstop flights to San Francisco on United Express (expected to be converted to four daily flights on propeller planes in September 2008). The five county region has one commuter service airport, Oxnard, that provides intra-region flights; Oxnard presently provides a few flights per day to and from LAX.

Certain Other Matters Related to LAX

Building Rental Rate Issues

In 2007, the airlines operating at LAX challenged the rates and charges imposed on them by the Department. These challenges, the related decisions and settlements and the impacts thereof are discussed under "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases."

Conduit Financings

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

RAIC is a nonprofit public benefit corporation organized under the laws of the State for the purpose of assisting the City by financing and otherwise acquiring, constructing, reconstructing, replacing, extending, enlarging or improving airports, heliports and the facilities thereof. Bonds of RAIC have been issued for a variety of improvements, including terminal building facilities, hangars, cargo buildings, flight kitchens, fuel systems and special equipment. While RAIC may finance improvements at any facility in the Airport System, to date, all RAIC financings have provided funds for improvements at LAX, except for one financing that was a small short-term financing for facilities at LA/ONT. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases – Rental Credits."

CSCDA is a joint exercise of powers agency whose members include more than 450 California counties, cities and other local governments. CSCDA bonds have been issued for improvements to Terminals 6, 7 and 8 and certain cargo facilities, all leased by United.

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. This could be done 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 "AGREEMENTS FOR THE USE OF AIRPORT FACILITIES – Building Tariff and Leases" for a description of the buy-back rights.

Caltrans Transfer

In February 1994, the Department requested permission from the U.S. DOT to transfer funds received from the California Department of Transportation ("Caltrans") to the City's General Fund. The State funds were received by the Department for the land and rights-of-way for the Century Freeway, a new freeway located immediately

south of LAX. The funds were deposited in the Airport Revenue Fund. The Department based its request on the assumption that the land properly belonged to the City, not exclusively the Department, and that the City's General Fund should receive the funds. On February 18, 1995, the Department received a letter from the U.S. DOT, which stated that it would not oppose a transfer to the City's General Fund. The Board approved a transfer of \$58,467,000 in principal and interest from the Condemnation of Land account at its regular meeting on March 7, 1995. The transfer was thereafter made.

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

The complainants sought an order barring the City from expending the funds for non-airport uses, directing the City to repay to the Airport Revenue Fund the amount already transferred, suspending LAX's eligibility for grant funds pending compliance with its grant assurances and imposing a civil penalty of \$50,000. The FAA failed to act on the complainants' request for a preliminary ruling that the City be barred from using the funds while proceedings are pending. Answers to both complaints were filed. In December 1995, the FAA denied a motion to dismiss the complaints. On June 19, 2000, the FAA issued a Preliminary Determination requiring the City to implement a corrective action plan to lawfully correct the diversion of revenues and to restore same to the Department, plus interest attributable to severance damages and temporary construction easements. The Department responded to the FAA's request and on July 21, 2005 the FAA issued tentative findings stating: (i) the nature of the Century Freeway made air rights effectively permanent for the purposes of fund transfer; (ii) the proceeds of the condemnation award are not subject to grant assurance for airport revenue; (iii) the Department's determination methodology is fair and in accord with FAA policy; and (iv) the Caltrans assessment is a proper valuation of the condemnation and the City's proposed corrective action plan, including restoring the sum of \$1,986,718 plus interest from 1995 is acceptable. The tentative findings directed each party to file objections within 45 days. The complainants filed their response with the FAA. The Department subsequently filed a response with the FAA and final disposition of the matter is pending.

Emergency Management

The Department has four core groups that are responsible for emergency management: Fire, Law Enforcement, Airport Operations and Emergency Preparedness Coordination. 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 (ESF) in the National Incident Management System (“NIMS”), California Standardized Emergency Management System (“SEMS”), the federal government National Response Plan, FAA Regulation Part 139 (“FAR 139”), the City Charter, the Airport Rules and Regulations and other federal/county/state statutes. Emergency management responsibilities for the core groups include following: (1) drafting and maintenance of Department emergency plans, (2) integration with the City of Los Angeles Emergency Operations Board and the emergency processes of other City Departments if needed, (3) training and exercises, (4) planning for Continuity of Operations/Continuity of Government for the Airport System, (5) oversight of new emergency guidelines, mandates, technology, emergency response and preparedness systems at local, state, federal and international levels concerning airport emergency operations and (6) Department Operations Center, City Emergency Operations Center and Department representation for emergency activations.

The Department is required by certain federal, state, City and other directives to develop and maintain a number of airport emergency plans to ensure protection of lives and property. The Department is also subject to Homeland Security Presidential Directive 5, which requires compliance with the NIMS and the National Response Framework. The State requires compliance with SEMS. FAR 139 defines specific emergency plan components that must be developed and maintained in the LAX and LA/ONT Airport Certification Manuals. These plans set forth emergency procedures to ensure prompt response to emergencies to save lives, minimize the possibility and extent of personal and property damage and ensure recovery of the critical transportation infrastructure. The Department has included these emergency procedures in the Airport Rules and Regulations for LAX and LA/ONT. The airports hold emergency plan exercises as required by TSA security directives, FAR 139 mandates and City exercise programs. The Department held a tabletop exercise on April 27, 2007 to prepare for the full scale exercise

simulating an aircraft disaster scheduled for May. The full-scale LAX Air Exercise, required by FAR 139, was conducted on May 15, 2007. This year's annual FAR Part 139 tabletop exercise is scheduled for September 17, 2008. A yearly security exercise under TSA mandates is held under the direction of Airport Police and incorporates airport stakeholders. The Department conducts and participates in a number of additional scheduled exercises with Federal, airline, and City agencies.

For additional information on security measures at LAX please see "CERTAIN INVESTMENT CONSIDERATIONS – Aviation Security Concerns." See also "CERTAIN INVESTMENT CONSIDERATIONS – Seismic Risks."

AGREEMENTS FOR USE OF AIRPORT FACILITIES

General

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

Operating Permits – Landing Facilities and Landing Fees

The Department has entered into separate, but substantially similar, operating permits covering the use of landing facilities with air carriers serving LAX. These operating permits grant operating rights to each airline typically for the same five-year term, and are commonly referred to as the "Air Carrier Operating Permits" or the "ACOPs." The Department is currently authorized to issue ACOPs that expire June 30, 2009. The ACOPs are terminable by either party on 30 days notice. The ACOPs require each airline to pay a landing fee to the Department for each aircraft that lands at LAX. The landing fee generally is calculated as the product of (i) the units of maximum gross landed weight of the airline, with each unit being 1,000 pounds, multiplied by (ii) the landing fee rate currently in effect. Even in the absence of such ACOPs, carriers are required to comply with all LAX operating procedures and regulations, including the uninterrupted payment of landing fees. The landing fee rates to be charged during each Fiscal Year are based upon the Department's then-current budget. At the end of each Fiscal Year, the landing fee rates for that Fiscal Year are adjusted to reflect the actual expenses incurred. All adjustments for deficiencies are billed when determined and overages are refunded to the affected airlines. The ACOPs provide that the airline landing fee rates are to be forecasted and adjusted annually. During the Fiscal Year, the Department may adjust rates up or down to maintain a balance between actual and forecasted billing rates. The most recent landing fee increase took place in 2007. The Department expects that the ACOPs will be renewed upon their expiration, though no assurances can be given that they will be, or that the terms of the new ACOPs will be the same as the existing terms. It is assumed for the purposes of the forecasts in the Report of the Airport Consultant that they are renewed on the same terms. Air carriers that are not party to an ACOP pay significantly higher landing fees than air carriers that are party to an ACOP.

Building Tariff and Leases

As described in more detail below, certain airlines and a consortium of airlines (the "Long-Term Lease Signatory Airlines") lease terminal building space under long-term terminal building leases (the "Long-Term Leases"). A few airlines lease terminal building space under short-term leases of up to five years with terms similar to the LAX Passenger Terminal Tariff (the "Tariff"). Airlines occupying or otherwise using terminal space at LAX without an existing lease pay for terminal space through fees and charges set forth in the Tariff, as described in more detail below.

Long-Term Leases

Terminal space in Terminals 2, 4, 5, 7, 8, and a portion of Terminal 6 are leased pursuant to Long-Term Leases between the applicable airline or consortium of airlines and the Department. Significant construction of each

of the terminals subject to a Long-Term Lease (including all of Terminal 6) was financed by third party debt payable solely from payments made by the Long-Term Lease Signatory Airlines or their subtenants. The terms of the Long-Term Leases range from 15 to 40 years and generally expire between 2021 and 2025, and contain the following key provisions:

- Terminal rents under the Long-Term Leases are charged beginning January 1 of each year, and have historically been calculated incorporating actual requirements from the prior fiscal year (e.g., calendar 2009 rents will be based on actual FY 2008 requirements), except as described under “ – Long Term Lease Litigation and Interim Settlement Agreement” below.
- The Long-Term Leases provide for certain preferential use rights, although Long-Term Lease Signatory Airlines also agree to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective pro rata direct costs plus a reasonable administrative fee.
- Rental rates on pre-existing terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. The Long-Term Lease Signatory Airlines are also required to pay Maintenance and Operations (M&O) Rent in order to compensate the Department for a portion of its costs of maintaining and operating the terminal and a portion of the costs of maintaining and operating LAX. Historically, the Long-Term Lease Signatory Airlines have paid a charge equivalent to 15% of the direct Terminal M&O costs as a proxy for certain maintenance and operations costs such as security costs, general administrative costs and access costs (costs associated with the roadways in and connecting to the airport).
- In December 2006, the Department approved M&O Rates that included the increased M&O Expenses, including all direct and indirect costs allocated to the Terminal Cost Center, retroactive to January 1, 2006. Certain of these direct and indirect costs allocated to the Terminal Cost Center (which are higher than 15% direct terminal M&O costs), such as security costs and full indirect costs had not previously been included by the Department in Terminal rents and charges. The Long-Term Signatory Airlines disputed the right of the Department to make these changes. See “ – Long-Term Lease Litigation and Interim Settlement Agreements” below.
- The Long-Term Leases provide the Department the right to defease third party debt that financed terminal improvements under certain circumstances. See also “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.”
- In the event that the leased premises are damaged or destroyed such that the Department can not repair, replace or reconstruct such premises within a reasonable time, the Long-Term Lease may be terminated at the Long-Term Lease Signatory Airline’s option. If the Long-Term Lease Signatory Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from LAX, by any final action, order or ruling of any Federal or State governmental authority, the Long-Term Lease Signatory Airlines may, at their option, terminate their respective Long-Term Leases by 30 days written notice.
- See also the discussion of rental credits under “AGREEMENT FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases – Rental Credits.”

The Tariff

The Tariff applies to all airlines occupying or otherwise using terminal space at LAX without an existing lease. The Tariff has no term or expiration date but is subject to change from time to time by the Board. Currently, the Tariff applies to airlines occupying space in Terminal 1, Terminal 3, and TBIT, and to certain airlines occupying

space in Terminal 6. The Tariff went into effect on February 1, 2007 and was immediately applied to the airlines operating in Terminals 1 and 3 and to certain airlines occupying space in Terminal 6. On April 1, 2007, the Tariff was applied to airlines operating at TBIT.

For terminal space subject to the Tariff, certain critical areas (including ticket counter space, gate areas, and other facilities from time to time) are occupied or used by airlines on a joint use basis, to be available to airlines that make the most productive use of such areas. The Department has the right to schedule specific areas for the use of particular airlines for specific periods and may, from time to time, establish preferences in the use of joint use space in favor of an airline or airlines when the arrivals and departures of flights operated by the airline or airlines can be scheduled in a manner that will substantially exceed the specified utilization standards. If the Department determines that any terminal space occupied or used by any airline under the Tariff is underutilized, it may accommodate other airlines in such space.

Terminal rates under the Tariff are calculated based on a compensatory rate-making methodology, where costs within the Terminal Cost Center, direct and indirect, are allocated to any entities using or occupying terminal space. The calculation of terminal rates under the Tariff is described in greater detail in Section 4.6.2 of APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “– Complaints Regarding the Tariff and Subsequent DOT Decision” below.

Spirit Air, Virgin America, and Express Jet Inc., have each executed a 5-year terminal lease agreement, and jetBlue Airways has executed a 1-year terminal lease agreement with the Department with provisions similar to the Tariff. jetBlue Airways has not commenced operations at LAX.

Long-Term Lease Litigation and Interim Settlement Agreements

In January 2007, three airlines (American Airlines (“American”), United and Continental Airlines (“Continental”)) operating out of Terminals 4, 6, 7 & 8 under Long-Term Leases filed a case against the Department in Los Angeles federal district court claiming that their Long-Term Leases do not permit the Department to increase their M&O charges, including direct and indirect costs allocated to the Terminal Cost Center. American, Continental and United claimed that their Long-Term Leases limited indirect Terminal M&O Expenses to 15% of direct Terminal M&O Expenses. This case was dismissed in February 2008, pursuant to Settlement Agreements between the three airlines and the Department (the “American, United and Continental Settlement Agreements”).

Similarly, in March 2007 LAX Two Corporation’s primary owner, Northwest Airlines (Terminal 2), and Delta Airlines (Terminal 5) filed adversary proceedings in Bankruptcy Courts for the Southern District of New York seeking relief to prevent the Department from charging increased M&O Expenses (including direct and indirect costs allocated to the Terminal Cost Center). Delta’s case was dismissed in February 2008 pursuant to a Settlement Agreement with the Department (the “Delta Settlement Agreement”). The Department has also executed a Settlement Agreement with LAX Two/Northwest (the “LAX Two Settlement Agreement”) and anticipates that the case will be dismissed as it relates to the M&O claims. The LAX Two/Northwest and Delta Airlines adversary proceedings also raised issues concerning the Department’s right to defease third party debt that financed terminal improvements and re-let Terminals 2 and 5 as described above under “– Long-Term Leases.” This aspect of the Delta litigation was dismissed without prejudice. The defeasance claim in the LAX Two/Northwest case was transferred to the U.S. District Court for the Central District of California and stayed by court order until September 29, 2008.

The American, United and Continental Settlement Agreements, the Delta Settlement Agreement and the LAX Two Settlement Agreement are referred to herein collectively as the “Settlement Agreements.” The Settlement Agreements permit the Long-Term Lease Airlines to bring new actions against the Department for disputes concerning M&O charges for calendar years subsequent to 2008, if an agreement on future M&O charges is not reached by December 31, 2008. Presently, the Department is not able to predict whether such agreements with the Long-Term Lease Airlines will be reached by December 31, 2008.

Pursuant to these Settlement Agreements the Department and the Long-Term Lease Signatory Airlines agreed that for calendar years 2006, 2007 and 2008, the Long-Term Lease Signatory Airlines’ M&O would be calculated in the same manner as calendar year 2005, with an additional charge for the Direct Terminal Security

Costs incurred by the Department at the Long-Term Lease Signatory Airlines' terminals. The parties also agreed on the following Fiscal Year costs to calculate the M&O charges for calendar years 2006, 2007 and 2008:

- For calendar year 2006, the Long-Term Lease Airlines' M&O charges, including Direct Terminal Security Costs, were calculated based on Fiscal Year 2005 actual costs.
- For calendar year 2007, the Long-Term Lease Airlines' M&O charges, including Direct Terminal Security Costs, were calculated based on Fiscal Year 2005 actual costs.
- For calendar year 2008, the Long-Term Lease Airlines' M&O charges, including Direct Terminal Security Costs, were calculated based on Fiscal Year 2006 actual costs.

To the extent the Long-Term Lease Signatory Airlines have previously made payments to the Department for M&O Expenses in calendar year 2006, 2007 or 2008 in excess of the amounts payable by the respective airlines pursuant to the Settlement Agreements, the Department issued a rental credit to such airline for the excess amount. Beginning on January 1, 2008, each Long-Term Signatory Airline may apply its rental credit against LAX terminal rental charges and M&O Expenses, landing fees or other charges owed by such Long-Term Signatory Airline to the Department until the balance of such rental credit is reduced to \$0.00. The Department will not seek to recover any portion of the M&O Credit from such airline through other rents, fees or other charges.

As a condition of the Settlement Agreements, the Long-Term Lease Signatory Airlines agreed to pay a portion of the costs associated with the rehabilitation or replacement of the LAX Central Utility Plant (the "CUP"). The total amount collected from the Long-Term Lease Signatory Airlines for calendar years 2006, 2007 and 2008 for direct terminal security costs is approximately \$34.9 million. The Department deposited an equivalent amount of money in a Major Maintenance Account (the "MMA") which will be used to fund costs associated with CUP rehabilitation or replacement. The Long-Term Lease Signatory Airlines further agreed that they would pay an allocable portion of CUP costs, provided that the total CUP costs do not exceed \$218.75 million (or a greater amount if the Department funds any excess amount from its cash reserves or other sources that do not affect the terminal base rates paid by the Long-Term Lease Signatory Airlines under their respective Long-Term Leases). The Settlement Agreements specify that CUP costs are to be allocated to all Cost Centers on "a fair and equitable basis" and that any CUP costs allocated through the Terminal Cost Center to individual terminals will be allocated to the Long-Term Lease Signatory Airlines based on each such airline's Usable Terminal Space area. In accordance with the Settlement Agreements, the Department expects to finance the costs of the CUP with Additional Senior Bonds, Additional Subordinate Bonds and/or Subordinate Commercial Paper Notes, amounts on deposit in the MMA, grants, if any, and any other funds available to the Department.

The forecasts in the Report of the Airport Consultant assume that the provisions incorporated in the Settlement Agreements (which specify terminal rents and fees for calendar years 2006, 2007 and 2008 and allow the Department to recover a portion of terminal security costs) extend through Fiscal Year 2014. The final resolution of the legal matters relating to the Long-Term Lease Agreements and the negotiations described below under "– 2008 Airline Negotiations" could result in different terminal rentals than are projected for Fiscal Years 2009-2014 in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

Complaints Regarding the Tariff and Subsequent DOT Decision

In February 2007, seven domestic airlines operating at the Airport from Terminal 1 (Southwest Airlines and US Airways) (the "Terminal 1 Complainants") and Terminal 3 (Alaska Airlines, AirTran Airways, ATA Airlines, Frontier Airlines, Midwest Airlines) (the "Terminal 3 Complainants," and together with the Terminal 1 Complainants, the "Terminal 1 and 3 Complainants"), filed a complaint with the U.S. DOT alleging that new terminal rates and charges imposed pursuant to the Tariff were unreasonable and discriminatory. The Terminal 1 and 3 Complainants generally alleged that the new terminal charges under the Tariff are significantly higher and therefore unreasonable, unjustly discriminatory, and employ a new methodology (including the allocation of costs to airlines based on each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not

exclusively used by airlines or other tenants (generally public use or common use areas)) that is both unreasonable and unjustly discriminatory in its application relative to terminal charges under the Long-Term Leases.

The Terminal 3 Complainants filed an additional claim concerning the Department's imposition of the market value method to determine the "Base Charge" portion of terminal charges. The Terminal 3 Complainants claimed the method was unreasonable because it was not cost-based. The Terminal 3 Complainants also argued that it was imposed based on the Department's subjective opinion of what constitutes "market value" rather than pursuant to an agreed-to or independent assessment of market value.

In February 2007, twenty-two international airlines operating at TBIT (the "TBIT Complainants") also filed a complaint with the U.S. DOT; one complainant subsequently withdrew. The TBIT Complainants challenged the imposition of the full or enhanced M&O recovery that had been imposed on all airlines retroactively to January 2006.

In June 2007, the U.S. DOT issued its Final Decision regarding the complaints filed by the Terminal 1, Terminal 3 and TBIT Complainants. The most significant conclusions reached by U.S. DOT are described below:

- An airport does not violate requirements that its rates be reasonable if it uses a "commercial compensatory" method that allocates the costs of public terminal space on the basis of "rentable" space;
- Commercial compensatory methods are not unreasonable when used to recover fully-allocated terminal M&O costs, including the increasing costs for general administration, ground transportation and airport security;
- Fair market value is not inherently unreasonable and can be used in setting terminal rental rates, provided that fair market value is determined either by agreement or by an independent objective appraisal of what other aeronautical users would pay;
- Commercial compensatory methods can be used to recover the fair market value of terminal space;
- The Department's use of fair market value was found to be unreasonable as applied in setting the tariff for Terminal 3 because, according to the U.S. DOT, the determination of fair market value was not based upon an independent objective appraisal;
- The Department's use of the commercial compensatory method was found to be unjustly discriminatory as applied in setting the tariffs for Terminals 1 and 3 at LAX because the Department is bound by long-term leases to use a "useable" space method in calculating rental rates for other terminals at LAX and the Department did not show, according to the U.S. DOT, that it was justified in treating the Terminal 1 and Terminal 3 Airlines differently than the long-term carriers; and
- The U.S. DOT found that all the claims by the TBIT Complainants were barred because the retroactive fees they challenged were imposed under written agreements with the Department and, further, that U.S. DOT lacked statutory jurisdiction to hear their claims.

The Terminal 1 and 3 Complainants, TBIT Complainants and the Department subsequently filed a petition for review of the U.S. DOT's Final Decision in the U.S. Court of Appeals for the District of Columbia Circuit. The court has provided for a briefing schedule with final briefs due November 30, 2008. The Department is unable to predict how the Court of Appeals will rule and whether any further review of such ruling will be sought in the U.S. Supreme Court. In addition, the TBIT Complainants filed a second complaint with U.S. DOT challenging the imposition of rentable space methodology and the increased M&O charges as unreasonable and unjustly discriminatory. The Department has challenged TBIT's second complaint. The forecasts in the Report of the Airport Consultant assume that the rents and fees specified in the Tariff (as applied pursuant to the U.S. DOT's Final Decision) will continue in Terminals 1 and 3 and the portion of Terminal 6 that is subject to the Tariff through Fiscal

Year 2014. The Report of the Airport Consultant also assumes that the “useable” space methodology currently employed in Terminals 1, 3 and 6 will also be used in TBIT through Fiscal Year 2014. The final resolution of the legal matters relating to the Tariff could result in different terminal rentals than are assumed in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

2008 Airline Negotiations

In connection with the Settlement Agreements, the Department and the Long-Term Lease Airlines are obligated to work diligently, along with the other airlines serving LAX, to attempt by December 31, 2008 to reach an agreement regarding the LAX rates and charges structure, the future capital needs of LAX, and the manner by which such capital needs will be met. Such negotiations will include, without limitation, the following: (1) a reasonable financing plan for necessary capital improvements at LAX, including improvements in the terminal areas, and the manner by which the capital costs for such improvements can be recovered from all airport users over the life of the improvements; and (2) ways in which the leasing arrangements at LAX can be structured to create incentives for the Department to improve operating efficiencies, limit costs, and increase non-airline revenues. The Department is also engaged in similar discussions with other airlines operating at LAX that do not have Long-Term Leases.

In the event that no agreement is reached on M&O Charges by December 31, 2008, and new litigation over M&O Charges is filed, such litigation will not affect any M&O amounts payable by the airlines for calendar years 2006, 2007 and 2008 pursuant to the Settlement Agreement with the Long-Term Lease Airlines. The forecasts in the Report of Airport Consultant assume that the provisions incorporated in the Settlement Agreements extend through Fiscal Year 2014 with respect to the Long-Term Lease Signatory Airlines and that the rents and fees specified in the Tariff are applied using the “usable” space methodology through Fiscal Year with respect to all other airlines operating at LAX. New lease agreements may contain different terms and could result in different terminal rentals than are assumed in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

Rental Credits

During the 1970s, the Department planned and began construction of a second level roadway in the central terminal area of LAX. This project was completed in time for the 1984 Summer Olympics held in Los Angeles. As part of the expansion, all existing terminals required a second level connection as well as other improvements. To finance these improvements, RAIC issued bonds payable by certain airlines. See “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings” for additional information regarding RAIC. In addition to financing the specific facilities used by the airlines, the proceeds of such bonds financed “public areas.” “Public areas” include public lobbies and corridors, public restrooms, concession areas, elevators and escalators and utility systems. In accordance with the leases entered into with certain airlines for terminal facilities at LAX, the Department agreed to reimburse the airlines for the financing costs associated with the public areas. Rather than reimbursing the airlines directly for such costs, the Department agreed to give rental credits to the airlines each year in an amount equal to the public areas portion of the debt service on the bonds issued for such improvements.

In 2002 and 2003, the Department prepaid all of its rental credit obligations under these leases, other than the obligations with respect to the lease for Terminal 2.

From time to time the Department grants rental credits to tenants to resolve disputes with such tenants. Rental credits have ranged from as low as approximately \$1.6 million to as high as approximately \$6.0 million in the last five completed Fiscal Years, and were approximately \$3.3 million in Fiscal Year 2007.

Most recently, in connection with the settlements with the Long-Term Lease Signatory Airlines described under “ – Long-Term Lease Litigation and Interim Settlement Agreements,” the Department has granted maintenance and operation credits (“M&O Credits”) aggregating approximately \$43 million to the Long-Term Lease Signatory Airlines, reflecting payments previously made to the Department in excess of negotiated amounts

payable for the applicable calendar years pursuant to the related settlement agreements. Each Long-Term Lease Signatory Airline may apply its respective M&O Credit against LAX terminal rental charges, maintenance and operation expenses, landing fees or other charges owed by such airline to the Department until the balance of such credit is reduced to \$0.00. For further discussion of the Long-Term Leases and the settlements related thereto, including the Department's obligations thereunder, see " – Long-Term Leases" and " – Long-Term Lease Litigation and Interim Settlement Agreements."

Rental credits are applied as an offset to amounts owed to the Department by the airlines (or airline consortia) granted such credits.

Concession and Parking Agreements

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

There are a total of 11 food and beverage agreements at LAX (13 including vending machine contracts), with the largest concessionaire being Host International, Inc. The concession agreements with the food and beverage operators are terminable with notice and expire in Fiscal Year 2011. The agreements provide for a concession fee equal to the greater of a minimum annual guarantee ("MAG") or a percentage of gross revenues. The percentage rentals generally range from 14% to 24% for food and nonalcoholic beverages and 20% to 24% for alcoholic beverages and merchandise. In total, the MAGs for these agreements are approximately \$21.8 million. For Fiscal Year 2007, revenues to the Department from food and beverage concessions totaled approximately \$29 million.

The primary gift and news operator at LAX is Hudson Media Inc., dba Airport Management Services, LLC ("AMS"). The current agreement with AMS expires on December 31, 2010 and provides for an annual concession fee equal to \$15.6 million or 17% of gross receipts, whichever is greater. There are also three smaller operators that have agreements which expire in December 2010 and provide total MAGs of \$705,000. For Fiscal Year 2007, revenues to the Department from gift and news concessions totaled approximately \$17 million.

Duty free revenues at LAX are generated from the sale of duty free merchandise at LAX. The duty free operator at LAX is DFS Group L.P. ("DFS"), which has been the duty free concessionaire at LAX since 1982. DFS's exclusive agreement expires on May 31, 2010. The agreement with DFS provides for a concession fee equal to \$30.0 million or 30% of gross receipts, whichever is greater. For Fiscal Year 2007, revenues to the Department from duty free sales at LAX were approximately \$32 million.

The Department has agreements with ten rental car companies for on-airport car rentals. The on-airport agreements require the rental car companies to pay the greater of a MAG or ten percent of their total gross revenues from airport operations to the Department annually. For Fiscal Year 2007, the on-airport rental car companies paid more than \$50.8 million in concession fees to the Department, although their total MAGs were only slightly above \$40 million. This amount is significantly higher than their historic concession fees, which ranged between \$33 million and \$37 million. The agreements with the on-airport rental car companies were set to expire January 31, 2008, however all contracts were extended for a period of two additional years, through January 31, 2010. The Department extended the term of the current on-airport rental car company agreements in order to, among other reasons, analyze the feasibility of a proposed remote Consolidated Rental Car Facility. The Department currently expects to issue a request for proposals for on-airport rental car companies in Fiscal Year 2009, which proposals will include details of the proposed Consolidated Rental Car Facility. See Section 3.5 and 4.9.2 of APPENDIX A – "REPORT OF AIRPORT CONSULTANTS" for a discussion of the proposed Consolidation Rental Car Facility. The Department currently requires the on-airport rental car companies to collect a \$10 per transaction customer facility charge to help pay for the planning of, and ultimately the design and financing of, the proposed Consolidated Rental Car Facility. These amounts are not included in "Pledged Revenues."

The contracts with approximately two dozen off-airport rental car operators were terminated by the Department in March 2007.

A new concession for advertising at LAX commenced in April 2007. The exclusive contract with concessionaire JCDecaux Airport, Inc. ("JCDecaux") expires in April 2013 and may be extended for an additional four years, provided that the terms and conditions of the extension are agreeable to both parties. This agreement provides for an annual concession fee equal to the greater of a MAG or 70% of gross sales. The exclusive concessionaire, JCDecaux, exceeded its sales goals for the first twelve months of the program, with sales in excess of \$22 million. While the first year MAG for this concession was \$7 million, actual concession fees based upon 70 percent of sales totaled more than \$15 million. Gross receipts and concession fees are expected to grow in the second and subsequent years of the contract, as additional display locations are placed into service.

The Department has entered into an operating agreement with New South Parking-California ("New South") for the management of certain parking facilities at LAX and VNY. The current agreement will expire in May 2010 subject to two 1-year renewal options. This agreement may be terminated by the Department and converted to a month-to-month contract on 30 days notice. The agreement requires New South to remit the gross revenues from the parking facilities it operates, on a daily basis, to the Department. The Department compensates New South for certain personnel expenses incurred in the management and operation of the parking facilities. For Fiscal Year 2007, parking revenues to the Department were approximately \$72.9 million.

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 2003 through 2007 (based on audited financial statements) and for the first nine months of Fiscal Years 2007 and 2008 (based on unaudited financial statements). The presentation of information for Fiscal Year 2003 has been changed to reflect subsequent pronouncements of the Governmental Accounting Standards Board ("GASB"). See APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006." Results for the first nine months of Fiscal Year 2008 may not be indicative of results for the full Fiscal Year.

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TABLE 12

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

	2003	2004	2005	2006	2007	First nine months 2007 ⁽²⁾	First nine months 2008 ⁽²⁾⁽³⁾
Operating revenues:							
Aviation revenue	\$ 119,800	\$ 139,890	\$ 134,015	\$ 146,019	\$ 148,937	\$ 116,098	\$ 121,764
Landing fees	83,358	92,206	101,153	119,271	107,338	80,990	88,381
Building rentals	45,296 ⁽³⁾	54,875 ⁽⁴⁾	49,876 ⁽⁴⁾	51,428	61,689	48,753	44,788
Other aviation revenue ⁽⁵⁾	165,870	171,192	194,386	200,564	227,177	160,917	198,748
Concession revenue	6,697	2,389	1,978	2,034	2,824	1,867	2,098
Airport sales and services	1,656	3,585	1,234	1,451	2,012	1,316	1,597
Miscellaneous revenue							
Total operating revenue	\$ 422,677	\$ 464,137	\$ 482,642	\$ 520,767	\$ 549,977	\$ 409,941	\$ 457,376
Operating expenses:							
Salaries and benefits	\$ 149,963	\$ 175,493	\$ 199,238	\$ 231,313	\$ 255,536	\$ 180,526	\$ 211,428
Contractual services	117,627	123,692	135,313	148,606	141,306	84,464	90,292
Administrative expense	2,103	2,909	3,970	1,787	725	1,629	1,347
Materials and supplies	38,717	36,178	37,692	34,043	43,313	29,926	23,140
Utilities	18,831	19,799	24,378	23,633	20,101	19,505	16,935
Advertising and public relations	5,006	6,527	8,820	9,843	10,015	7,536	7,242
Other operating expenses	14,251	13,636	(1,458)	2,099	(2,472)	9,571	8,441
Total operating expenses before depreciation and amortization	\$ 346,498	\$ 378,234	\$ 407,953	\$ 451,324	\$ 468,524	\$ 333,157	\$ 358,825
Income from operations before depreciation and amortization	\$ 76,179	\$ 85,903	\$ 74,689	\$ 69,443	\$ 81,453	\$ 76,784	\$ 98,551
Depreciation and amortization	(49,936)	(60,432)	(59,710)	(64,571)	(72,438)	(51,714)	(62,219)
Operating Income	\$ 26,243	\$ 25,471	\$ 14,979	\$ 4,872	\$ 9,015	\$ 25,070	\$ 36,332
Non-Operating revenues (expenses):							
Passenger facility charges	\$ 64,391	\$ 106,958	\$ 113,739	\$ 114,694	\$ 116,083	\$ 75,458	\$ 76,773
Interest income	33,791	29,825	28,668	33,902	39,502	27,017	33,608
Change in fair value of investments	6,630	(15,107)	(2,978)	(15,292)	10,386	--	--
Gain (loss) on sale of securities	1,481	988	3,867	217	1,082	541	541
Other non-operating revenue	172	293	6,457	1,209	810	263	1,467
Interest expense	(19,497)	(18,980)	(16,998)	(12,155)	(15,266)	(8,871)	(13,229)
Bond expense	(1,260)	(328)	(302)	(364)	(345)	(239)	(366)
Other non-operating expenses	(403)	(2,159)	(29)	(6,600)	--	125	270
Net non-operating revenue (expenses)	85,305	101,490	132,424	115,611	152,252	94,294	99,064
Income before capital grant contributions	111,548	126,961	147,403	120,483	161,267	119,364	135,396
Capital grant contributions	12,300	4,390	791	32,064	62,947	62,947	34,555
TSA Contributions ⁽⁵⁾	--	--	--	--	11,094	3,464	4,227
Inter-agency transfers	--	406	(3,410)	--	(43,511)	--	(8,894)
Change in net assets	123,848	131,757	144,784	152,547	191,797	185,775	165,284
Residual equity transfers (to) from other funds	--	--	--	--	--	--	--
Net assets, beginning of year	\$1,624,147	\$1,747,995	\$1,879,752	\$2,024,536	\$2,177,083	\$2,177,083	\$2,368,880
Net assets, end of year	\$1,747,995	\$1,879,752	\$2,024,536	\$2,177,083	\$2,368,880	\$2,362,858	\$2,534,164

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Derived from unaudited financial statements.

⁽³⁾ Results for the first nine months of Fiscal Year 2008 may not be indicative of results for the full Fiscal Year.

⁽⁴⁾ Includes certain TSA grant receipts and certain Federal grant receipts.

⁽⁵⁾ In the three Fiscal Years ended June 30, 2005, TSA Contributions were included in Other aviation revenue.

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

Management Discussion of First Nine Months of Fiscal Year 2008

For the first nine months of Fiscal Year 2008, LAX had an increase in net assets of approximately \$165.3 million, compared to approximately \$185.8 million for the first nine months of Fiscal Year 2007.

Operating revenues at LAX for the first nine months of Fiscal Year 2008 were approximately \$457.4 million, up 11.6% from the first nine months of Fiscal Year 2007. Factors contributing to this increase are as follows:

- Aviation revenue increased approximately \$9.1 million or 3.7% from the first nine months of Fiscal Year 2007 as a result of increased airfield and terminal operation costs and the amortization of recently completed airfield capital costs included in the rate base.
- The increase in operating revenues is driven primarily by growth in concession revenues, which increased approximately \$37.8 million, or 23.5%, from the first nine months of Fiscal Year 2007. The major contributor to this increase was the addition of two new revenue sources that produced little or no revenue in the prior period: Advertising Revenue which represents an increase of \$9.0 million over the prior period, and Customer Facility Charge collections which represents an increase of \$16.2 million. LAX also experienced healthy increases in ground transportation and duty free revenues as a function of higher levels of sales generated by operators and concessionaires.

Operating and administrative expenses at LAX for the first nine months of Fiscal Year 2008 were approximately \$358.8 million, up 7.7% from the first nine months of Fiscal Year 2007. Factors contributing to this increase were as follows:

- Salaries and benefits increased approximately \$30.9 million, or 17.1%, as compared to the first nine months of Fiscal Year 2007 as a result of increased benefit costs and additional employees. Salaries plus overtime increased by approximately \$8.6 million or 6.8% due to increased headcount and salary increases for existing employees as negotiated by the City with labor unions representing City employees. Overall benefit costs, including retirement, healthcare and other benefits increased by approximately \$22.3 million, or 45.8% over the prior period.
- Non-personnel expenditures decreased by approximately \$5.2 million, or 3.4% for the first nine months of Fiscal Year 2008 relative to the prior period. This decline can be attributed to the completion of certain major maintenance projects and an airport wide Information Technology initiative that only impacted the prior year, lower utility expenses, and lower insurance premiums. These declines were partially offset by increases in the costs of services provided by other City departments and increases in ground transportation costs.

Depreciation and amortization increased by approximately \$10.5 million, or 20.3% primarily as a result of the newly constructed south runway being placed into service and capitalized on the Department's books at the end of fiscal year 2007.

Non-operating revenues increased by approximately \$4.8 million, or 5.1%, as a result of higher levels of income generated on the airport's short term investments. This increase was partially offset by higher interest expense associated with increased levels of commercial paper outstanding relative to the prior year.

Capital grants decreased by approximately \$28.4 million compared to the first nine months of Fiscal Year 2007 due to timing differences in the receipt of reimbursements, the eligibility of projects currently under way and overall levels of grants available to the Department for LAX.

Interagency transfers from LAX of approximately \$8.9 million reflected transfers to VNY for the ongoing subsidization of operations. No such transfers were made in the first nine months of Fiscal Year 2007.

Management Discussion of Fiscal Year 2007

For Fiscal Year 2007, LAX had an increase in net assets of approximately \$191.8 million, compared to approximately \$152.5 million for Fiscal Year 2006.

Operating revenues at LAX for Fiscal Year 2007 were approximately \$550.0 million, up 5.6% from Fiscal Year 2006. Factors contributing to this increase are as follows:

- This increase in operating revenues is due primarily to growth in concession revenues, which increased approximately \$26.6 million, or 13.3%, from Fiscal Year 2006. Increases were primarily due to the establishment of a new advertising program at LAX and increased revenue generation by ground transportation providers and in-terminal concessionaires that pay concession fees to LAX based a percent of gross revenue collected.
- Aviation revenue remained fairly stable overall, increasing approximately \$1.2 million, or 0.4%, from Fiscal Year 2006.

Operating and administrative expenses before depreciation and amortization at LAX for Fiscal Year 2007 increased by approximately \$17.2 million, or a 3.8% over Fiscal Year 2006. Factors contributing to this increase were as follows:

- Salaries and benefits increased approximately \$24.2 million, or 10.5%, from Fiscal Year 2006 as a result of retroactive payments to employees for recently negotiated labor agreements, increases in benefit costs and the addition of maintenance and security staff.
- Non-personnel expenditures decreased by \$7.0 million, or 3.2% for Fiscal Year 2006 as the airport materially decreased planning expenditures related to LAX's Master Plan.

Depreciation and amortization for Fiscal Year 2007 increased by approximately \$7.8 million, or 12.2%, from Fiscal Year 2006 largely as a result of the newly constructed south runway being placed into service and capitalized on the Department's books.

Non-operating revenues for Fiscal Year 2007 increased by approximately \$36.6 million, or 31.7%, from Fiscal Year 2006 primarily as a result of the following higher levels of income generated on the airport's short term investments.

Capital grant and TSA contributions in Fiscal Year 2007 increased by approximately \$42.0 million from Fiscal Year 2006 due primarily to the application of FAA and TSA grant monies to the South Airfield Improvement Program and the In-Line Baggage Screening projects.

There were approximately \$43.5 million of interagency transfers in Fiscal Year 2007. The transfer is due entirely to reimbursements to VNY cash caused by cumulative expenditures that VNY made on behalf of LAX including improvements to the VNY FlyAway operations facilities.

The City early implemented GASB Statements No. 45 (Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions) and GASB 50 (Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27) in Fiscal Year 2007. Because of prior year comparison requirements in Fiscal Year 2008 reports, these statements have therefore been applied to LAX for Fiscal Year 2007.

GASB 45 addresses how state and local governments should account for and report their costs and obligations related to post employment healthcare and other non-pension benefits, collectively referred to as other

post employment benefits, or OPEB. The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they do for pensions.

GASB 50 amended prior GASB statements with respect to note disclosure and required supplementary information standards.

In December 2006, GASB issued Statement No. 49 (Accounting and Financial Reporting for Pollution Remediation Obligations). This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to financial statements. GASB 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The Department will be required to implement the statement for its Fiscal Year 2009 financial statements. The Department cannot reasonably quantify the likely financial impact on LAX at this time. However, no assurance can be given that such impact will not be material.

In June 2007, GASB issued Statement No. 51 (Accounting and Financial Reporting for Intangible Assets). This statement establishes standards for accounting and financial reporting of intangible assets for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. GASB 51 will be effective for the Department beginning in Fiscal Year 2010. Retroactive reporting is required. The Department cannot reasonably quantify the likely financial impact at this time. However, no assurance can be given that such impact will not be material.

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The following tables sets forth the top ten revenue providers at LAX for Fiscal Year 2007 and for the first nine months of Fiscal Year 2008.

TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FISCAL YEAR 2007
(DOLLARS IN THOUSANDS)⁽¹⁾

1.	United	\$84,506
2.	Five Star Parking	72,918
3.	American	71,953
4.	Southwest	47,260
5.	Delta ⁽²⁾	35,208
6.	DFS Group L.P.	29,322
7.	Alaska	23,979
8.	Continental	21,035
9.	Host International, Inc.	20,309
10.	Airport Management Services, LLC	16,567

⁽¹⁾ Excludes revenue from Federal Government.

⁽²⁾ Delta and Northwest have announced plans to merge subject to regulatory approvals.

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

TABLE 14
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FIRST NINE MONTHS OF FISCAL YEAR 2008
(DOLLARS IN THOUSANDS)⁽¹⁾

1.	New South Parking California ⁽²⁾	\$55,815
2.	United	41,693
3.	American	38,862
4.	Southwest	31,864
5.	DFS Group L.P.	29,443
6.	Delta ⁽³⁾	19,855
7.	The Hertz Corporation	17,158
8.	Alaska	14,239
9.	Continental	13,364
10.	Host International, Inc.	13,152

⁽¹⁾ Excludes revenue from Federal Government. Results for first nine months of Fiscal Year 2008 may not be indicative of results for full fiscal year.

⁽²⁾ New South Parking California took over parking operations at LAX from Five Star Parking on July 10, 2007.

⁽³⁾ Delta and Northwest have announced plans to merge subject to regulatory approvals.

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

The following tables set forth top ten revenue sources at LAX for Fiscal Year 2007 and for the first nine months of Fiscal Year 2008.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FISCAL YEAR 2007
(DOLLARS IN THOUSANDS)

1.	Landing Fees	\$148,937
2.	Building Rentals	107,338
3.	Auto Parking	72,918
4.	Car Rentals	50,761
5.	Lease of Ground Areas	48,054
6.	Duty Free Sales	32,037
7.	Food & Beverage	28,731
8.	Gifts & News	16,558
9.	Foreign Exchange	6,785
10.	Bus, Limousine & Taxi	5,385

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

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FIRST NINE MONTHS OF FISCAL YEAR 2008⁽¹⁾
(DOLLARS IN THOUSANDS)

1.	Landing Fees	\$121,874
2.	Building Rentals	99,233
3.	Auto Parking	53,840
4.	Car Rentals	45,780
5.	Lease of Ground Areas	36,143
6.	Duty Free Sales	29,402
7.	Food & Beverage	20,144
8.	Gifts & News	12,916
9.	Advertisement Revenue ⁽²⁾	12,469
10.	Foreign Exchange	5,208

⁽¹⁾ Results for first nine months of Fiscal Year 2008 may not be indicative of results for full fiscal year.

⁽²⁾ The Department entered into an advertising contract with JCDecaux in April 2007. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Concession and Parking Agreements."

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 the Mayor includes the Department's proposed budget as a part of the overall City budget for information purposes only. The final budget, as adopted by the Board, is included in the City's adopted budget. Neither the Mayor nor the City Council may amend or otherwise change either the proposed budget or the adopted budget; provided, however, that no action of the Board may become final until the expiration of five meeting days of the City Council during which the City Council has convened in regular session. The City Council may veto the action of the Board

within 21 days of voting to bring the matter before it, whereupon the matter is remanded to the Board, or the action of the Board becomes final, as provided in Section 245(a) of the Charter.

Fiscal Year 2009 Budget

Department management developed the Fiscal Year 2009 LAX Operating Budget considering a number of factors including recent years' operating revenue and expense trends, uncertainties surrounding the level of terminal rental revenues and the assumption of new additional debt service being paid during the fiscal year. Staff from each of LAX's divisions prepared and submitted their preliminary budgets within the constraints defined by budget staff and submitted additional requests for review in February 2008. Budget hearings were conducted in April 2008 with Operating Budget staff and the airport'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 2009 Operating Budget on June 2, 2008.

The Fiscal Year 2009 LAX Operating Budget projects operating revenues of approximately \$639.2 million, 9.5% higher than budgeted Fiscal Year 2008 operating revenues. The Fiscal Year 2009 LAX Operating Budget also included approximately \$36 million in non-operating revenues. The Fiscal Year 2009 LAX Operating Budget projects operating expenses of approximately \$557.5 million, 6.3% higher than the Fiscal Year 2008 LAX Operating Budget.

Fiscal Year 2008 Budget

The Fiscal Year 2008 LAX Operating Budget projected operating revenues of approximately \$583.5 million, 5.3% higher than the Fiscal Year 2007 LAX Operating Budget. The Fiscal Year 2008 LAX Operating Budget also included approximately \$26.2 million in nonoperating revenues, down 25.0% from the Fiscal Year 2007 LAX Operating Budget. The Fiscal Year 2008 LAX Operating Budget projected operating expenses of approximately \$524.1 million, 8.0% higher than the Fiscal Year 2007 LAX Operating Budget.

Based on actual expenditures through the first nine months of Fiscal Year 2008, the Department is projecting operating expenses at LAX to be 1.3% less than budgeted for the fiscal year. Operating revenues at LAX are projected to exceed the budgeted levels by 4.5% due to higher than budgeted terminal rental revenues associated with settlements with the Long-Term Lease Signatory Airlines described under "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases" and higher than projected advertising revenue resulting from the program's first full year of operation.

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Historical Debt Service Coverage

The following table shows historical debt service coverage on the Senior Bonds, Subordinate Bonds and the Subordinate Commercial Paper Notes for Fiscal Years 2003 through 2007.

TABLE 17
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2003-2007
(DOLLARS IN THOUSANDS)

	2003	2004	2005	2006	2007
Pledged Revenues⁽¹⁾					
Total Operating Revenues	\$ 416,722	\$ 462,517	\$ 480,575	\$ 518,053	\$ 546,688
Interest Income	23,486	23,185	20,118	25,366	26,026
Total Pledged Revenues	<u>\$ 440,208</u>	<u>\$ 485,702</u>	<u>\$ 500,693</u>	<u>\$ 543,419</u>	<u>\$ 572,714</u>
LAX Maintenance and Operations Expenses ⁽²⁾	(342,799)	(373,988)	(406,274)	(447,136)	(466,668)
Net Pledged Revenues ⁽³⁾	<u>\$ 97,409</u>	<u>\$ 111,714</u>	<u>\$ 94,418</u>	<u>\$ 96,283</u>	<u>\$ 106,046</u>
Total Senior Debt Service	\$ 32,688	\$ 34,699	\$ 32,326	\$ 29,852	\$ 19,306
Coverage of Senior Debt Service	2.98x	3.22x	2.92x	3.23x	5.49x
Total Subordinate Debt Service	\$ 531	\$ 967	\$ 1,613	\$ 2,622	\$ 6,356
Total Debt Service Coverage	2.93x	3.13x	2.78x	2.96x	4.13x

⁽¹⁾ As defined in the Senior Indenture.

⁽²⁾ As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.

⁽³⁾ As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

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

Report of Airport Consultant; Projected Debt Service Coverage

The Report of Airport Consultant forecasts that debt service coverage on the Senior Bonds will be 7.40 for Fiscal Year 2008, 8.31 for Fiscal Year 2009, 8.24 for Fiscal Year 2010, 3.68 for Fiscal Year 2011, 2.23 for Fiscal Year 2012, 2.25 for Fiscal Year 2013 and 2.28 for Fiscal Year 2014. The Report of the Airport Consultant forecasts that combined debt service coverage on Senior Bonds and Subordinate Bonds (but not including Subordinate Commercial Paper Notes) will be 6.12 for Fiscal Year 2008, 4.49 for Fiscal Year 2009, 3.96 for Fiscal Year 2010, 2.32 for Fiscal Year 2011, 1.56 for Fiscal Year 2012, 1.57 for Fiscal Year 2013 and 1.59 for Fiscal Year 2014. Table IV-10 of the Report of Airport Consultant sets forth the calculations of projected debt service coverage on the Senior Bonds, the Subordinate Bonds and combined coverage for Fiscal Years 2008 through 2014.

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. For example, the Airport Consultant assumes in making its projections that the provisions incorporated in the Settlement Agreements extend through Fiscal Year 2014. As a result of this assumption, the Airport Consultant includes amounts in projected Pledged Revenues that correspond to amounts that were collected by the Department but not included in revenues in Fiscal Year 2007 (see Section 4.10.1 of the Report of the Airport Consultant). The assumptions made by the Airport Consultant in projecting debt service coverage are set forth in the Report of the Airport Consultant. While the Department and the Airport Consultant believe these assumptions to be reasonable for the purpose of the projections, they are dependent on future events, and actual conditions may differ from those assumed. To the extent actual future factors differ from those assumed by the Airport Consultant or provided to the Airport Consultant by others, the actual results will vary (possibly materially)

from those forecast. See “CERTAIN INVESTMENT CONSIDERATIONS” for some of the reasons differences could occur. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2008 Bonds; however, the Airport Consultant is expected to provide the Department with a certificate dated as of the date of issuance of the Series 2008 Bonds which confirms that there have been no material changes to the conclusions set forth in the Report of the Airport Consultant.

Investment Practices of the City Treasurer

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

TABLE 18
CITY OF LOS ANGELES POOLED INVESTMENT FUND⁽¹⁾
ASSETS AS OF JUNE 30, 2007
(Dollars in Millions)

	Book (Carrying) Value ⁽²⁾	Percent of Total	Department Carrying Value ⁽³⁾	LAX Carrying Value ⁽⁴⁾
Deposits	\$ 217	3.8	\$ 47	\$ 42
US Treasury Securities	1,671	29.0	357	318
Federal Agency Securities	2,049	35.6	439	391
Commercial Paper – Discounts	671	11.7	145	129
Medium Term Corporate Notes	1,145	19.9	245	218
Local Agency Investment Fund	3	--	--	--
Total	\$ 5,756	100.0%	\$ 1,233⁽⁵⁾	\$1,098⁽⁵⁾

⁽¹⁾Unaudited; based on General Pool 9218 – Combined, Portfolio Management Report provided by City Treasurer’s Office.

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

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

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

⁽⁵⁾Unaudited; includes securities lending collateral and effect of change in market valuation of investments.

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, 2007 was 799 days.

The City’s treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments.

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 of California 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 carries commercial aviation liability insurance with coverage limits of \$1 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 \$300,000 aggregate deductible. This aviation liability coverage incorporates a foundation of comprehensive in-house claims management program, incremental claims analysts and adjustors and both outside and inside defense counsel. The liability coverage has endorsements of coverage for all third-party

claims and suits, full automobile coverage, employment personal injury coverage, errors and omissions coverage and hangar and aircraft owners liability coverage.

The Department has also purchased a war and allied perils (also referred to as terrorism insurance) endorsement with coverage of up to \$1.25 billion with a deductible of \$10,000 per occurrence and an annual \$300,000 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 of more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force.

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 general all-risk property insurance with coverage limits of \$1.5 billion for all Department properties. The deductible on this coverage is \$125,000 per occurrence and an annual aggregate of \$125,000. The Department's insurance also incorporates a property insurance special endorsement that provides coverage for property losses resulting from acts of terrorism (both domestic and foreign). Coverage under this endorsement parallels the general all-risk limits of \$1.5 billion. The Department's insurance coverage also incorporates a property insurance special endorsement that provides for coverage for "boiler and machinery" losses up to a covered limit of \$100 million and property insurance special endorsement that provides coverage for "business interruption" losses to the Airport System resulting from a covered property peril. Coverage for business interruption is limited to \$100 million and the deductible is 48 hours from initial interruption. In addition, the Department purchases travel insurance for employees, with a \$1 million limit, and an employee fidelity or crime insurance coverage with a limit of \$2 million.

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 April 1, 2008, there was approximately \$97.5 million in this fund.

The Department is currently self-insured for workers' compensation liability under both State and Federal laws.

The Department has an active loss prevention program, which includes four full-time risk managers; an in-house, third-party claims management program that is staffed by four full-time analysts; outside defense counsel to defend litigated claims; several independent claims adjusters are also employed; a full-time industrial hygienist; property loss control engineering by insurers, ongoing employee training programs and an automated claims/risk information system.

CAPITAL IMPROVEMENT PLANNING

Master Plan; Airport Capacity and Future Capital Improvements

For several years the Department has been preparing a master plan to address the long-term needs to meet LAX's share of the regional air traffic demand, improve ground access, enhance security and mitigate the environmental impacts at LAX. The Department developed several alternatives that underwent environmental review, public comment and refinement. The resulting master plan (the "LAX Master Plan"), which was adopted by the Board in 2004, is a broad policy statement regarding the conceptual strategic framework for future improvements at LAX and describes how LAX can accommodate its appropriate share of the region's aviation demand, while balancing those needs with environmental concerns, safety and security and the concerns of LAX's neighbors. The estimated cost of construction of all projects in the LAX Master Plan is approximately \$11 billion.

The LAX Master Plan separates the commercial and private vehicle landside components of LAX from the passenger processing facilities and gates to provide greater security. The LAX Master Plan includes plans for a new landside Ground Transportation Center (“GTC”); a new Intermodal Transportation Center (“ITC”) with connection to the Los Angeles County Metropolitan Transportation Authority’s light rail line known as the Metro Green Line; new on-airport roadways to support the GTC and ITC, redevelopment of the Central Terminal Area (“CTA”) to support a variety of enhanced security measures; and construction of an automated people mover system to connect the GTC, ITC and new consolidated rental car facility to the CTA. The LAX Master Plan also includes plans for a center taxiway to be added between existing runways for increased safety and more efficient movement of aircraft and a reconfiguration of gate space to accommodate approximately 78.9 million annual passengers planned for in the LAX Master Plan and 3.1 million tons of cargo annually. The southern center taxiway is being financed and refinanced in part with the proceeds of the Series 2008 Bonds.

On June 14, 2004 the Board approved the LAX Master Plan, approved certain associated entitlements and certified the final environmental impact report. Subsequently the Los Angeles County Airport Land Use Commission (the “ALUC”) found the LAX Master Plan inconsistent with its 1991 airport land use plan. In accordance with state law, on October 20, 2004 the City Council took its first action to override the ALUC’s determination and gave preliminary approval to the LAX Master Plan. On December 7 and December 14, 2004, City Council gave its final approval to the LAX Master Plan, certain associated entitlements and certified the final environmental impact report. In January 2005, several petitioners (the “petitioners”) challenged the approval of the LAX Master Plan and the environmental impact report. Six lawsuits were filed in connection with the LAX Master Plan and have been settled subject to compliance with the terms of a comprehensive settlement agreement. See “–Settlement of Master Plan Litigation” below.

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

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

As part of the stipulated settlement with the petitioners, the Department commenced the LAX Specific Plan Amendment Study process in February 2006. The LAX Specific Plan Amendment Study process focuses on (i) alternative designs, technologies and configurations for the LAX Master Plan that would provide solutions to the problems that the Yellow Light Projects were designed to address consistent with a practical capacity of LAX at 78.9 million annual passengers (the “Alternative Projects”), (ii) security, traffic and aviation activity of the Alternative Projects and (iii) potential environmental impacts that could result from replacement of the Yellow Light Projects with Alternative Projects, and potential mitigation measures that could provide a comparable level of mitigation to that described for the Yellow Light Projects in the LAX Master Plan environmental impact report. As part of the stipulated settlement the LAX Specific Plan was amended by the City Council in 2007 to remove the

west satellite concourse (now known as the Midfield Satellite Concourse Project) and associated people mover segments from the list of projects requiring a LAX Specific Plan Amendment Study.

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

The environmental analysis phase of the LAX Specific Plan Amendment Study began in calendar year 2008 and is expected to culminate with a final environmental impact report to be considered by the Board and City Council in calendar year 2010. The cost of this process is not yet known, as the extent of the environmental analysis will be determined by the range and complexity of the alternatives to be studied.

In October 2005 the Department released the Final Environmental Impact Report for the South Airfield Improvement Project at LAX. The South Airfield Improvement Project consists of the relocation of Runway 7R/25L to approximately 55 feet to the south of its current centerline location and the construction of a new center parallel taxiway between the two south runways. These improvements were identified as part of the LAX Master Plan and were generally analyzed in the LAX Master Plan Environmental Impact Report, certified by the City Council in December 2004. The purpose of these improvements is to enhance the safety of LAX operations by reducing the potential for runway incursions. The South Airfield Improvement Project was completed in June 2008. A portion of the proceeds of the Series 2008 Bonds will be used to finance and refinance a portion of this project. See "PLAN OF FINANCE – The 2008 Projects – South Airfield Improvement Project."

Settlement of Master Plan Litigation

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

Agreements Relating to Master Plan Litigation

The Department also has entered into a Cooperation Agreement and a Community Benefits Agreement with the LAX Coalition for Economic, Environmental and Educational Justice (the "Coalition") which provide environmental mitigation programs and jobs-related benefits to communities that would be impacted by the implementation of the LAX Master Plan. The Department also reached agreement with the Lennox and Inglewood school districts to provide noise abatement improvements at specific schools within the two school districts. Under the 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 agreements is conditioned upon FAA approval of expenditures and use of airport revenues for the specified purposes, which approval has not yet been received. The school districts have requested that Congress pass a law directing the FAA to permit funding of these expenditures. Bills are pending in both the House and the Senate.

Capital Improvement Program

Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for informational purposes only, to the Mayor, 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 Board adopted a debt accountability and major capital improvement plan on June 6, 2005 and the most recent capital improvement plan provided for in the Charter was presented to the City Council on August 17, 2005 for informational purposes only.

The Department is in the process of preparing a Capital Improvement Plan ("CIP") for Board approval with respect to the period beginning in Fiscal Year 2009. This will include a review of previously proposed projects (including the TBIT Improvement Project and the South Airfield Project if they are not completed prior to completion of this process) as well as the identification of new projects. While the CIP for the period beginning in Fiscal Year 2009 is not yet finalized, there are a number of projects that the Department expects to undertake at LAX during the projection period for the Report of the Airport Consultant (the "Other Incorporated Projects"). These projects include the addition of gates at TBIT, the construction of an in-line explosives detection bag screening system for Terminal 3, noise mitigation and residential land acquisition programs, the planning, design and construction of a central utility plant, the restoration and seismic retrofitting of the Theme Building and a number of airfield and apron projects and are described in greater detail in Section 3.4 of the Report of the Airport Consultant. The Other Incorporated Projects are estimated to cost approximately \$3 billion and are expected to be financed with a combination of AIP discretionary grants, Department funds and Additional Senior Bond and/or Additional Subordinate Bonds proceeds. It is currently estimated that approximately \$1.98 billion of Additional Senior Bonds and/or Additional Subordinate Bonds will be issued by the Department to finance the Other Incorporated 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. The Department may not ultimately proceed with these projects or may proceed with them on a different schedule, resulting in different results than those included in the projections. See "CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness."

The estimated costs of, and the projected schedule for, the Department's capital projects are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the analysis reflected in the Report of the Airport Consultant. A number of the projects currently under consideration are described in Section 3.5 of the Report of the Airport Consultant. These projects include a new midfield satellite concourse, north airfield improvements, improvements to Terminals 1 and 3, an automated peplemover/intermodal facility, a consolidated rental car facility and information technology improvements. Because the scope, timing,

costs and other aspects of these projects (including the underlying form of business agreements) are uncertain, they are not included in the forecasts in the Report of the Airport Consultant. These projects, or other projects that may be undertaken by the Department would be costly, would result in the issuance of Additional Senior Bonds and/or Additional Subordinate Bonds by the Department and likely would materially affect the projections included in the Report of the Airport Consultant. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.”

Passenger Facility Charges

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”) permit public agencies controlling certain commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge each enplaning passenger a facility charge of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50. Public agencies wishing to impose and use passenger facility charges must apply to the FAA for the authority to do so. The purpose of the passenger facility charge is to develop additional capital funding sources to provide for the expansion of the national airport system. The proceeds from passenger facility charges must be used to finance eligible airport-related projects that preserve or enhance the safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system or furnish opportunities for enhanced competition between or among air carriers.

PFCs 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 PFC collected (currently \$0.11 of each PFC collected) as compensation for collecting and handling PFCs. PFCs received by the Department are net of this collection fee. With respect to an airline operating at LAX which is involved in bankruptcy proceedings, it is unclear whether the Department would be afforded the status of a secured creditor with regard to PFCs 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 collect \$1,651,177,814 of PFCs, which approval expires on January 1, 2012. Such approval is to collect a \$4.50 PFC on each enplaning passenger. The following table sets forth a summary of the Department’s approved PFC applications relating to LAX.

**TABLE 19
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORTS
APPROVED PFC APPLICATION**

PFC Application	Approval Date	Initial Approval Amount	Amended Approval Amount
1	1993	\$100,000,000	\$ 0
2	1996	167,109,000	116,370,846
3	1996	59,902,000	52,027,000
4	1997	150,000,000	700,000,000
5	2005	267,249,968	697,779,968
6	2007	<u>85,000,000</u>	<u>85,000,000</u>
Total		<u>\$829,260,968</u>	<u>\$1,651,177,814</u>
Total collected as of March 31, 2008:			\$1,171,471,166

Source: Department of Airports of the City of Los Angeles

PFCs in the amount of approximately \$785 million have been approved by the FAA to fund the LAX Noise Mitigation program, including land acquisition and soundproofing (\$485 million for land acquisition and \$300 million for soundproofing). The Department’s land acquisition program involves the voluntary acquisition of

properties and relocation assistance for residents near LAX who express a preference for acquisition in lieu of sound mitigation. The balance of the PFC revenues at LAX are to be used for a variety of projects including improvements to TBIT (including the payment of debt service on Senior Bonds and/or Subordinate Bonds issued to finance a portion of the improvements to TBIT).

Pledged Revenues do not include PFCs 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 PFCs in Pledged Revenues or otherwise pledge PFCs to the payment of the Senior Bonds (including the Series 2008 Senior Bonds), the Subordinate Bonds (including the Series 2008 Subordinate Bonds) or the Subordinate Commercial Paper Notes. However, even though PFCs are not included in Pledged Revenues and have not otherwise been pledged to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations, the Department may (if approved by the FAA) use PFCs to pay the debt service on the Senior Bonds and/or the Subordinate Obligations. Pursuant to the PFC Resolution, the Department has irrevocably committed to use \$19 million of PFCs in each year between 2011 and 2014 to the payment of debt service on PFC Eligible Bonds. The Department currently anticipates, and the forecasts in the Report of the Airport Consultant assume, that it will pay approximately 45% of the debt service on the Series 2008A Senior Bonds (which is greater than the irrevocable commitment provide for in the PFC Resolution) with PFC revenues. Additionally, the Department expects, and the forecasts in the Report of the Airport Consultant assume, that a portion of the debt service on Additional Senior Bonds to be issued in the future to pay costs of the Other Incorporated Projects will be paid from PFC revenues. The Department received approval from the FAA pursuant to an amendment to its 5th PFC Application to use approximately \$468 million of PFCs to pay debt service on PFC Eligible Bonds. The Department expects to file additional applications with the FAA to collect additional PFCs that will be used to pay the debt service on PFC Eligible Bonds. See APPENDIX A – “AIRPORT CONSULTANT REPORT.” See also “CERTAIN INVESTMENT CONSIDERATIONS” for a discussion of some reasons PFC collections might be lower than anticipated.

Debt service paid with PFCs is not included in the calculation of the rate covenants set forth in the Master Senior Indenture, the Master Subordinate Indenture or the Parity Subordinate Indenture. Additionally, debt service on Additional Subordinate Bonds expected to be paid from irrevocably committed PFCs is not included in the additional bonds tests set forth in the Master Subordinate Indenture and, upon effectiveness of the Fifty-One Percent Master Senior Indenture Amendments, debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFCs will not be included in the additional bonds test set forth in the Master Senior Indenture. See APPENDIX D-1 – “PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE– FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS”

The actual amount of PFC revenues received in each Fiscal Year will 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. See also “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” for a discussion of other factors that may impact the Department’s receipt of PFC revenues. See also “CERTAIN INVESTMENT CONSIDERATIONS – Effect of Airline Bankruptcies.”

Federal Grants

Under the FAA’s Airport Improvement Program (“AIP”) the FAA awards grant moneys to airports around the country for capital improvement projects. AIP grants include entitlement funds, which are apportioned annually based upon enplaned passengers and cargo traffic, as well as discretionary funds, which are available at the discretion of the FAA based on a national priority system. In April 2007 the Board authorized the acceptance of a federal grant in the amount of approximately \$29.6 million for the Center Taxiway Improvements project at LAX. This award raised the cumulative amount of AIP grant funding for the South Airfield Improvement Program at LAX to approximately \$98.0 million. Prior AIP grants of approximately \$38.8 million and approximately \$29.5 million were accepted by the Department in August 2005 and March 2006 for the Runway 7R/25L project, which was a previous phase of the South Airfield Improvement Program. The Department has received approximately \$68.3 million of AIP entitlements and discretionary grants for the relocation of Runway 7R/25L and expects to receive AIP funding totaling approximately \$33 million in Fiscal Years 2008 and 2009 for the construction of a new center

taxiway. The Department expects to receive approximately \$73.4 million in future AIP grant funding for various apron and taxiway projects included in the Other Incorporated Projects.

Pursuant to Section 119 of the Aviation and Transportation Security Act, the Department is eligible to receive moneys from the federal government as reimbursement for costs associated with additional law enforcement personnel, airport surveillance and the revalidation of all airport-issued and approved identification. During Fiscal Year 2007, the Department received approximately \$3.2 million for security-related reimbursements at LAX. In September 2003 the Department of Homeland Security announced that it awarded, through a letter of intent, an approximate amount of \$256 million in the form of reimbursements to the Department for the installation of new in-line baggage screening systems at LAX and LA/ONT. As of June 2008 the Department had received approximately \$81.9 million for LAX and approximately \$21.4 million for LA/ONT from this in-line baggage screening systems grant.

In late April 2008, the Department received notification from the FAA that it is being audited with respect to payments made to City and county governments. The purpose of the audit is to verify compliance with FAA grant assurances and with FAA Policy and Procedures Concerning the Use of Airport Revenue. The Department was notified that review by the FAA is expected to take place in late July and early August 2008. No assurance can be given about the outcome of this audit. See "CERTAIN INVESTMENT CONSIDERATIONS – Regulations and Restrictions Affecting LAX" for further discussion of this issue.

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

There are several significant environmental matters that have direct and indirect impacts on the Department and LAX, some of which are described below. These include mitigation of aircraft noise impacts, hazardous substance cleanup and clean air requirements. Each of these areas is discussed in more detail below.

Generally, the Department includes a set of standard terms and conditions in its tenant leases which provides that tenants are responsible for the costs of remediation of hazardous or other regulated material from Department property and obligates tenants to comply with applicable laws. However, if a tenant does not comply with these lease requirements or with the requirements of applicable environmental laws, the Department could ultimately become responsible for any required environmental cleanup. The ultimate impact of these environmental factors on the Department and LAX cannot be determined at this time.

Aircraft Noise Impacts

In the State, commercial airports operate under operating permits issued by 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, California Code of Regulations Title 21, beginning at Section 5000 ("Title 21"), define noise standards governing the operation of aircraft and aircraft engines based upon the level of noise acceptable to a reasonable person residing in the vicinity of an airport. Pursuant to Title 21 and the State Aeronautics Act, Caltrans has adopted regulations requiring 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, according to specified criteria and procedures. In order to obtain a variance, among other requirements, the airport proprietor must submit a plan showing how the airport will comply with the noise standards.

Airport proprietors can comply with noise standards through implementation of various measures including 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 three-year variance that was granted in June 2005. An application for a new variance was submitted to Caltrans on May 21, 2008. Caltrans received this application and on June 4, 2008, issued a response to the Department indicating that by filing a timely application, LAX's existing variance continues in effect until Caltrans acts on the new application. VNY and LA/ONT operate under different variances and restrictions than LAX.

In 1997, the Department implemented a Land Use Mitigation program at LAX, which includes both land acquisition (the "Acquisition Program") and residential sound insulation (the "Soundproofing Program"). The goal of both of these programs is to reduce the number of residences in areas impacted by noise from airport operations. The Department's Acquisition Program in the City involves the voluntary acquisition of properties and relocation assistance for residential neighbors near LAX in the areas of Manchester Square and Airport/Belford. This Acquisition Program is being carried out in lieu of sound insulation in those areas. The Department's Soundproofing Program involves acoustic treatment to residential dwelling units to reduce noise to or below the State-specified maximum interior noise level of 45 decibels as calculated using the Community Noise Exposure Level in all habitable rooms. The Soundproofing Program generally includes replacing doors and windows with acoustically rated doors and windows, modifying wood frame walls, adding insulation to attics and fitting chimneys and vents with dampers and/or acoustic louvers. The Land Use Mitigation Program for LAX also provides additional funding for residential sound insulation and property acquisition projects in unincorporated portions of Los Angeles County near LAX and the cities of El Segundo and Inglewood. The approved Land Use Mitigation Program has an estimated total cost of \$785 million with approximately \$512.5 million expended as of September 30, 2007. The FAA has approved PFC applications and amendments for the Noise Mitigation Program, thus allowing the entire amount of \$785 million estimated cost to be funded by PFCs. See "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges."

The Department maintains a Noise Management Division with approximately 18 full-time staff. The Noise Management Division operates the Department's noise monitoring system at all three noise impacted airports. The Noise Management Division also prepares and submits quarterly and annual noise variance reports to Caltrans as required under the Department's various noise variances.

Hazardous Substances

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

In addition to regulations related to the safe storage and use of hazardous materials, various federal, state and local agencies exercise responsibility related to the accidental discharge of harmful quantities of these materials to the environment. These agencies include; the City Fire Department, The State Regional Water Quality Control Board, and The State Department of Toxic Substances Control.

Recognizing the need for a comprehensive hazardous materials management policy to ensure the protection of LAX's facilities, in 1987 the Board adopted Resolution No. 15945, the Hazardous Materials Management policy. Under this policy, the Department established the Underground Tanks and Hazardous Substances ("UTAHS") Program. Resolution No. 15945 states that it is the policy of the Department to have LAX tenants maintain primary responsibility for compliance with all federal, state and local regulations related to hazardous materials. Where tenants fail to comply with regulations, the Department's policy is to take whatever steps necessary to comply with the regulations and charge the tenants all costs associated with these activities.

The Department routinely conducts comprehensive environmental compliance audits of all department and tenant operated facilities to ensure compliance with all applicable regulations. Through these activities, the Department has established a data base of all known areas where hazardous materials have been accidentally discharged. The Department works cooperatively with the relevant regulatory agency to insure the responsible tenants are remediating the contamination. There are currently two major remediation programs in place at LAX. Both of these programs involve the release of jet fuel to ground water underlying LAX. In both cases, LAXFUEL Corporation and Continental, the tenants, have 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 has issued a Cleanup and Abatement Order requiring the Department and LACSD 20 to take certain remediation actions with respect to the groundwater, the cost of which is currently estimated at \$14.5 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 Department maintains an Environmental Services Division comprised of approximately 22 technical professional. These professionals oversee the implementation of various environmental programs related to hazardous materials.

Emission Standards

Air emissions associated with airport activities are governed by a number of federal, state and local regulations. Most notable of these are the Federal Clean Air Act of 1990 (the "CAA"), 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.

Federal CAA regulations directly and indirectly impact LAX operations. LAX is considered a "large source" under Title V of the CAA and operates all of its stationary emission sources under a Title V permit. The Title V permit is issued and enforced by the SCAQMD.

LAX-related emissions are also regulated indirectly under the General and Transportation Conformity Rule requirements of the CAA. The CAA established National Ambient Air Quality Standards ("NAAQS") for certain air pollutants called criteria pollutants. LAX sits in the South Coast Air Basin which has been designated as being in "nonattainment" for certain of the federal NAAQS. Under the conformity requirements of the CAA, no federal agency may take an action located within nonattainment areas unless it can be demonstrated that the project conforms to the requisite State Implementation Plan ("SIP") designed to bring the area into attainment. In California, the SIP is prepared by the California Air Resources Board (the "ARB"). The SIP is comprised of local plans developed by local Air Quality Management Districts or Air Pollution Control Districts. The SCAQMD prepares an "Air Quality Management Plan" ("AQMP") for the South Coast Air Basin for inclusion in the SIP every three years. The last AQMP was prepared by the SCAQMD in 2007 and approved by its governing board on June 1, 2007.

LAX operates under various permits and regulations promulgated and enforced by the FAA. Under these regulations, the Department must receive approval from the FAA for any modifications to its "Airport Layout Plan" (the "ALP"). Additionally, the Department receives funding for various airfield projects under the FAA's AIP program. The ALP approval and AIP funding constitute "actions" as defined under the CAA. In order for the FAA to approve a new ALP and to fund the various projects proposed under the LAX Master Plan, the FAA was required to undertake a conformity determination. A positive conformity determination was made by the FAA in May 2005. The "Final Clean Air Act General Conformity Determination" was included in the LAX Master Plan Environmental Impact Statement.

Conformity with a SIP can be demonstrated in several ways:

- By showing that the emission increases caused by an action are included in the SIP
- By demonstrating that the State agrees to include the emission increases in the SIP
- Through offsets
- Through mitigation

The Department was able to demonstrate conformity through mitigation. The Final Environmental Impact Statement published by the FAA in January 2005 includes various mitigation measures designed to reduce emissions from airport operations at LAX. These mitigation requirements include, but are not limited to measures such as: requiring all airline and tenant ground service equipment to meet zero emission goals; providing 400 hertz power

and preconditioned air at all passenger loading bridges, allowing aircraft to shut off their polluting auxiliary power units, installing ground power at all cargo and maintenance ramp areas allowing cargo and maintenance operations to shut off their auxiliary power units; conversion of all airport shuttles and vans to low emission vehicles; and reducing construction emissions through the use of low polluting construction equipment. In addition, the projected future activities associated with implementation of the LAX Master Plan have been incorporated into the latest SIP adopted by the SCAQMD in 2007 and sent to the U.S. Environmental Protection Agency for approval.

The CCAA established ambient air quality standards (“CAAQS”) for certain criteria pollutants which are in many cases more stringent than the federal NAAQS established under the federal CAA. The Department is required under the California Environmental Quality Act (“CEQA”) to evaluate and to the extent possible to mitigate any air quality impacts related to its proposed actions. For the purpose of determining impacts, the SCAQMD has adopted the CAAQS as thresholds of significance for all projects within the South Coast Air Basin. As part of the Environmental Impact Report prepared under CEQA, the Department conducted an extensive air quality analysis which was published in the final Environmental Impact Report.

The Department adopted numerous mitigation measures designed to reduce the air quality impacts associated with implementation of the LAX Master Plan. These measures are outlined in the LAX Master Plan Mitigation Monitoring and Reporting Plan (“MMRP”) adopted by the City Council in December 2004. The majority of the measures contained within the MMRP were also included in the FAA’s General Conformity Determination document.

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 “Green House Gas” emissions from stationary sources within the State of California. The Department owns and operates a cogeneration facility which is LAX’s only facility covered under AB32. This facility complies with all requirements under AB32. The California State Attorney General’s Office has been using CEQA to aggressively 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 “Green House Gas” emissions and impacts.

As previously stated, the Department operates under a Title V operating permit from the SCAQMD. The SCAQMD also imposes rules and regulations specifically targeted to various air pollutants and types of operations such as hydrant fueling, private vehicle fueling, power generators, boilers, paint spray booths, the use of various volatile organic chemical containing materials, etc. 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.

Environmental Impact Report Process

As is described above under “CAPITAL IMPROVEMENT PLANNING – Master Plan; Airport Capacity and Future Capital Improvements,” the Board adopted the LAX Master Plan in 2004. In December 2004, the Board and the City Council certified an Environmental Impact Report and adopted a comprehensive development program for the Airport, the LAX Master Plan (also known as “Alternative D”), the City’s general plan for LAX (known as the LAX Plan) and the LAX Specific Plan. The FAA issued the Federal Record of Decision on the Environmental Impact Statement for Alternative D in May 2005. The LAX Specific Plan and the Stipulated Settlement calls for the LAX Specific Plan Amendment Study, which is to comprehensively address security, traffic, aviation activity and corresponding environmental analysis prior to seeking approval to proceed with certain projects known as “Yellow Light” Projects, among other things. See “CAPITAL IMPROVEMENT PLANNING – Master Plan; Airport Capacity and Future Capital Improvements” for further discussion of the “Yellow Light” Projects.

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

approval of the LAX Master Plan. This settlement removes potential litigation obstacles to allow the Department to proceed with a series of projects in the Master Plan Program for which an LAX Specific Plan Amendment Study is not required, while it processes that Study. These include all subsequent Department, Board, and/or City Council approvals for all entitlements and other actions for any of the specific project components that implement Alternative D and that are not Yellow Light Projects, e.g., the South Airfield Improvement Project (one of the Series 2008 Projects), Consolidated Rental Car Facilities (one of the "Other Incorporated Projects" incorporated in the forecasts in the Report of Airport Consultant), the Taxiway C-13 Construction with Bridge (one of the "Future Projects" described in Section 3.5 of APPENDIX A hereto), the TBIT Expansion (one of the "Other Incorporated Projects" incorporated in the forecasts in the Report of the Airport Consultant), the Midfield Satellite Concourse Project and various other terminal, airfield and apron projects. The Alternative D state environmental review and approval was programmatic. Therefore, all site-specific projects that implement Alternative D are subject to project level environmental review.

Project level environmental review is complete for both the South Airfield Improvement Program, and the TBIT Interior Project (both 2008 Projects). Project level environmental review has formally begun for the Crossfield Taxiway Project (the notice of preparation was issued in April 2008) and the LAX Specific Plan Amendment Study (the notice of preparation was issued in March 2008).

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2008 Bonds involve investment risk. Prospective investors are urged to read this Official Statement, including the appendices hereto, in its entirety. The factors set forth below, among others, may affect the security for the Series 2008 Bonds. The information below does not purport to be a comprehensive or exhaustive discussion of risks or other considerations which may be relevant to an investment in the Series 2008 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 will not become material in the future.

Demand for Air Travel

The Series 2008 Senior Bonds are payable solely from Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) and other available funds, including, but not limited to PFCs. The Series 2008 Subordinate Bonds are payable solely from Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date) and such other available funds. Pledged Revenues, Subordinate Pledged Revenues and PFCs are dependant primarily on the level of aviation activity and enplaned passenger traffic at LAX. The level of aviation activity and enplaned passenger traffic at the airport are dependant upon a number of factors including local, regional, national and international economic and political conditions; international hostilities such as those presently occurring in Iraq and elsewhere in the Middle East; world health concerns such as the 2002-2003 Severe Acute Respiratory Syndrome (or SARS) outbreak; aviation security concerns; accidents involving commercial passenger aircraft; airline service and routes; airline airfares and competition; airline industry economics, including labor relations, fuel prices, aging aircraft fleets and other factors discussed in more detail under " – Financial Condition of the Airlines" below; capacity of the national air traffic control and airport systems; capacity of LAX and competition from other airports; and reliability of air service; and the availability and convenience of service at LAX, among others. Many of these factors are outside the Department's control. Drops in aviation activity and enplaned passenger traffic at LAX would result in reduced Pledged Revenues, Subordinate Pledged Revenues and PFCs. A number of these factors are discussed in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Financial Condition of the Airlines

The ability of the Department to generate Pledged Revenues depends, in part, upon the financial health of the aviation industry. The economic condition of the industry is volatile, and the aviation industry has undergone significant changes, including mergers, acquisitions, bankruptcies and closures in recent years. Further, the aviation industry is sensitive to a variety of factors, including (i) the cost and availability of labor, fuel, aircraft and insurance, (ii) general economic conditions, (iii) international trade, (iv) currency values, (v) competitive

considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel, and (ix) disruption caused by airline accidents, criminal incidents and acts of war or terrorism, such as the events of September 11, 2001. The aviation industry is also vulnerable to strikes and other union activities.

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses. After a period of improved cash flow beginning in 2005, airlines are again facing significant challenges. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the U.S. economy, other regional and world economies, corporate profitability, security concerns and other factors. Structural changes to the industry are the result of a number of factors including 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, a number of airlines, including, but not limited to, Air Canada, ATA, Aloha Airlines (“Aloha”), Delta, Frontier Airlines (“Frontier”), Hawaiian Airlines (“Hawaiian”), Independence Air, Maxjet, Mesaba Airlines, Midway Airlines (“Midway”), Northwest Airlines (“Northwest”), Skybus Airlines (“Skybus”), United, US Airways, Vanguard Airlines (“Vanguard Air”) and Varig Airlines (“Varig”), filed for bankruptcy reorganization. Vanguard Air ceased operations in 2002, Midway ceased operations in 2003, Varig ceased operations in 2005, Independence ceased operations in 2006 and Maxjet ceased operations in 2007. Aloha ceased passenger operations on March 31, 2008. ATA ceased operations on April 3, 2008. SkyBus ceased operations in April 2008. A number of these airlines currently remain under bankruptcy protection. Airline bankruptcies are discussed in greater detail under “ – Effect of Airline Bankruptcies” below.

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

The price of fuel is one of the most significant factors impacting the airline industry today. According to the Air Transport Association, fuel has overtaken labor as the industry’s top cost (26.5% of industry expenditures are for fuel, compared to 23.4% for labor). Aloha, ATA and SkyBus cited high fuel prices as a contributing factor in their recent bankruptcy filings. The average price of jet fuel was \$0.81 per gallon in 2000 compared to \$2.10 in 2007. In May 2008, the average price of jet fuel increased to \$3.79 per gallon. According to the Air Transport Association, every one-cent increase in the price per gallon for fuel increases annual airline operating expenses by approximately \$190 – 200 million. Also according to the Air Transport Association, U.S. airline fuel expense increased from \$16.4 billion in 2000 to \$41.6 billion in 2007, a compounded annual growth rate of 14.2 percent during this period. 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 affect the financial condition of airlines and the level of service they provide. High fuel prices also have an adverse impact on air cargo volumes.

The recent significant increases in the price of jet fuel have airlines further reducing their capacity. American announced in mid-May 2008 that it will reduce its domestic capacity by as much as 12% systemwide in the fourth quarter of 2008, its largest single service cutback since September 11, 2001. In early June 2008, United also announced significant systemwide cutbacks for 2008 and 2009 that will reduce cumulative mainline domestic capacity between 17% and 18% and cumulative consolidated capacity between 9% and 10% and Continental announced that it would reduce domestic mainline capacity by 11% in the fourth quarter of 2008. Other carriers also are likely to reduce capacity to offset the rapidly rising fuel costs. A number of airlines have indicated that they intend to reduce service at LAX in conjunction with systemwide cuts. No assurance can be given that other airlines will not eliminate or reduce service at LAX.

The aviation industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to a number of factors described above under “ – Demand for Air Travel.” Further, airline debt levels remain high, many airlines have large unfunded pension obligations and many airlines have an aging aircraft fleet and/or aging computer systems. 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. 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. The Department makes no representation with respect to the continued viability of any of the carriers serving LAX, airline service patterns, or the impact of any airline failures on the Pledged Revenues, Subordinate Pledged Revenues and PFC collections.

Effect of Airline Bankruptcies

A number of airlines serving LAX have filed for bankruptcy since September 11, 2001, including Air Canada, ATA, Delta, Frontier, Hawaiian, Maxjet, Midway, Northwest, United, US Airways, Vanguard and Varig. As described above under “– Financial Condition of the Airlines,” ATA, Maxjet, Midway, Vanguard and Varig have ceased operations. None of the airlines that have ceased operations was responsible for more than 1.5% of passenger enplanements at LAX. However, certain airline bankruptcies have resulted in reductions of service levels by particular airlines, 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 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 PFC on each enplaning revenue passenger at LAX. See “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges.” The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the Department) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. The airlines, however, are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Department cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at LAX. It is possible that the Department could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the Department cannot predict whether an airline operating at LAX that files for

bankruptcy protection would have properly accounted for the PFCs owed to the Department or whether the bankruptcy estate would have sufficient moneys to pay the Department in full for the PFCs owed by such airline. PFCs are expected to be used, but are not pledged to, the repayment of bonds, including the Series 2008 Bonds.

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

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Department and potentially in delays or reductions in payments on the Series 2008 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 2008 Bonds.

Effect of Concessionaire Bankruptcies

A bankruptcy of any significant concessionaire at LAX could also result in delays or reductions in revenues received by the Department, for reasons similar to those discussed above with respect to airline bankruptcies. A number of rental car companies operating at LAX have filed for bankruptcy protection since 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 2008 Bonds.

Effect of Airline Industry Consolidation

The airline industry is in the process of fundamental change, and it is possible that one or more of the airlines serving LAX could consolidate. Delta and Northwest have announced a merger agreement subject to regulatory approval. It has been recently reported that certain other major domestic airlines, including United and US Airways, may be considering merging with other major domestic airlines. Depending on which airlines serving LAX, if any, merge, the result may be fewer flights, decreases in gate utilization by one or more airlines, which decrease could be significant. Such decreases could result in reduced Pledged Revenues and Subordinate Pledged Revenues, reduced PFC collections and increased costs for the airlines serving LAX. It is not possible at this time to predict the effect on gate usage at LAX, or the corresponding impact on Pledged Revenues, Subordinate Pledged Revenues, PFC collections or airline costs, as a result of potential airline consolidation.

Aviation Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions, particularly in the aftermath of the September 11, 2001 terrorist attacks and in the context of the current hostilities in Iraq and elsewhere in the Middle East, other potential international hostilities and terrorist attacks and world health concerns may influence passenger travel behavior and air travel demand. Travel behavior may be affected by anxieties about the safety of flying and by the inconveniences and delays associated with more stringent security screening procedures, both of which may give rise to the avoidance of air travel generally and the switching from air to surface travel modes.

Since the September 11, 2001 terrorist attacks and the hostilities in Afghanistan and Iraq, intensified security precautions have been instituted by government agencies, airlines and airport operators. For example, all checked bags are now required to be screened for explosives and a national threat level system has implemented under which increased security measures are required to be implemented at higher threat levels. LAX is in material compliance with all current federal safety requirements. Federal law also requires that eventually all passenger bags, mail and cargo be screened to prevent the carriage of weapons (including chemical and biological weapons), explosives or incendiary devices; however, no regulations regarding these enhanced security measures have been finalized as of the date of this Official Statement. Current and future security measures may create significantly increased inconvenience and delays at LAX and may adversely affect the Department's operations and revenues. In general, a reduction of non-airline derived revenues has the effect of increasing the costs of airlines to utilize LAX.

According to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. 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 Long Term Leases and the Tariff, various grant assurances, the federal acts authorizing the imposition, collection and use of PFCs 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 has been 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, challenges to the reasonableness of rental rates charged for terminal space at LAX were filed in 2007 as described under "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases – Complaints Regarding the Tariff and Subsequent DOT Decision" and the transfer of certain amounts to the City was challenged in 1995 as described under "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Caltrans Transfer;" these matters are still pending. In addition, as described above under "CAPITAL IMPROVEMENT PLANNING – Federal Grants," the Department has been notified by the FAA that the Department is being audited with respect to payments made to the City and county governments; this audit is expected to take place in late July and early August 2008. 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 be filed in the future. An adverse determination in one of the existing challenges or the existing audit or in a future challenge or audit could limit the ability of the Department to charge airlines and other aeronautical rates sufficient to meet the covenants in the Master Senior Indenture, the Master Subordinate Indenture and the Parity Subordinate Indenture, which would require the Department to increase rates and fees charged to non-aeronautical users, could result in the loss of certain federal funding and could have a material adverse impact on the Pledged Revenues and Subordinate Pledged Revenues. Further, federal grants are paid on a reimbursement basis and are subject to audit. In addition, failure to comply with federal statutes and regulations can result in the loss of PFC revenues and federal grants.

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

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

Seismic Risks

The City is located in a seismically active region of the State. During the past 150 years, the Los Angeles area has experienced several major and minor earthquakes. On January 17, 1994, the Los Angeles area experienced

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

Considerations Regarding Passenger Facility Charges

The Department has received FAA authorization to collect PFCs as described under "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges."

The Department expects to pay a portion of the debt service on the Senior Bonds with PFC revenues, and as a result, this amount of debt service is not included in the coverage calculations described in "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of the Airport Consultant; Projected Debt Service Coverage" and in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Passenger Facility Charges."

The Department's authority to collect PFCs at LAX currently expires in 2012, though PFC receipts have been irrevocably committed to the payment of debt service on PFC Eligible Bonds through Fiscal Year 2014 and the forecasts in the Report of the Airport Consultant assume the availability of PFC receipts to pay debt service on the Series 2008A Senior Bonds throughout the forecast period, which ends in Fiscal Year 2014. The forecasts in the Report of the Airport Consultant also assume that the Department receives future PFC approval from the FAA to impose and use PFC revenues in an amount approximately equal to 45% of the estimated cost of the future TBIT expansion project (included in Other Incorporated Projects) plus financing costs. No assurance can be given that the Department's authority to collect PFCs will be increased or extended. Further, no assurance can be given that PFCs 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 will 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 PFCs, 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 the PFC 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 a PFC would not be summarily terminated. No assurance can be given that the Department's authority to impose the PFC will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or 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 PFC to be collected.

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

Delays and Cost Increases; Future Capital Projects; Additional Indebtedness

The estimated costs of, and the projected schedule for, the 2008 Projects and the other capital projects described under “CAPITAL IMPROVEMENT PLANNING – Capital Improvements Program” and included in the financial analysis in the Report of the Airport Consultant are subject to a number of uncertainties. The ability of the Department to complete the 2008 Projects and the Department’s other capital projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, 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 per enplaned passenger to the airlines.

In addition, certain funding sources are assumed to be available for such projects. For example, the Report of the Airport Consultant assumes that additional AIP grant funding and TSA funding will be available for various projects referenced under “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Program” and described in greater detail in the Report of the Airport Consultant. See also “ – Considerations Regarding Passenger Facility Charges” above and “ – Termination or Expiration of Letters of Credit” below. No assurances can be given that such funding will, in fact, be available. If such funding source, 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 Airport Consultant.

In addition, the Department intends to undertake future capital projects at LAX. Some of such projects are described in Section 3.5 of APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” Because the cost, scope and timing for undertaking these future projects is uncertain, future projects and associated financial impacts are not included in the financial analysis in the Report of the Airport Consultant. Further, the Department may undertake capital projects that are not described in the Report of the Airport Consultant. The costs of additional projects could be high. If additional projects are undertaken, the Department likely would have to issue Additional Senior Bonds and/or Additional Subordinate Bonds to finance such projects, and may have to divert resources to such projects. As a result, actual results could differ materially from projections.

Enforceability of Remedies; Limitation on Remedies

As discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Events of Default and Remedies; No Acceleration,” there is no right to acceleration of payments to bondholders under either the Senior Indenture or the Subordinate Indenture 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 2008 BONDS,” the CP Reimbursement Agreements and the Subordinate Bond Reimbursement Agreements permit the CP Banks and BNP, respectively, to accelerate the payments due the CP Banks and BNP, respectively, in certain circumstances. Further, the remedies available to the owners of the Series 2008 Bonds upon an Event of Default under the Senior Indenture and the Subordinate Indenture are in many respects dependent upon regulatory and judicial actions that are in many instances subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Senior Indenture and the Subordinate Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2008 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2008 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors’ rights generally and by equitable remedies and proceedings generally.

Rate Covenant Limitations

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS – Senior Bonds – Senior Rate Covenant” and “ – Subordinate Obligations – Subordinate Rate Covenant,” the Senior

Indenture and the Subordinate Indenture include covenants with respect to the establishment of rates and charges. However, the Senior Indenture and the Subordinate Indenture provide that so long as the Department is taking specified steps to meet the applicable rate covenant, an event of default will not be triggered until the end of the second subsequent Fiscal Year. The ability of the Department to increase rates and charges and to reduce maintenance and operation expenses is limited by federal law (including the provisions thereof described under “ – Regulations and Restrictions Affecting LAX”) and by the terms of the leases between the Department and airlines or other tenants.

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant included as APPENDIX A incorporates numerous assumptions regarding the utilization of LAX and other matters and states that the report is subject to uncertainties. The Report of the Airport Consultant should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that the assumptions on which the forecasts in the Report of the Airport Consultant is based will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances will occur. Therefore, actual results achieved during the forecast 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 2008 Bonds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “–Delays and cost increases; Future Capital Projects; Additional Indebtedness.”

Termination or Expiration of Letters of Credit

The Subordinate Bond Letters of Credit, which secure the timely payment of principal and purchase price of and interest on the Existing Subordinate Bonds, expire on March 10, 2010 and are subject to earlier termination in certain circumstances. The CP Letter of Credit, which secures the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes, expires on April 1, 2012 and is subject to earlier termination in certain circumstances. No assurance can be given that the Department will be able to replace these letters of credits upon their termination or expiration. Further, it is likely that replacement letters of credit may cost the Department substantially more than the existing letters of credit or that replacement reimbursement agreements will impose more restrictions on the Department than do the existing reimbursement agreements. If the Department cannot or does not replace the Subordinate Bond Letters of Credit, the Existing Subordinate Bonds would be subject to mandatory tender and purchase funded with amounts drawn on the Subordinate Bonds Letters of Credit prior to their expiration. If the Department cannot or does not replace the CP Letter of Credit, it would be unable to issue any Subordinate Commercial Paper Notes. Both the Subordinate Bond Reimbursement Agreements and the CP Reimbursement Agreement provide for acceleration of the amounts due BNP and the CP Banks respectively, as applicable, in certain circumstances as discussed under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS.”

Forward-Looking Statements

This Official Statement contains statements relating to future results that are “forward looking statements”. When used in this Official Statement, the words such as “plan,” “except,” “estimate,” “budget,” “project,” “forecast,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “intend” and similar expressions identify forward looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward looking statements. See “INTRODUCTION – Forward-Looking Statements.”

AIRLINE INDUSTRY INFORMATION

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

or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site at <http://www.sec.gov> containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial aid and operating statistics with the U.S. DOT. Such reports can be inspected at the U.S. DOT's Office of Airline Information, Bureau of Transportation Statistics, Department of Transportation, Room 4201, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from 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.

The Department undertakes no responsibility for or makes any 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.

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

LITIGATION

There is no litigation now pending or, to the best of the Department's knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2008 Bonds or in any way contests the validity of the Series 2008 Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2008 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2008 Bonds. Further, there is no pending litigation relating to the Airport System or the Department's operations or business pertaining thereto that would reasonably be expected to have a material impact on Pledged Revenues of the operation of LAX, except as described under "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Tariff and Leases," "CAPITAL IMPROVEMENT PLANNING – Settlement of Master Plan Litigation" and "– Agreements Relating to Master Plan Litigation" and "AIRPORT SYSTEM ENVIRONMENTAL MATTERS."

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 2008 Senior Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2008 Senior Bond for any period during which such Series 2008 Senior Bond is held by a "substantial user" of the facilities financed and refinanced by the Series 2008 Senior Bond or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is further of the opinion that interest on the Series 2008 Senior Bonds is a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assumes 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 2008 Senior Bonds. Failure to comply with such requirements could cause interest on the Series 2008 Senior Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008

Senior Bonds. The Department has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2008 Senior Bonds.

In the opinion of Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2008 Subordinate Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes 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 2008 Subordinate Bonds. Failure to comply with such requirements could cause interest on the Series 2008 Subordinate Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2008 Subordinate Bonds. The Department has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2008 Subordinate Bonds.

Notwithstanding Bond Counsel's opinion that interest on the Series 2008 Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Bond Counsel is further of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Series 2008 Bonds is exempt from State of California personal income taxes.

The accrual or receipt of interest on the Series 2008 Bonds may otherwise affect the federal income tax liability of the owners of the Series 2008 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 2008 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 2008 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 2008 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2008 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 2008 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 2008 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 2008 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2008 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 2008 Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Discount

Certain of the Series 2008 Bonds, as described on the inside front cover hereof, are being sold at an original issue discount (collectively, the “Discount Bonds”). The difference between the initial public offering prices of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described under “—General” above.

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

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

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

Tax Treatment of Original Issue Premium

Certain of the Series 2008 Bonds, as described on the inside front cover hereof, are being sold at a premium (collectively, the “Premium Bonds”). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

RATINGS

Standard & Poor's Rating Service, a Division of The McGraw-Hill Companies Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), have assigned underlying ratings of "AA", "Aa3" and "AA", respectively, to the Series 2008 Senior Bonds and ratings of "AA-", "A1" and "AA-" to the Series 2008 Subordinate Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, New York, New York 10041; Moody's, 1 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 2008 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 such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2008 Bonds.

LEGAL MATTERS

The validity of the Series 2008 Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX E hereto. Bond Counsel undertakes 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 Rockard J. Delgadillo, Esq., City Attorney. Certain legal matters in connection with the Official Statement will be passed upon for the Department by Nixon Peabody LLP, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Orrick, Herrington & Sutcliffe LLP represents the City in other matters.

FINANCIAL ADVISORS

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California and Frasca & Associates, L.L.C. of New York, New York, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2008 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., independent certified public accountants, will verify from the information provided to them the mathematical accuracy of the computations contained in the provided schedules to determine that the anticipated amounts, to be held in escrow, will be sufficient to pay, when due, the principal of and interest on the Refunded Senior Bonds.

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 was prepared in conjunction with the issuance of the Series 2008 Bonds. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2008 Bonds. The Department has relied upon the analyses and conclusions contained in the Report, as of its date, in preparing this Official Statement. 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 2007 and 2006 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 2008 Bonds, the Department will covenant to provide, or cause to be provided, to each nationally recognized municipal securities information repository (collectively, the "Repositories"), for purposes of Rule 15c2-12(b)(5) adopted by the SEC ("Rule 15c2-12(b)(5)"), certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain material events. The Department has never failed to comply in all material respects with any continuing disclosure undertakings with regard to Rule 15c2-12(b)(5) to provide annual reports or notices of material events. Owners may obtain from the Repositories such information provided by the Department. The foregoing should not be construed as a covenant of the Department in connection with the offering of the Series 2008 Bonds. See APPENDIX G – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The Department has agreed to provide the foregoing information to the Repositories and any State Information Depository only. The information will be available to owners of the Series 2008 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

UNDERWRITING

The Series 2008A Senior Bonds are being purchased from the Department by the underwriters listed on the cover page hereof (the "Underwriters") at a price of \$590,432,780.21 (consisting of the aggregate principal amount of \$602,075,000.00, minus a net original issue discount of \$8,799,279.75 and less an Underwriters' discount of \$2,842,940.04); the Series 2008B Senior Bonds are being purchased from the Department by the Underwriters at a price of \$8,074,351.76 (consisting of the aggregate principal amount of \$7,875,000.00, plus an original issue premium of \$218,809.60 and less an Underwriters' discount of \$19,457.84); and the Series 2008 Subordinate Bonds are being purchased from the Department by the Underwriters at a price of \$240,950,193.14 (consisting of the aggregate principal amount of \$243,350,000.00, minus a net original issue discount of \$1,280,054.45 and less an Underwriters' discount of \$1,119,752.41), all subject to the terms of a Bond Purchase Agreement between the Department and the Underwriters (the "Purchase Contract"). The Purchase Contract provides that the Underwriters shall purchase all of the Series 2008 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions. The Underwriters may change the initial public offering yields set forth on the inside front cover hereof. The Underwriters may offer and sell the Series 2008 Bonds to certain dealers (including dealers depositing the Series 2008 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.

MISCELLANEOUS

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

All references to the Charter, the Senior Indenture, the Subordinate Indenture, the Parity Subordinate Indenture, agreements with any other parties and laws and regulations herein and in the Appendices hereto are made

subject to the detailed provisions of such documents, and reference is made to such documents and agreements for full and complete statements of the contents thereof. Copies of such documents are available for review at the offices of the Department which are located at One World Way, Los Angeles, California. This Official Statement is not to be construed as a contract or agreement between the City or the Department and the owners of any of the Series 2008 Bonds.

AUTHORIZATION

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

DEPARTMENT OF AIRPORTS OF THE
CITY OF LOS ANGELES, CALIFORNIA

By: /s/ Gina Marie Lindsey
Executive Director

APPENDIX A

Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2008 Series A
Senior Refunding Revenue Bonds, 2008 Series B
Subordinate Revenue Bonds, 2008 Series C

REPORT OF THE AIRPORT CONSULTANT

Ricondo & Associates, Inc.
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July 11, 2008

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

***RE: Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2008 Series A
Senior Refunding Revenue Bonds, 2008 Series B
Subordinate Revenue Bonds, 2008 Series C***

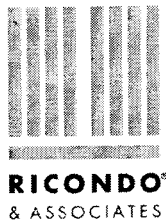
Appendix A: Report of the Airport Consultant

Dear Mr. Rothenberg:

This report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A) in conjunction with the planned issuance by the Department of Airports of the City of Los Angeles, California (the Department), of its Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the Series 2008A Senior Bonds), and its Los Angeles International Airport Subordinate Revenue Bonds, 2008 Series C (the Series 2008C Subordinate Bonds) – collectively, the Series 2008 Bonds – to finance improvements at Los Angeles International Airport (the Airport or LAX). The Department also plans to issue its Senior Refunding Revenue Bonds, 2008 Series B (the Series 2008B Senior Refunding Bonds) to refund all of its outstanding Senior 1995 Series D Bonds.

The Airport is owned by the City of Los Angeles, California (the City) and operated by the Department (which is also known as Los Angeles World Airports, or LAWA), a self-supporting branch of the City under the management and control of the Board of Airport Commissioners (the Board). This report is intended for inclusion in the Official Statement for the Series 2008 Bonds as Appendix A: Report of the Airport Consultant.

In addition to refunding the Series 1995D Senior Bonds, the Department is also considering other potential refunding opportunities. The Department expects that any debt service savings or potential debt service increases associated with the Series 2008B Senior Refunding Bonds or any other series of bonds being considered for refunding would not be material, and thus the issuance of the Series 2008B Senior Refunding Bonds (or any other potential refundings) and the associated debt service has not been assumed or discussed in the remainder of this report and has not been incorporated in the accompanying financial tables.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
July 11, 2008

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

Under the terms of the Senior Indenture, the Department may issue Los Angeles International Airport Senior Revenue Bonds (referred to in this report as Senior Bonds) secured by a pledge of Pledged Revenues (as defined in the Senior Indenture). The Series 2008A Senior Bonds will be issued pursuant to the Senior Indenture and the Ninth Supplemental Trust Indenture. The Senior Indenture requires that certain covenants be met while any Senior Bonds are outstanding and that certain financial tests be met before future Senior Bonds can be issued, including an additional bonds test requiring that projected Net Pledged Revenues, as defined in the Senior Indenture, provide sufficient coverage for future debt service associated with outstanding Senior Bonds (including the Series 2008A Senior Bonds). This test is described in greater detail in Chapter 4 of this report.

Under the terms of the Subordinate Indenture, the Department may issue Los Angeles International Airport Subordinate Revenue Bonds (referred to in this report as Subordinate Bonds) secured by Subordinate Pledged Revenues (as defined in the Subordinate Indenture). The Series 2008C Subordinate Bonds will be issued pursuant to the Subordinate Indenture and the Fourth Supplemental Subordinate Trust Indenture. The Subordinate Indenture requires that certain covenants be met while any Subordinate Bonds are outstanding and that certain financial tests be met before future Subordinate Bonds can be issued, including an additional bonds test requiring that projected Net Subordinate Pledged Revenues, as defined in the Subordinate Indenture, provide sufficient coverage for future debt service associated with outstanding Subordinate Bonds (including the Series 2008C Subordinate Bonds). This test is described in greater detail in Chapter 4 of this report.

The City owns the Airport, LA/Ontario International Airport, Van Nuys Airport, and LA/Palmdale Regional Airport (collectively, the Airport System). Pledged Revenues and Maintenance and Operating Expenses include certain income, revenue, and expenses derived from the Airport, as described in greater detail in Chapter 4 of this report, but exclude income, revenue, and expenses received by the Department from the other airports in the Airport System.

Proceeds of the Series 2008 Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including certain improvements to the Tom Bradley International Terminal (TBIT) and the South Airfield Improvement Project (collectively referred to in this report as the Series 2008 Projects); (2) reimburse the Department for certain prior expenditures with respect to the Series 2008 Projects; (3) refund outstanding commercial paper notes the proceeds of which were used to finance a portion of the costs of the Series 2008 Projects; (4) fund capitalized interest; (5) fund debt service reserve funds; and (6) pay the costs of issuance of the Series 2008 Bonds, all as more fully described in this report.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
July 11, 2008

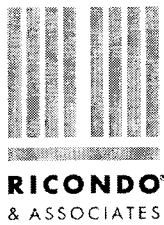
The Department anticipates issuing additional debt subsequent to the Series 2008 Bonds to finance other capital projects anticipated to be completed during the projection period that are incorporated in this report (as described in Sections 3.4 and 4.7.2 of this report). This report and the accompanying financial tables incorporate estimated future debt service requirements for the Series 2008 Bonds, as well as projected future Senior Bonds and Subordinate Bonds expected to be issued during the projection period through Fiscal Year¹ (FY) 2014 to fund all or a portion of the estimated costs of certain capital projects at the Airport (including the Series 2008 Projects) that are expected by the Department to be completed during the projection period.

The Department may also undertake other future capital projects during the projection period. The cost and funding plan of such additional projects are unknown at this time (see Section 3.5 of this report). These other future capital projects will only be undertaken when demand warrants, necessary approvals are 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, and as such, any associated costs, additional revenues, and additional debt issued to finance them are not included in this report or in the accompanying financial tables.

The Department plans to use certain passenger facility charge (PFC) revenues to pay a portion of the principal of and interest on the Series 2008A Senior Bonds and future Senior Bonds. Pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant (generally requiring that Net Pledged Revenues equal at least 125 percent of Aggregate Annual Debt Service on the Senior Bonds each Fiscal Year), the principal of and/or interest on Senior Bonds paid with PFC revenues is excluded from Aggregate Annual Debt Service on the Senior Bonds. Additionally, pursuant to the Subordinate Indenture, for purposes of meeting the Subordinate Rate Covenant (generally requiring that Net Subordinate Pledged Revenues equal at least 110 percent--which will be increased to 115 percent at the time of issuance of the Series 2008 Bonds--of Aggregate Annual Debt Service on the Subordinate Bonds and the Subordinate Commercial Paper Notes each Fiscal Year) the principal of and/or interest on Subordinate Bonds and/or Subordinate Commercial Paper Notes paid with PFC revenues is excluded from Aggregate Annual Debt Service on the Subordinate Bonds and Subordinate Commercial Paper Notes. 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.

This report includes examinations of the underlying economic base of the Air Trade Area (as defined in this Report) for the Airport (Chapter 1); the historical and projected air traffic activity at the Airport, including assumptions (Chapter 2); a description of existing facilities and various planned and ongoing projects that are expected to be completed during the projection period (Chapter 3); and projected debt service, expenses, and revenues, with consideration of the anticipated impacts of the capital projects expected to be completed during the projection period (Chapter 4).

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



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
July 11, 2008

On the basis of the assumptions and analyses described in this report and its experience in preparing financial projections for airport operators, R&A is of the opinion that Net Pledged Revenues will be sufficient to meet the Department's senior rate covenant requirement, as set forth in Section 5.04 of the Senior Indenture, during the projection period FY 2009 through FY 2014 and that Net Subordinate Pledged Revenues will be sufficient to meet the Department's subordinate rate covenant requirement, as set forth in Section 5.04 of the Subordinate Indenture, during the projection period FY 2009 through FY 2014. Additional findings of these analyses include the following:

Economic Base

- The economic base of the Airport's Air Trade Area, as defined in this report, is broad and diversified and will continue to support growth in demand for air transportation services at the Airport.
- The Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA) is the second largest region in the United States in terms of population, with approximately 17.9 million residents in 2007. While population in the Los Angeles CSA is projected to grow during the forecast period at a rate comparable to that of the U.S., but less than that of California, such growth is compatible with the projections of airline traffic contained in this report.
- In 2007, mean household income in the Los Angeles CSA was 6.6 percent higher than in California as a whole, and 23.9 percent higher than the U.S. mean household income. In addition, more than 1.8 million of the Los Angeles CSA's households earn more than \$75,000 per year, the income category that generates the greatest demand for airline travel, according to the Travel Industry Association.
- In 2008, 20 companies in the Los Angeles CSA were listed among the top 500 U.S. companies by Fortune magazine when ranked by annual revenue. The Los Angeles CSA has the fifth highest number of Fortune 500 headquarters in the United States. Major companies in the Los Angeles CSA include Walt Disney, Northrop Grumman, Amgen and Mattel.
- Los Angeles CSA companies have 3,131 branches, subsidiaries, or affiliates in 88 countries, and 861 foreign firms with headquarters in 38 countries have 1,293 operations in the Los Angeles CSA.
- The Los Angeles CSA offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. Visitorship to the Los Angeles CSA reached approximately 25.8 million in 2007.



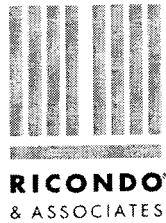
Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
July 11, 2008

Air Traffic

- As of June 2008, the Airport was served by 69 passenger airlines and 15 all-cargo carriers.
- As of June 2008, the airlines serving the Airport provide nonstop service to 79 domestic markets with a total of 713 daily flights; and nonstop service to 56 international markets with a total of 155 daily flights.
- The Airport is one of the busiest airports in the world. In calendar year 2007, the Airport ranked 5th worldwide and 3rd nationwide in total passengers; 4th worldwide and nationwide in total operations; and 12th worldwide and 5th nationwide in total cargo.²
- The Airport serves one of the nation's largest origin-destination (O&D) passenger bases, and was ranked first in the nation in the number of total O&D passengers in FY 2007.
- Approximately 70 percent of domestic enplaned passengers at the Airport are O&D passengers, with the remaining 30 percent being connecting passengers. When international enplanements are included, approximately 75 percent of total enplaned passengers at the Airport are O&D passengers.
- The Airport is also one of the nation's premier international gateways and the only international gateway serving Southern California.
- Domestic enplanements at the Airport increased from 22.4 million in FY 1997 to 25.0 million in FY 2001 (the last full fiscal year prior to the terrorist attacks on September 11, 2001), a compounded annual growth rate of 2.8 percent, which was higher than the nationwide growth rate of 2.0 percent.³ The events of September 11, 2001 and an economic slowdown resulted in a compounded annual decrease of 9.5 percent in domestic enplanements at the Airport between FY 2001 and FY 2003, compared to the 3.1 percent decrease nationwide. Domestic enplanements at the Airport then increased from 20.4 million in FY 2003 to 22.4 million in FY 2007, a compounded annual growth rate of 2.3 percent during this period, compared to 4.1 percent nationwide.
- International enplanements at the Airport increased from 7.2 million in FY 1997 to 8.9 million in FY 2001, a compounded annual growth rate of 5.6 percent. The events of September 11, 2001, an economic slowdown, and the threat of severe acute respiratory syndrome (SARS) resulted in a compounded annual decrease of 9.5 percent in international enplanements at the Airport between FY 2001 and FY 2003. International enplanements at

² *ACI Traffic Data 2007*, Airports Council International (preliminary dated 3/12/08).

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



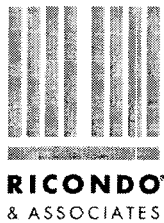
Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
July 11, 2008

the Airport then increased from 7.3 million in FY 2003 to 8.4 million in FY 2007, a compounded annual growth rate of 3.7 percent during this period.

- During the projection period, we expect that a broad base of airlines will continue to serve the Airport, with no one or two airlines dominating activity at the Airport. We expect that the demand for air service in the Los Angeles CSA, particularly for international and nonstop travel to major medium and long-haul markets, will continue to be served predominantly through the Airport. In addition, we expect that the Airport will continue to serve a high level of demand for travel in the West Coast corridor.

Financial Analysis

- The Series 2008 Projects and other capital improvements reflected in the financial tables accompanying this report (expected to be completed during the projection period and to be funded in part with the Series 2008 Bonds and assumed additional future Senior Bonds and Subordinate Bonds) are expected to provide Airport facilities sufficient to satisfy future airline and air passenger needs through the projection period at a cost that will produce reasonable levels of airline rates and charges at the Airport during the projection period.
- Over the last three years, the Department and many of the airlines operating at the Airport have been involved in negotiations and various legal actions regarding certain aspects of the Airport's terminal rental rates. These negotiations and legal actions involve both the airlines that are parties to long-term terminal leases as well as those airlines without long-term leases that are operating under the LAX Passenger Terminal Tariff (the Tariff). In February 2007, seven domestic airlines operating at the Airport from Terminal 1 and Terminal 3 filed a complaint with the United States Department of Transportation (U.S. DOT) alleging that the new terminal rates and charges imposed pursuant to the Tariff were unreasonable and discriminatory. In June 2007, the U.S. DOT issued its final decision regarding the complaints filed by the Terminal 1 and Terminal 3 airlines. The Department as well as the Terminal 1 and Terminal 3 airlines are currently in the process of appealing the U.S. DOT's decision. Since that time, as directed by the Board, the Department has worked closely with airlines operating at the Airport with the goal of reaching short-term agreements on various issues related to terminal rents at the Airport. In early 2008, the Department and airlines leasing terminal space under long-term leases reached short-term settlement agreements related to terminal operating expenses charged to the carriers.
- Average airline cost per enplanement (future dollars) at the Airport is projected to increase from \$9.23 in FY 2008 to \$13.96 in FY 2014 in part as a result of increased capital costs related to ongoing TBIT Interior Improvement Projects, the South Airfield Improvement Projects, future TBIT expansion, the new Central Utility Plant, future apron and taxiway improvements, and other improvements.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
July 11, 2008

- Airline rates and charges, together with other Pledged Revenues, are projected to be sufficient to ensure that all operating and maintenance expenses, debt service, and required fund deposit requirements are satisfied in each year of the projection period (through FY 2014).
- Between FY 2008 and FY 2010, debt service coverage for senior debt is projected to range from a high of 8.31x to a low of 7.40x. In FY 2011, when the Series 2008A Senior Bond principal begins to amortize, senior debt service coverage is projected to decrease to 3.68x. Between FY 2012 and FY 2014, senior debt service coverage is projected to range from 2.23x to 2.28x, exceeding the 1.25x rate covenant requirement in each year of the projection period.
- Between FY 2011 and FY 2014, debt service coverage for combined senior and subordinate debt is projected to range from a high of 2.32x in FY 2011 to a low of 1.56x in FY 2012 and FY 2013.

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

Sincerely,

RICONDO & ASSOCIATES, INC.

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I. Economic Base for Air Transportation

This chapter profiles the Los Angeles regional economy, including current conditions and trends.¹ In particular, the following discussion focuses on economic factors that will affect future demand for air passenger and freight services at Los Angeles International Airport (Airport or LAX).

1.1 Summary

The economic base of the Los Angeles-Long Beach-Riverside Combined Statistical Area (CSA)² is stable and diversified, and is capable of generating increased demand for air transportation at the Airport during the projection period. The broad economic base of the Los Angeles region has contributed to the Airport's position as one of the busiest airports worldwide in 2007 in terms of passengers and cargo tonnage, based on statistics from Airports Council International.³ An overview of socioeconomic trends in the Los Angeles CSA is summarized below:

- **Second Largest Population Base in the Nation.** The Los Angeles CSA has a substantial population base with approximately 17.9 million residents as of 2007. It is the second most populous region in the United States.
- **Population Growth Projections Comparable to the U.S. but Less than California's.** Data from Woods & Poole Economics, Inc.⁴ shown in Table I-3 (below) indicate that population in the Los Angeles CSA increased at a compounded annual growth rate of 1.29 percent between 2000 and 2007, compared with 1.44 percent in the U.S. and 1.67 percent in California. Between 2007 and 2015, population in the Los Angeles region is projected to increase at a rate comparable to the U.S., but less than California.
- **High Household Income Levels.** Mean household income in the Los Angeles CSA is higher than that of California and the U.S. In 2007, the Los Angeles region's mean household income was 6.6 percent higher than California's, and 23.9 percent higher than the U.S. In addition, more than 1.8 million of the Los Angeles region's households earn more than \$75,000 per year, the income category that generates the greatest demand for airline travel according to the Travel Industry Association. Income projections show continued growth in the number of the region's households with income greater than \$75,000 between 2007 and 2012.
- **Impacts of Housing Market Downturn.** As with other regions in the U.S., the consequences of the housing downturn and financial market turmoil to the Los Angeles CSA economy are still to be determined. The Riverside and San Bernardino County housing markets have been especially affected by mortgage defaults, and recovery will be delayed

¹ This chapter has been prepared by Strategic Economics, a consulting firm based in Berkeley, California that specializes in regional economic analysis.

² Also referred to in this chapter as the "Los Angeles CSA," the "Los Angeles region" and the "Air Trade Area."
³ <http://www.airports.org>, Data Centre, Traffic Data, accessed March 11, 2008.

⁴ Woods & Poole Economics, Inc., located in Washington, D.C., 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, households, age, gender, race, income, employment by industry and retail sales by kind of business. 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.

until their inventory of unsold homes begins to be absorbed. The Los Angeles Economic Development Corporation (LAEDC) projects that by 2009, most of the housing decline will have subsided and that a recovery for much of the region will be underway by 2010.

- **Diversified Economy.** The distribution of non-agricultural employment in the Los Angeles CSA generally mirrored that of the nation in 2007, providing the area with an economic base as diversified as the national economy.
- **Large Number of Fortune 500 Companies Stimulates Demand for Business Travel.** In 2008, 20 companies in the Los Angeles region were listed among the top 500 U.S. companies by Fortune magazine when ranked by annual revenue. The Los Angeles CSA has the fifth highest number of Fortune 500 headquarters in the United States. Major companies in the Los Angeles region include Walt Disney, Northrop Grumman, Amgen, and Mattel.
- **Extensive International Business Network.** Data indicate that 209 companies in the Los Angeles CSA have 3,131 branches, subsidiaries, or affiliates in 88 countries. In addition, 861 foreign firms with headquarters in 38 countries have 1,293 branches, subsidiaries, or affiliates in the Los Angeles region.⁵
- **Significant Tourism Stimulates Demand for Leisure Travel.** The Los Angeles region offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. Approximately 25.8 million people traveled to the Los Angeles region in 2007. These visitors generated \$751 million in state and local taxes and helped support the 775,200 workers who are either employed directly in travel and tourism or in related industries.

1.2 Regional Perspective

1.2.1 Overview

The Los Angeles region, with an estimated 17.9 million residents, is ranked as the second largest metropolitan area in the United States.⁶ The Los Angeles economy is one of the nation's most dynamic and diverse. Basic industries extend far beyond the familiar three tiers of aerospace, entertainment and tourism that are typically associated with the regional economy. The 19 major industries that provide the region's economic base range from health services and bio-medicine to apparel design and toy manufacturing.⁷ The Los Angeles region's diverse economy yielded more than \$793 billion in gross regional product in 2006 — accounting for more than 45 percent of California's gross state product in that year.⁸

⁵ *Directory of American Firms Operating in Foreign Countries*, 19th edition, Uniworld Business Publications, Inc., 2007; *Directory of Foreign Firms Operating in the United States*, 14th edition, Uniworld Business Publications, Inc., 2007.

⁶ Woods & Poole Economics, Inc., *2007 Complete Economic and Demographic Data*.

⁷ 2007-2008 Economic Forecast and Industry Outlook: Mid-Year Update., Los Angeles County Economic Development Corporation, July 2007.

⁸ Table C-1: Gross Product of the Los Angeles Area, *L.A. Stats*, Los Angeles County Economic Development Corporation, July 2007.

In 2007, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$421.2 billion.⁹ Over \$80.1 billion in goods from the Los Angeles Customs District¹⁰ were conveyed by air (19 percent of the total), and the Los Angeles Customs District accounted for more than 56 percent of California's total trade by air.

The Los Angeles region has a higher mean household income than both California and the U.S.¹¹ In addition, the Los Angeles region's population is very diverse: 47.4 percent of the region's residents are non-white, compared with 26.9 percent for the nation as a whole.¹² Between 1997 and 2006, 1,164,770 residents of the Los Angeles region were granted legal permanent resident status, representing 12.8 percent of all "Green Card" recipients in the U.S. during that period. During this period the Los Angeles region also ranked first in the U.S. for persons achieving citizenship status, with 1,096,880 persons becoming naturalized U.S. citizens; this represents 17.5 percent of all persons in the U.S. who became naturalized citizens between 1997 and 2006.¹³ These reinforcing elements (large population, high household incomes, diverse population with cultural and linguistic ties to nations around the world) create a source of demand for domestic and international air travel. Equally, the Los Angeles region's inviting attractions, mild climate, and proximity to mountains, desert, and ocean make it a top domestic and international air travel destination.

1.2.2 Recent Economic Trends

1.2.2.1 Housing and Financial Markets

A steep correction is occurring in the U.S. housing market after a long period of expansion in both construction activity and home prices. With the rise in interest rates between 2004 and 2006, the balance between supply and demand in the U.S. housing market began to suffer severe disruptions. The overall U.S. housing market has now declined to such a degree that both housing starts and new home sales are significantly below their peak levels.

An important factor in the housing contraction has been the effect of adverse developments in the subprime mortgage market. Since early 2007, the delinquency rate of subprime mortgages, especially those with adjustable interest rates (subprime ARMs), has been rising. In addition, the overall foreclosure rate in the U.S. has significantly increased.¹⁴

Subprime mortgage losses have also created ripples through other financial markets as investors have generally reassessed all credit risks, not just in the housing market. Investors' uncertainty about the underlying value of many classes of financial assets has greatly reduced demand for structured credit products (e.g., mortgage backed bonds, asset-backed commercial paper, collateralized debt

⁹ FT 920 U.S. Merchandise Trade: Selected Highlights December 2007, U.S. Dept. of Commerce, Bureau of the Census, www.census.gov/foreign-trade/Press-Release/2007pr/12/ft920, accessed April 9, 2008.

¹⁰ Detailed trade data (commodity, value, air value, vessel value) are tracked by Customs District and are published by the Foreign Trade Division of the U.S. Department of Commerce. These data can be used to make regional comparisons of total imports and exports, or imports and exports of particular commodities. The U.S. is classified into 55 Customs Districts, three of which are in California.

¹¹ Woods & Poole Economics, Inc., *2007 Complete Economic and Demographic Data*.

¹² Woods & Poole Economics, Inc., *2007 Complete Economic and Demographic Data*.

¹³ *2006 Yearbook of Immigration Statistics*, U.S. Department of Homeland Security.

¹⁴ Foreclosure activity in the U.S. increased 57.35 percent between March 2007 and March 2008; "Foreclosure Activity Increases 5 Percent in March," Press Room, www.realtytrac.com, April 15, 2008.

obligations, etc.). The resulting credit contraction has intensified investors' loss of confidence which has led to asset write-downs, stock market volatility, falling share prices, and declines in other market indicators.

In response to this threat to the broader economy, the U.S. Federal Reserve System (the Fed) has eased monetary policy by reducing the federal funds rate (the overnight interest rate for inter-bank loans) and the discount rate (the rate at which banks borrow from the Fed) several times between September 2007 and March 2008 to offset tightening credit conditions caused by the weakness in the housing market. Despite lower rates, not all banks have been successful in sustaining capital in the face of financial stress.¹⁵ Other measures taken by the Fed to provide market liquidity have included making direct loans to investment banks and allowing banks to use mortgage securities as collateral to buy Treasury debt.

Congress has also taken steps to mitigate the risk of decelerating growth. The economic stimulus package, which includes tax rebate checks to provide tax relief to households, as well as incentives for business investment, is expected to boost demand in the latter part of 2008, based on the impact of the 2001 stimulus package that was enacted after 9/11.¹⁶

The Fed has announced that it recognizes that there are risks to the outlook for economic growth, and that additional interest rate cuts may be necessary. Federal Reserve officials have stated that they remain alert and flexible and that they are ready to take substantive additional action to support growth and to counter any adverse dynamics that might threaten economic or financial stability.

As with other regions in the U.S., the consequences of the housing downturn and financial market turmoil to the Los Angeles CSA economy are still to be determined. The Riverside and San Bernardino County housing markets have been especially affected by mortgage defaults, and recovery will be delayed until their inventory of unsold homes begins to be absorbed. Nationwide, the number of housing starts and new home sales are projected to fall by 25 percent in 2008; however, according to the National Association of Realtors (NAR), sales of existing homes in the U.S. are expected to stabilize before turning upward in the second half of 2008.¹⁷

1.2.2.2 Regional Economic Forecast

Employment and personal income¹⁸ are important economic drivers and are relevant to understanding the Los Angeles CSA's future economic performance because of their significance to household spending for goods and services, including air travel. The LAEDC's economic forecast, published in February 2008, provides employment projections for the Los Angeles CSA that show that in 2008 and 2009 the region will add a total of 147,500 new jobs, or an average of 73,750 new jobs per year.

¹⁵ The Bear Stearns Companies Inc., the fifth largest investment bank in the U.S., was sold to J.P. Morgan Chase in March 2008 with support from the Federal Reserve. "Fed's Bear Stearns Rescue Is Rarity for Wall Street," March 15, 2008, *Wall Street Journal*.

¹⁶ "When does fiscal stimulus work?," p. 70-75, *World Economic Outlook*, Research Department, World Economic Studies Division, International Monetary Fund, April 2008.

¹⁷ "Existing-home sales to stabilize before upturn in second half of 2008," April 8, 2008, Press Release, National Association of Realtors, www.realtor.org, accessed April 18, 2008.

¹⁸ Personal income includes total earnings from wage and salary disbursements, other labor income, proprietors' income, rental income, investment interest, dividends, and transfer payments less contributions for social insurance; <http://search.fedstats.gov>, accessed April 18, 2008.

The LAEDC jobs forecast reflects somewhat slower growth compared with new job growth during the five-year period between 2002 and 2007, when the Los Angeles CSA added an average of 75,450 new jobs annually. The LAEDC estimates that the majority of the job growth in 2008 and 2009 will occur in the health care industry, leisure and hospitality, professional/scientific/technical services, and government segments. Net job losses in 2008 and 2009 are projected in the construction, finance and insurance, manufacturing, and real estate industries.¹⁹

The LAEDC does not publish a regionwide unemployment forecast; however its 2008 unemployment rate estimates range from 5.0 percent in Orange County to 6.2 percent in Riverside and San Bernardino Counties. In comparison, the LAEDC estimates that the 2008 unemployment rate will be 5.9 percent in California and 5.3 percent in the U.S. The LAEDC estimates that in 2009 unemployment in the Los Angeles CSA will fall slightly, with unemployment estimates ranging from 4.8 percent in Orange County to 5.8 in Riverside and San Bernardino Counties. For California and the U.S. the LAEDC estimates the unemployment rate will be 5.6 percent and 5.9 percent respectively in 2009.²⁰

The LAEDC also projects that total personal income in the Los Angeles CSA will increase from \$682.1 billion in 2007 to \$754.8 billion in 2009, reflecting a compounded annual growth rate of 5.19 percent. This is a lower rate of growth than the region experienced during the five-year period between 2002 and 2007, when personal income had a compounded annual growth rate of 5.43 percent per year.²¹

Projections from the LAEDC indicate weakening growth rates for both employment and personal income in 2008 and 2009. However, the LAEDC forecast also estimates that the decline in housing, finance and related industries will be offset by moderate growth in other segments such as health services, and professional, scientific and technical services. The LAEDC also projects that by 2009, most of the housing decline will have subsided and that a slow recovery for much of the region will be underway by 2010.

1.2.3 Air Trade Area

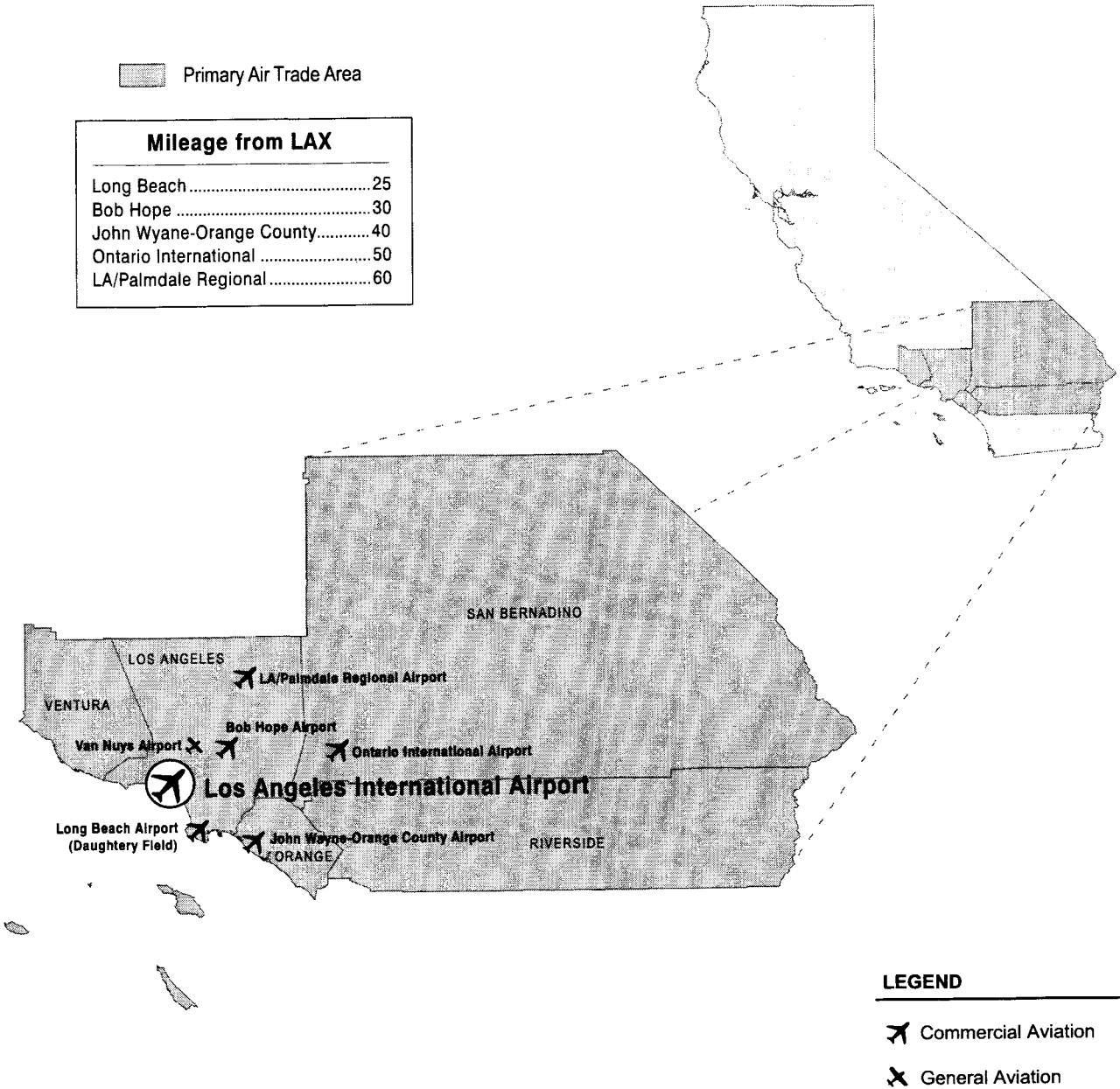
For the purposes of this Chapter, the “Los Angeles region” or “the Air Trade Area” refers to the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA), except where noted otherwise. As presented in **Exhibit I-1**, the Los Angeles CSA is comprised of five counties: Los Angeles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

The Los Angeles region is served by five major passenger service airports: LAX; Bob Hope Airport in Burbank (BUR); Long Beach Airport (LGB); LA/Ontario International Airport (ONT); and John Wayne Airport (SNA) in Orange County. Each of the five airports caters to particular types of passenger demand, owing to each facility’s geographic proximity to businesses and population concentrations in the region, as well as to the availability of specific types of air services. The BUR,

¹⁹ 2008-2009 Economic Forecast and Industry Outlook, Los Angeles County Economic Development Corporation, February 2008.

²⁰ 2008-2009 Economic Forecast and Industry Outlook, Los Angeles County Economic Development Corporation, February 2008.

²¹ 2008-2009 Economic Forecast and Industry Outlook, Los Angeles County Economic Development Corporation, February 2008.



Source: Map Resources 2007
 Prepared by: Ricondo & Associates, Inc.

Exhibit I-1

Airport Air Trade Area and Alternative Facilities

LGB, ONT, and SNA airports draw passengers primarily from their surrounding areas for short- and medium-haul domestic service. In addition to the five airports described above, the region is served by LA/Palmdale Regional Airport (PMD), located approximately 60 miles north of LAX in northeast Los Angeles County.²²

Because of its significantly greater capacity, LAX captures demand from the entire Los Angeles region for international service and for most long-haul domestic trips. Exhibit I-1 graphically illustrates the location of the Los Angeles CSA within the State of California, as well the location of the five commercial service airports within the Los Angeles CSA. As shown, these five airports are within 25 to 60 miles of LAX; however, these facilities collectively provide a regional network of commercial air service due to the densely populated and high-income characteristics of the Los Angeles CSA, as discussed below. The Los Angeles CSA is also served by Van Nuys Airport (VNY), a general aviation airport located in the San Fernando Valley, approximately 26 miles from LAX.

As measured by population, the Los Angeles CSA, with just over 17.9 million people in 2007, is the second-largest of the 126 Combined Statistical Areas in the United States. Only the New York-New Jersey-Bridgeport CSA, with approximately 22.1 million people, represents a larger market for air transportation. Further, the Los Angeles CSA has approximately eight million more people than the third-largest consolidated market in the United States (the Chicago-Naperville-Michigan City CSA).

Table I-1

Population for Major Consolidated US Markets (2007)

Rank	Combined Statistical Area	Population
1	New York-Newark-Bridgeport	22,147,149
2	LOS ANGELES-LONG BEACH-RIVERSIDE	17,986,890
3	Chicago-Naperville-Michigan City	9,825,874
4	Washington-Baltimore-Northern Virginia	8,357,360
5	Boston-Worcester-Manchester	7,528,376

Source: Woods & Poole Economics, Inc.
Prepared by: Strategic Economics

The Los Angeles CSA is also among the most affluent regions in the United States. As measured by the number of households with annual income of \$75,000 or more, the Los Angeles CSA is the second wealthiest market in the United States exceeded only by the New York-New Jersey-Bridgeport CSA, as presented in the following table:

²² PMD serves the fast-growing Antelope Valley region; in June 2007 United Airlines began regional jet service from PMD to San Francisco International Airport and now operates four scheduled flights per day.

Table I-2
Households with Income of \$75,000 or More (2007)

Rank	Combined Statistical Area	Households with Income of \$75,000 or More
1	New York-Newark-Bridgeport	2,892,499
2	LOS ANGELES-LONG BEACH-RIVERSIDE	1,794,931
3	San Jose-San Francisco-Oakland	1,263,490
4	Washington-Baltimore-Northern Virginia	1,177,044
5	Chicago-Naperville-Michigan City	1,087,413

Source: Woods & Poole Economics, Inc.

Prepared by: Strategic Economics

1.3 Demographic Profile

Data for population growth, age distribution, race, ethnicity, immigration, and educational attainment for the Los Angeles CSA are discussed below and presented in Tables I-3 and I-4 which follow. Parallel data for California and the U.S. are also shown to provide a basis of comparison for trends in the Los Angeles region.

1.3.1 Population Growth

Population growth is a key factor creating demand for air travel. According to the 2000 U.S. Census, the Los Angeles CSA had a population of over 16 million; by 2007, it had increased to over 17.9 million (See **Table I-3**). Although the Los Angeles CSA added 1,545,312 to its population between 2000 and 2007 (or, over 220,000 per year), its annual growth rate lagged behind California and the U.S. In 2007 the Los Angeles CSA accounted for 48.7 percent of California's population, and 5.9 percent of the U.S. population.

The Los Angeles CSA forecast for the period 2007 to 2015 reflects growth of 0.92 percent per year, on average, nearly equaling the forecasted growth rate for California (1.04 percent annually) and the U.S. (0.97 percent per year). It is expected that an increase in new residents (1,369,506 between 2007 and 2015 and 910,936 between 2015 and 2020) will generate additional demand for air service at the Airport.

1.3.2 Age Distribution

Table I-4 shows that the median age in the Los Angeles CSA equals California's (34.7 years) and is lower than in the U.S. (36.6 years). This reflects a higher percentage of residents aged 19 years and below and a lower percentage of residents aged 55 years and above.

Business and leisure air travel frequency varies by age group. According to the Travel Industry Association's 2006 *Domestic Travel Market Report* (latest data available), in the U.S., those between the ages of 35 and 54 account for 46 percent of air trips, compared with persons between 18 and 34 years (26 percent of total air trips) and persons 55 years and over (27 percent).

Table I-3
Population Trends (2000-2020)

	Historical		Projected	
	2000	2007	2015	2020
Los Angeles CSA	16,441,578	17,986,890	19,356,396	20,267,332
California	34,008,499	36,938,055	40,122,981	42,222,389
United States	282,216,952	303,096,742	327,310,599	343,360,101
Compounded Annual Growth Rate		2000-2007	2007-2015	2015-2020
Los Angeles CSA		1.29%	0.92%	0.92%
California		1.67%	1.04%	1.03%
United States		1.44%	0.97%	0.96%

Source: Woods & Poole Economics, Inc.
Prepared by: Strategic Economics

Table I-4
Age Distribution (2007)

	Los Angeles CSA	California	United States
Total Population	17,986,890	36,938,055	303,096,742
By Age Group:			
19 and Under	30.3%	29.2%	27.2%
20 – 24	7.1%	7.2%	7.0%
25 – 34	14.1%	14.0%	13.5%
35 – 44	15.2%	14.9%	14.3%
45 – 54	13.8%	14.0%	14.6%
55 – 64	9.4%	9.9%	10.8%
65 and Above	10.3%	10.9%	12.5%
Total	100.0%	100.0%	100.0%
Median Age	34.7	34.7	36.6

Source: Woods & Poole Economics, Inc.

Prepared by: Strategic Economics

In 2007, Los Angeles CSA residents aged 35 to 54 made up 29.0 percent of the population, compared with 28.9 percent for both California and the U.S. This is the age group in the Los Angeles CSA that tends to travel the most, particularly for business, on a level commensurate with the general population in California and the U.S.

1.3.3 Race, Ethnicity and Immigration

The Los Angeles CSA's diverse population strengthens the competitiveness of the region and also contributes to demand for air travel. In a global economy, cultural diversity within a region's labor force is a distinct economic advantage, since employees with cultural and linguistic ties to international markets give companies an edge in establishing trade and investment opportunities.²³ A culturally diverse population also engenders business, family, and cultural ties that create demand for air travel services to and from homeland countries. In addition, survey data from the Travel Industry Association and Claritas Inc. indicate that several ethnically and racially diverse social groups show stronger proportional demand for air travel compared to their share of total U.S. households.²⁴

As shown in **Table I-5**, the racial and ethnic composition of the Los Angeles CSA differs from that of California and the nation as a whole. Data in Table I-5 show that the percentage of white residents in the Los Angeles region (52.6 percent) is somewhat lower than that of California (56.5 percent), and significantly lower than the U.S. overall (73.1 percent). Asians constituted a much larger share (11.4 percent) of the Los Angeles region's population compared with the U.S. (4.3 percent), but constituted a slightly smaller percentage when compared with California (12.1 percent). Black or African Americans represented 7.2 percent of Los Angeles CSA residents, compared with 6.3 percent of California's population and 12.4 percent of the U.S. population.

The percentage of Hispanics in the Los Angeles CSA is dramatically higher than in California or the U.S. overall. Data in Table I-5 show that 43.7 percent of Los Angeles CSA residents are Hispanic, compared with 35.8 percent statewide and 14.9 percent nationally.

During the past 10 years, immigration to the Los Angeles region made up a large portion of all immigration to the U.S. Data in **Table I-6** show that between 1997 and 2006 (most recent data available), 1,164,770 persons in the Los Angeles region were made legal permanent residents (i.e., Green Card recipients). This represents 12.8 percent of all Green Card recipients in the U.S. and places Los Angeles behind only the New York region.

Data in **Table I-7** show that between 1997 and 2006, the Los Angeles region was ranked first in the U.S. in the number of persons who became naturalized U.S. citizens. This represents 17.5 percent of the total number of persons achieving citizenship status in the U.S. during that period.

Los Angeles has been a destination for newcomers since 1820, when waves of Anglo-Americans began to journey west. As early as 1870, a core community of Chinese immigrants was firmly established, joining Native Americans, Mexicans, Europeans, and American settlers. Today, the Los Angeles CSA is home to the largest Hispanic population (comprised mainly of people from Mexico, Guatemala and El Salvador) of any major American city. It is also home to more Koreans than any

²³ "I-School Dean AnnaLee Saxenian assists with immigrant entrepreneurs study," January 1, 2007, http://berkeley.edu/news/_media/releases/2007/01/04_immig.shtml, accessed May 14, 2008.

²⁴ Based on 2007 demographic and consumer behavior segmentation data published by Claritas PRIZM®, www.claritas.com.

Table I-5
Population by Race and Ethnicity (2007)

	Los Angeles CSA	California	United States
Total Population	17,986,890	36,938,055	303,096,742
Race			
White	52.6%	56.5%	73.1%
Black or African American	7.2%	6.3%	12.4%
American Indian and Alaska Native	0.9%	1.0%	0.9%
Asian	11.4%	12.1%	4.3%
Native Hawaiian and Other Pacific	0.3%	0.4%	0.2%
Other Race	22.7%	18.6%	6.4%
More than One Race	4.9%	5.2%	2.8%
Total	100.0%	100.0%	100.0%
Persons of Hispanic Origin^{1/}	43.7%	35.8%	14.9%

Note:

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

Source: Woods & Poole Economics, Inc.

Prepared by: Strategic Economics

Table I-6
Immigration Trends - Green Card Recipients^{1/}

	Region	Total Green Card Recipients 1997 - 2006	% of Total U.S. Recipients 1997 - 2006
1	New York	1,491,587	16.4%
2	Los Angeles	1,164,770	12.8%
3	Miami	618,885	6.8%
4	San Francisco	518,095	5.7%
5	Chicago	400,511	4.4%
6	Washington D.C.	342,851	3.8%
7	Houston	242,099	2.7%
8	Dallas	206,668	2.3%
9	Boston	198,234	2.2%
10	Atlanta	139,058	1.5%
11	Other	3,782,404	41.5%
	Total U.S.	9,105,162	100.0%

Note:

^{1/} Legal permanent residents (LPRs) are persons who have been granted lawful permanent residence in the U.S. They are also known as "green card" recipients.

Source: *2006 Yearbook of Immigration Statistics*, Department of Homeland Security

Prepared by: Strategic Economics

Table I-7
Immigration Trends - Persons Naturalized^{1/}

Region	Total Persons Naturalized 1997 - 2006	% of Total Persons Naturalized in the U.S. 1997 - 2006
1 Los Angeles	1,096,880	17.5%
2 New York	1,092,405	17.4%
3 San Francisco	410,754	6.6%
4 Miami	351,370	5.6%
5 Chicago	289,933	4.6%
6 Washington D.C.	170,925	2.7%
7 Houston	159,458	2.5%
8 Boston	134,310	2.1%
9 San Diego	120,338	1.9%
10 Dallas	116,012	1.9%
11 Other	2,323,598	37.1%
Total U.S.	6,265,983	100.0%

Note:

^{1/} Persons naturalized refers to persons aged 18 and over who become U.S. citizens.

Source: *2006 Yearbook of Immigration Statistics*, Department of Homeland Security

Prepared by: Strategic Economics

city outside of North and South Korea, and more Filipinos than anywhere outside of the Philippines. Significant communities of Chinese, Taiwanese, Iranian, Vietnamese and Russians also are located in the Los Angeles region.²⁵

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

1.3.4 Education

1.3.4.1 Educational Attainment

In absolute terms, the Los Angeles CSA is home to a large number of educated adults. According to data shown in **Table I-8**, over 30.9 percent of the 11,305,808 people in the Los Angeles CSA who are over the age of 25 have a post-secondary degree (associate's, bachelor's, master's, or doctorate). Although this figure is nearly identical to that of the U.S. overall (31.0 percent), it lags California, where 33.3 percent of the population over the age of 25 have post-secondary degrees.

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

In the Los Angeles region, 3.4 million residents over the age of 25 hold a bachelor's degree, a master's degree, and/or a doctorate degree. According to the Travel Industry Association's 2006 *Domestic Travel Market Report*, persons with a college degree are more likely to use air service. The survey data indicate that 56 percent of air travelers are college graduates, while 24 percent have had some college and just 20 percent never attended college.

1.3.4.2 Major Higher Educational Institutions

Numerous public and private institutions of higher education are located in the Los Angeles CSA, including the University of California at Los Angeles (UCLA), California Institute of Technology, Claremont Colleges (Claremont McKenna, Pomona, Harvey Mudd, Scripps, Pitzer), University of Southern California (USC), University of California at Irvine (UCI), University of California at Riverside, Loyola Marymount University, Occidental College, eight California State Universities, and many public and private two-year colleges. These institutions include world-renowned facilities such as the medical centers and hospitals at UCLA and USC, outstanding engineering research centers such as Caltech and Cal Poly Pomona, film schools at USC and UCLA, and academically rigorous liberal arts programs at the five Claremont Colleges. In total, 689,755 students are enrolled in public and private post-secondary academic institutions in the Los Angeles region. In addition, the region's scholastic institutions support demand for air travel through academic meetings and conferences, visiting professorships, study-abroad programs and individual student and faculty travel (See **Table I-9**).

²⁵ "Koreatown in the suburbs," *Los Angeles Times*, February 23, 2008; Philippine Consulate General, Los Angeles, www.pcgenla.org/aboutuscon.htm, accessed April 10, 2008; 2000 U.S. Census.

Table I-8

Educational Attainment (2007)

	Los Angeles CSA 11,305,808	California 23,531,371	United States 197,405,313
Population 25 years and over			
No High School Diploma	27.2%	23.4%	19.4%
High School Graduate (incl. equivalency)	19.9%	20.2%	28.4%
Some College, No Degree	22.1%	23.0%	21.2%
Post-Secondary Degree	30.9%	33.3%	31.0%
<i>Associate's Degree</i>	6.8%	7.2%	6.4%
<i>Bachelor's Degree</i>	15.7%	16.9%	15.7%
<i>Master's Degree or Doctorate</i>	8.4%	9.3%	8.9%
Total	100.00%	100.00%	100.00%

Note: Percentages may not sum to totals due to rounding.

Source: Claritas, Inc.

Prepared by: Strategic Economics

Table I-9

Los Angeles CSA College and University Enrollment (2007)

Institution	Location	Enrollment^{1/}
University of California at Los Angeles	Los Angeles	38,218
California State University Fullerton	Fullerton	35,921
California State University Long Beach	Long Beach	35,576
Mt. San Antonio College	Walnut	35,249
California State University Northridge	Northridge	34,560
University of Southern California	Los Angeles	33,000
Santa Monica College	Santa Monica	29,960
Pasadena City College	Pasadena	28,566
Long Beach City College	Long Beach	25,943
University of California at Irvine	Irvine	24,745
El Camino College	Torrance	23,928
Cerritos College	Norwalk	23,805
East Los Angeles College	Monterey Park	21,664
Rio Honda College	Whittier	20,903
Glendale Community College	Glendale	20,734
California State University Los Angeles	Los Angeles	20,565
California State University Polytechnic - Pomona	Pomona	20,510
Los Angeles Pierce College	Woodland Hills	19,518
Los Angeles Valley College	Valley Glen	17,538
University of California at Riverside	Riverside	16,826
College of the Canyons	Santa Clarita	16,504
California State University San Bernardino	San Bernardino	16,479
Los Angeles City College	Los Angeles	16,127
Citrus College	Glendora	13,098
Antelope Valley College	Lancaster	12,834
Los Angeles Trade-Technical College	Los Angeles	12,519
California State University Dominguez Hills	Carson	12,068
Loyola Marymount University	Los Angeles	8,972
University of La Verne	La Verne	8,328
Azusa Pacific University	Azusa	8,128
Pepperdine University	Malibu	7,593
Los Angeles Mission College	Sylmar	7,540
Claremont Colleges	Claremont	7,323
Biola University	La Mirada	5,752
California Lutheran University	Thousand Oaks	3,298
California Institute of Technology	Pasadena	2,086
Occidental College	Los Angeles	1,825
Woodbury University	Burbank	1,552
Total		689,755

Note:

^{1/} All enrollment figures are for full- and part-time students.

Sources: *The Lists 2008*, Los Angeles Business Journal; college and university websites

Prepared by: Strategic Economics

1.4 Income

1.4.1 Per Capita Income and Household Income

Because 30.3 percent of the Los Angeles CSA's 17.9 million residents are 19 years of age or younger (compared with 29.2 percent in California and 27.2 percent in the U.S. — see age distribution data in Table I-4), and because the majority of this group are presumably still in school and not full-time workers, the 2007 per capita income figures for the Los Angeles CSA are skewed with a downward bias and slightly lag those of California, although they closely match those of the U.S. (See **Table I-10**). However, the Los Angeles CSA's mean household income levels are significantly higher than those of both California and the U.S. In 2007, the Los Angeles CSA's mean household income of \$117,872 exceeded California's by 6.6 percent, and that of the U.S. by 23.9 percent. Income forecasts for 2012 show that this trend is expected to continue as the Los Angeles CSA will reach a mean household income level of \$144,699, compared to \$134,693 in California and \$114,992 in the U.S.

For the purpose of assessing the Los Angeles CSA as an air travel market, it is useful to examine the distribution of high income households rather than per capita income data. **Table I-11** shows that in 2007, nearly 1.8 million Los Angeles CSA households had an income of \$75,000 or more. According to the Travel Industry Association's 2006 *Domestic Travel Market Report*, 62 percent of airplane trips are taken by travelers with an annual household income of \$75,000 or more. From 2007 to 2012, it is projected that the number of households with income greater than \$75,000 in the Los Angeles CSA will increase by 255,231.

1.5 Employment

1.5.1 1997-2007 Labor Force Trends and Unemployment Rates

Table I-12 shows that between 1997 and 2007, the Los Angeles CSA labor force grew at an average annual rate of approximately 1.6 percent — higher than the labor force growth rate both in California (1.4 percent), and the U.S. (1.2 percent). In absolute terms, the labor force in the Los Angeles CSA increased by 1,261,000 workers between 1997 and 2007.

While the non-seasonally adjusted annual unemployment rate in the Los Angeles CSA exceeded that of the U.S. from 1997 through 2004, it was lower than the national unemployment rate in 2005 and 2006, and was higher again in 2007. When the same comparison is made to California, the Los Angeles CSA unemployment rate was lower than the State's in all years from 1997 through 2007 with the exception of 2000 when they were equal.

In May 2008 (latest data available), the non-seasonally adjusted unemployment rate for the Los Angeles CSA was 6.3 percent. This compares favorably to California overall where the non-seasonally adjusted unemployment rate was 6.8 percent. The non-seasonally adjusted unemployment rate for the U.S. was 5.5 percent in March 2008.

1.5.2 Employment projections

Employment projections shown in **Table I-13** indicate that between 2007 and 2020 the Los Angeles CSA will add nearly 1.9 million jobs. Table I-13 shows that nearly 1.2 million new jobs will be added to the Los Angeles CSA economy between 2007 and 2015, at a compounded annual growth rate of 2.2 percent. From 2015 to 2020, the Los Angeles CSA will add 726,357 new jobs, reflecting a compounded annual growth rate of 1.3 percent.

Table I-10
Income Trends (2007-2012)

	Los Angeles CSA	California	United States
<u>Per Capita Income</u>			
2007 estimate	\$37,437	\$38,844	\$37,164
2012 forecast	\$45,787	\$47,721	\$45,635
CAGR 2007-2012	4.1%	4.2%	4.2%
<u>Mean Household Income</u>			
2007 estimate	\$117,544	\$110,265	\$94,884
2012 forecast	\$144,699	\$134,693	\$114,992
CAGR 2007-2012	4.2%	4.1%	3.9%

Note: CAGR = Compounded annual growth rate.

Source: Woods & Poole Economics, Inc.

Prepared by: Strategic Economics

Table I-11

Households with Income of \$75,000 and Above (2007-2012)

Location	2007 (Estimate)	2012 (Forecast)	2007-2012 Growth
Los Angeles CSA	1,794,931	2,050,162	255,231
California	3,874,064	4,452,908	578,844
United States	28,725,734	33,243,407	4,517,673

Source: Woods & Poole Economics, Inc.

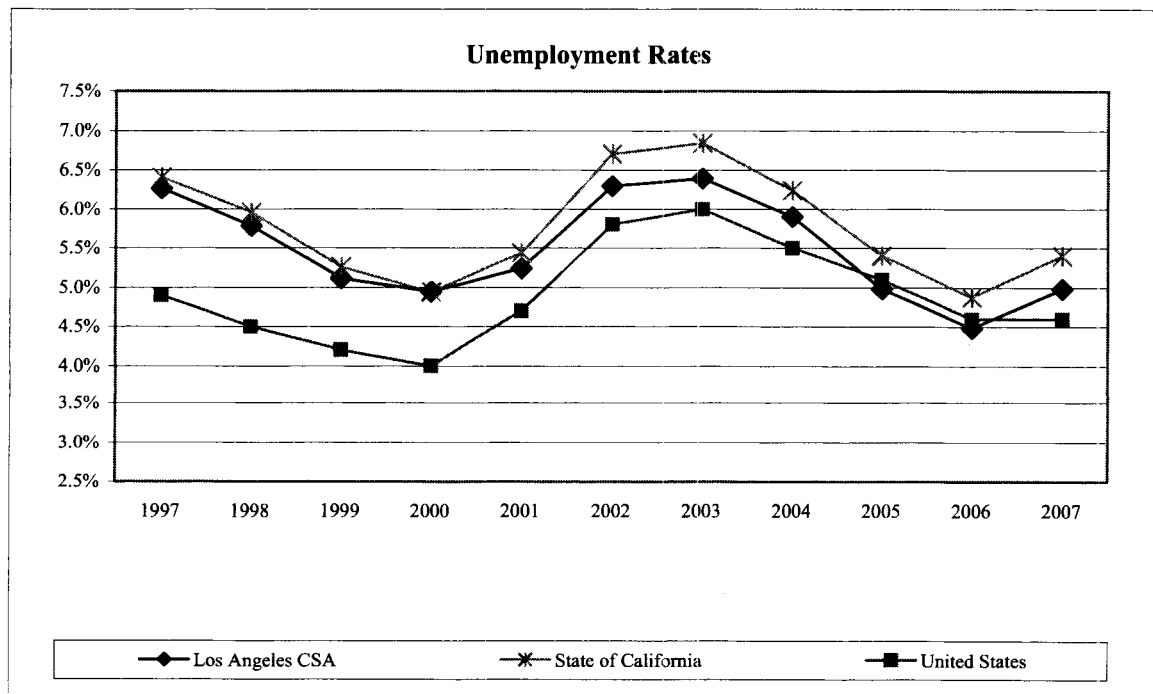
Prepared by: Strategic Economics

Table I-12
Civilian Labor Force and Unemployment Rates (1997-2007)

Year	Civilian Labor Force			Year	Unemployment Rates ^{1/}		
	Los Angeles CSA	California	United States		Los Angeles CSA	California	United States
1997	7,517,500	15,792,500	136,297,000	1997	6.3%	6.4%	4.9%
1998	7,739,300	16,166,900	137,673,000	1998	5.8%	6.0%	4.5%
1999	7,875,900	16,430,600	139,368,000	1999	5.1%	5.3%	4.2%
2000	7,969,500	16,857,500	140,863,000	2000	4.9%	4.9%	4.0%
2001	8,139,800	17,152,100	141,815,000	2001	5.2%	5.4%	4.7%
2002	8,252,700	17,343,600	144,448,000	2002	6.3%	6.7%	5.8%
2003	8,336,900	17,418,700	146,233,000	2003	6.4%	6.8%	6.0%
2004	8,451,500	17,538,800	148,164,000	2004	5.9%	6.2%	5.5%
2005	8,588,000	17,740,400	148,843,000	2005	5.0%	5.4%	5.1%
2006	8,680,100	17,901,900	152,196,000	2006	4.5%	4.9%	4.6%
2007	8,778,700	18,188,100	153,124,000	2007	5.0%	5.4%	4.6%

Compounded
Annual Growth
Rate

1997 - 2007	1.6%	1.4%	1.2%
-------------	------	------	------



Note:

^{1/} Non-seasonally adjusted.

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

Prepared by: Strategic Economics.

Table I-13
Employment Projections (2000-2020)

Location	Historical		Projections	
	2000	2007	2015	2020
Los Angeles CSA	9,152,692	10,090,259	11,254,363	11,980,720
California	19,626,032	21,284,155	24,226,184	26,064,348
United States	166,758,782	179,885,516	203,211,415	217,790,437
Compounded Annual Growth Rate		2000-2007	2007-2015	2015-2020
Los Angeles CSA		2.0%	2.2%	1.3%
California		1.6%	2.6%	1.5%
United States		1.5%	2.5%	1.4%

Source: Woods & Poole Economics, Inc.
Prepared by: Strategic Economics

1.5.3 Major employers in the Los Angeles CSA

The top 30 private sector employers in the Los Angeles CSA have a total of 307,055 workers as shown in **Table I-14**. These companies range from internationally dominant aerospace companies (Boeing, Lockheed, and Northrop Grumman), to Disney, a world-wide entertainment company, to a regional grocery chain, health care providers, energy companies, and national discount retailers.

In addition to providing a major source of local employment, these top 30 companies depend on air passenger and freight service for the continued health and expansion of their business enterprises. LAX's central location and its role as an international passenger and air cargo hub make it an important resource for large employers in the Los Angeles region.

The Los Angeles CSA is also headquarters for 20 companies on the list of Fortune 500 firms (See **Table I-15**). These companies operate throughout the U.S., Asia, Europe, and other international locations and their activities extend to a network of more than 947 overseas offices, manufacturing plants, and other facilities.²⁶ The reliance of these companies and their international suppliers, customers, and partners on face-to-face meetings and conferences, combined with their just-in-time inventory practices, suggests that the Los Angeles region will continue to be a significant source of demand for both business air travel and air freight shipments over the long term.

Los Angeles CSA companies have 3,131 branches, subsidiaries, or affiliates in 88 countries. In addition, 861 foreign firms with headquarters in 38 countries have 1,293 branches, subsidiaries, or affiliates in the Los Angeles region.²⁷

1.5.4 Historical employment trends by industry

An analysis of non-agricultural employment trends by major industry divisions, presented in **Table I-16**, indicates the sources of jobs in the local economy. In this table, employment trends in the Los Angeles CSA are compared to data for California and the U.S. in 1997 and 2007. Non-agricultural employment in the Los Angeles CSA increased from approximately 8.3 million workers in 1997 to more than 9.9 million workers in 2007. This increase represents a 1.8 percent compounded annual growth rate during this period. Measured by percentages, major industry divisions in the Los Angeles CSA in 2007 were largely consistent with those of California and the U.S. Notable differences were the Los Angeles region's lower percentage of construction and government employment, and its higher level of services and finance/insurance/real estate employment when compared to California and the U.S. However, even with these differences, data in **Table I-16** indicate that the Los Angeles CSA has a diversified employment base that is expected to provide the region with a buffer during periodic downturns in the business cycle.

Employment in the Los Angeles region's major industry groups, with the exception of manufacturing, increased between 1997 and 2007, with the highest growth rates occurring in the finance/insurance/real estate and construction sectors. The Los Angeles CSA's industrial mix shifted between 1997 and 2007, as manufacturing employment decreased from 12.6 percent of total non-agricultural employment in 1997 to 9.0 percent in 2007. In contrast, finance/insurance/real estate

²⁶ *Directory of American Firms Operating in Foreign Countries*, 19th edition, Uniworld Business Publications, Inc., 2007.

²⁷ *Directory of American Firms Operating in Foreign Countries*, 19th edition, Uniworld Business Publications, Inc., 2007; *Directory of Foreign Firms Operating in the United States*, 14th edition, Uniworld Business Publications, Inc., 2007.

Table I-14
Top 30 Private Sector Employers in the Los Angeles CSA (2008)

Rank	Company Name	Industry	Location	Local Employees
1	Kaiser Permanente	Health Care	Anaheim, Panorama City, Pasadena	42,179
2	Boeing	Aerospace	El Segundo, Huntington Beach	26,471
3	Northrop Grumman	Defense Systems	Los Angeles	20,500
4	Walt Disney Co.	Entertainment	Burbank	20,000
5	Kroger	Grocery Retailer	Compton, Santa Ana	18,500
6	Target	Retailer	Los Angeles, Santa Ana	17,296
7	Bank of America	Financial Services	Brea, Los Angeles	16,000
8	AT&T Inc.	Telecommunications	Cerritos, Los Angeles	15,770
9	Vons	Grocery Retailer	Arcadia	13,603
10	Countrywide Financial Corp. ^{1/}	Financial Services	Calabasas	12,500
11	The Home Depot	Retailer	Orange	10,000
12	Wells Fargo	Financial Services	Los Angeles	8,956
13	Amgen	Biotechnology	Thousand Oaks	8,259
14	Fedex Corp.	Delivery Services	Los Angeles	7,975
15	ABM Industries	Facility Services	Commerce	7,530
16	NBC Universal	Media	Burbank	7,450
17	Yum Brands	Restaurants	Irvine	7,200
18	Edison International	Utility	Rosemead	7,158
19	Washington Mutual	Financial Services	Chatsworth	5,100
20	Sempra Energy	Energy Services	Los Angeles	4,678
21	Lockheed Martin	Defense Systems	Palmdale	4,500
22	Cedar Fair LP	Amusement Parks	Anaheim	3,950
23	Verizon Communications Inc.	Telecommunications		3,047
24	Stater Bros. Holdings Inc.	Grocery Retailer	San Bernardino	3,100
25	The Irvine Company	Real Estate Development	Newport Beach	3,100
26	Integrated Healthcare Holdings	Health Care	Santa Ana	3,057
27	First American Corp.	Title Insurance	Santa Ana	2,660
28	St. John Knits International Inc.	Apparel	Irvine	2,438
29	Beckman Coulter	Medical Diagnostic Equipment	Fullerton	2,077
30	Pacific Life Insurance	Insurance	Newport Beach	2,001
Total Employees				307,055

Note:

^{1/} In January 2008, Bank of America announced an agreement to purchase Countrywide Financial; the acquisition was completed in June 2008.

Sources: *The Lists 2008*, Los Angeles Business Journal; *Book of Lists 2008*, Orange County Business Journal; *2008 Book of Lists*, San Fernando Valley Business Journal

Prepared by: Strategic Economics

Table I-15

Fortune 500 Headquarters Located in the Los Angeles CSA (2008)

Company	Headquarters	Revenue (\$ million)	Fortune 500 Rank
Walt Disney	Burbank	35,882	67
Ingram Micro	Santa Ana	35,047	69
Northrop Grumman	Los Angeles	32,032	76
Countrywide Financial Corp. ^{1/}	Calabasas	23,442	104
Occidental Petroleum	Los Angeles	20,206	123
DIRECTV Group	El Segundo	17,246	143
Amgen	Thousand Oaks	14,771	173
Health Net	Woodland Hills	14,108	179
Edison International	Rosemead	13,113	205
Jacobs Engineering Grp.	Pasadena	8,474	308
First American Corp.	Santa Ana	8,195	312
KB Home	Los Angeles	7,328	340
Reliance Steel & Alum.	Los Angeles	7,265	345
Dole Food	Westlake Village	6,945	354
Avery Dennison	Pasadena	6,308	382
CB Richard Ellis Group	Los Angeles	6,036	404
Mattel	El Segundo	5,970	413
Western Digital	Lake Forest	5,468	439
Pacific Life	Newport Beach	5,325	452
DaVita	El Segundo	5,264	454
Total Revenue		278,425	

Note:

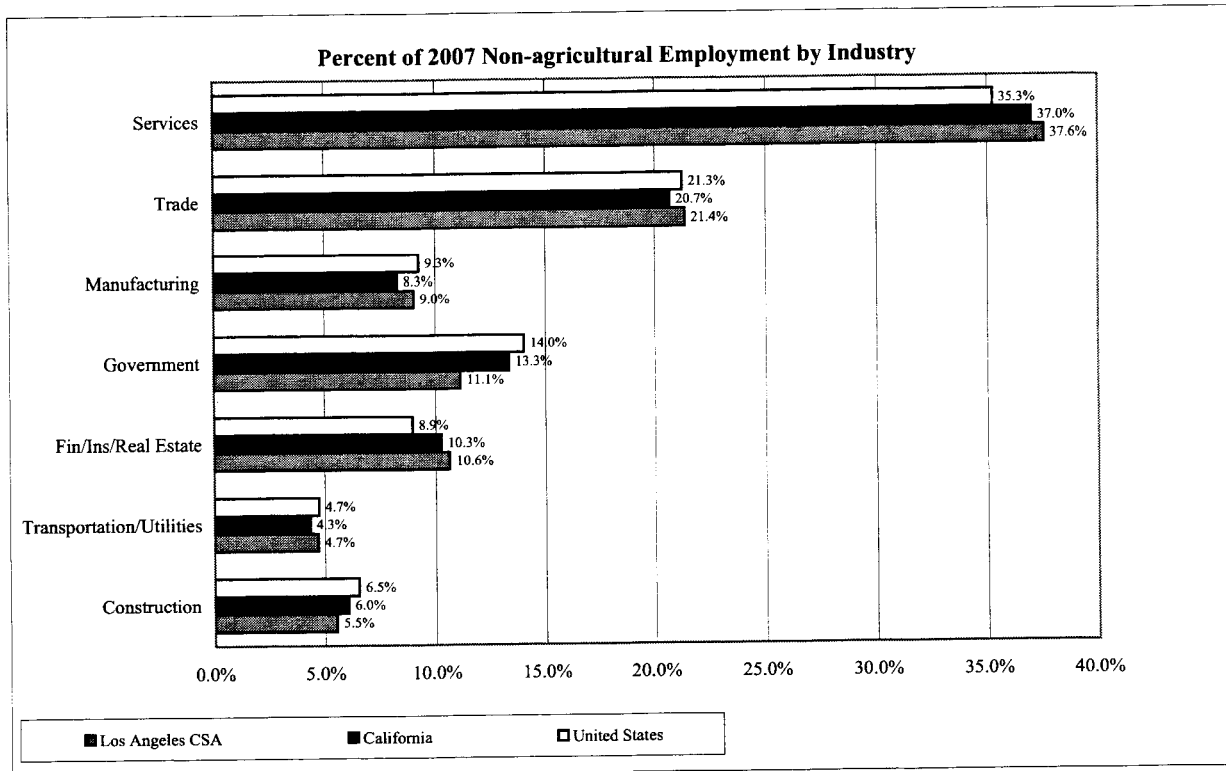
^{1/} In January 2008, Bank of America announced an agreement to purchase Countrywide Financial; the acquisition was completed in June 2008.

Source: *Fortune Magazine*, May 5, 2008

Prepared by: Strategic Economics

Table I-16
Employment Trends by Major Industry Division (1997-2007)

Industry ^{1/}	Los Angeles CSA			California			United States		
	1997	2007	CAGR	1997	2007	CAGR	1997	2007	CAGR
Services	3,000,735	3,741,160	2.2%	6,097,216	7,641,759	2.3%	47,877,885	61,639,841	2.6%
Trade	1,797,140	2,126,908	1.7%	3,701,386	4,269,941	1.4%	33,106,823	37,146,137	1.2%
Manufacturing	1,048,469	898,491	-1.5%	1,956,311	1,706,983	-1.4%	19,156,506	16,176,946	-1.7%
Government	977,507	1,108,312	1.3%	2,458,044	2,750,753	1.1%	22,231,200	24,475,707	1.0%
Fin/Ins/Real Estate	725,971	1,058,511	3.8%	1,481,193	2,117,313	3.6%	11,899,559	15,623,662	2.8%
Transportation/Utilities	393,388	468,302	1.8%	804,096	894,127	1.1%	7,543,481	8,276,524	0.9%
Construction ^{2/}	401,150	549,630	3.2%	911,200	1,245,753	3.2%	9,253,030	11,392,128	2.1%
Total	8,344,360	9,951,314	1.8%	17,409,446	20,626,629	1.7%	151,068,484	174,730,945	1.5%



Notes:

^{1/} Non-agricultural employment only; average annual employment data presented.

^{2/} Includes mining employment.

CAGR = Compounded Annual Growth Rate

Source: Woods & Poole Economics, Inc.

Prepared by: Strategic Economics

employment increased from 8.7 percent of total non-agricultural employment in 1997 to 10.6 percent in 2007. These trends are consistent with employment changes in both California and the U.S. In California, manufacturing decreased from 11.2 percent to 8.3 percent of total non-agricultural employment, and in the U.S. overall manufacturing employment fell from 12.7 percent to 9.3 percent during the same period. Between 1997 and 2007 finance/insurance/real estate employment increased from 8.5 percent to 10.3 percent of total non-agricultural employment in California, and from 7.9 percent to 8.9 percent in the U.S.

1.5.4.1 Construction

The construction industry employed more than 549,000 workers in the Los Angeles CSA in 2007, accounting for 5.5 percent of total non-agricultural employment. This percentage is lower than in California and the U.S. where construction jobs accounted for 6.0 percent and 6.5 percent respectively of non-agricultural employment in 2007.

Table I-17 presents residential building permit valuations for the Los Angeles CSA, and California. As shown, between 1997 and 2005, the 22.3 percent compounded annual growth rate in residential building permit valuations in the Los Angeles region exceeded the growth rate in California of 20.0 percent. However, between 2005 and 2007, residential building permit valuations in the Los Angeles CSA declined by 11.7 percent, compared to a 12.2 percent decline in California overall.

Major development projects that have been initiated and/or completed in the Los Angeles CSA in recent years include:

- NBC/Universal's \$3 billion **Universal City Expansion** is planned to transform the entertainment complex and movie studio into a major commercial and residential hub. NBC/Universal plans to build 2,900 residential units, 335,000 square feet of new office space, a 3000-seat entertainment venue and a 500-room hotel. The company expects the expansion to create 11,000 new jobs upon completion (expected to be completed in 25 years)²⁸, in addition to the 17,000 jobs created by the construction. The single largest investment in the San Fernando Valley, the complex is expected to generate \$4 billion a year in economic activity throughout Los Angeles County.²⁹
- **L.A. Live** is a \$1.7 billion retail, entertainment and hotel complex adjacent to the Staples and LA Convention Centers in downtown Los Angeles.³⁰ Envisioned as "Times Square West," the sports-entertainment hub is expected to be home to ESPN's West Coast headquarters, the Grammy Museum, a 1,150,000 square foot Marriott and Ritz-Carlton hotel, 224 residences, corporate office space, broadcast facilities, and a variety of restaurants, clubs and entertainment destinations. The first phase of the project was completed in October 2007 and

²⁸ Press Release, NBC Universal Unveils Long-Term Vision For Universal City: Represents Major Commitment To Los Angeles, December 6, 2006, accessed July 2, 2008.

²⁹ "Universal unveils blueprint for its \$3 billion expansion," *Los Angeles Daily News*, December 6, 2006, <http://forum.skyscraperpage.com>, accessed March 19, 2008.

³⁰ "2 Projects, 2 Visions of Downtown's Future," *Los Angeles Times*, September 15, 2005, <http://www.la.times.com/news/local>, accessed March 17, 2008.

Table I-17
Residential Building Permit Valuations (\$ Millions)

Year	Los Angeles CSA	California
1997	5,938,612	15,395,622
1998	6,624,496	18,230,356
1999	8,275,968	21,030,600
2000	8,787,912	23,343,965
2001	9,374,513	23,649,970
2002	10,744,366	26,862,588
2003	12,218,131	31,778,214
2004	14,965,829	36,059,181
2005	16,237,007	38,369,737
2006	13,662,655	29,614,392
2007	8,691,300	20,050,235
Compounded Annual Growth Rate		
1997-2005	22.3%	20.0%
2005-2007	-11.7%	-12.2%

Source: U.S. Census Bureau
Prepared by: Strategic Economics

includes the 40,000 square foot Nokia Plaza and 7,100-seat Nokia Theatre³¹ which will host the Primetime Emmy Awards. The Mayor's office predicts that L.A. Live will have a \$10 billion economic impact on the region, and create more than 25,000 construction jobs.³²

- Five **Kaiser Permanente Replacement Hospitals** are proposed or are under construction in Los Angeles County, with a combined budget in excess of \$1.1 billion. The new medical centers will replace aging facilities in Downey, Los Angeles, Panorama City, Harbor City and West Los Angeles. Known completion dates range from 2007 to 2009.³³
- Disney's **California Adventure Theme Park Update** is a \$1.1 billion project intended to boost attendance at the park.³⁴ Disney plans to add additional attractions and redesign the park to better reflect its connection with Disneyland. The overhaul is scheduled for completion in 2012.³⁵ Disney predicts this expansion will create 1,500 construction jobs and 1,000 park employee positions,³⁶ in addition to boosting tourist attendance at the park.
- The \$1 billion **Tesoro Refinery Upgrade** is designed to focus on compliance, maintenance and improvement of the facility, which was recently purchased from Shell Oil. The investments are expected to improve the environmental performance, reliability, and clean product production of the Wilmington plant, and are expected to generate \$125 to \$150 million of additional earnings for the company. The refinery currently employs 450 full-time workers and contributes \$43 million in salaries and property taxes to the Los Angeles region. The improvements are scheduled for completion by 2011.³⁷

1.5.4.2 Manufacturing

The manufacturing sector employed approximately 898,000 workers in the Los Angeles CSA in 2007. This made up 9.0 percent of non-agricultural employment in the region. This is higher than manufacturing employment in California (8.3 percent) but is slightly lower than in the U.S. overall (9.3 percent).

1.5.4.3 Trade

Approximately 2.1 million workers were employed in wholesale and retail trade in the Los Angeles CSA. In 2007, trade employment accounted for approximately 21.4 percent of non-agricultural employment in the Los Angeles CSA. In California and the U.S., trade jobs accounted for approximately 20.7 percent and approximately 21.3 percent of non-agricultural employment in 2007, respectively.

³¹ "L.A. Live Timeline," <http://www.lalive.com/timeline.php>, accessed March 17, 2008.

³² "Economic Development: Mega Projects Reshape Los Angeles," City of Los Angeles, Office of the Mayor. http://www.lacity.org/mayor/deliveringresults/results_econ.htm, accessed March 19, 2008.

³³ "Construction projects." *Los Angeles Business Journal*, December 28, 2007, http://findarticles.com/p/articles/mi_m5072/is_53_29/ai_n24219578, accessed May 27, 2008.

³⁴ "Disney to spend \$1.1 billion to overhaul California Adventure" *Los Angeles Times*, October 16, 2007, <http://travel.latimes.com/articles/la-trw-disney-plans-an-overhaul-for-california-adventure-theme-park16oct07>, accessed March 17, 2008.

³⁵ "Disney plans \$1 billion theme park overhaul," msnbc.com, October 17, 2007, <http://www.msnbc.msn.com/id/21346248/>, accessed March 18, 2008.

³⁶ "Disney theme park to expand," *Orange County Register*, October 17, <http://www.ocregister.com/news/disney-city-anaheim-1895891-california-movie>, accessed March 19, 2008.

³⁷ "Tesoro Corporation Announces Agreements to Purchase Shell's Los Angeles Refinery and Approximately 250 Southern California Retail Sites," businesswire.com, January 29, 2007, http://findarticles.com/p/articles/mi_m0EIN/is_2007_Jan_29/ai_n17155954, accessed March 18, 2008.

The economic fortunes of the Los Angeles region have become progressively more linked to the global economy and rely heavily on air passenger and freight service to move people and goods. In 2007, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$421.2 billion (See **Table I-18**). Businesses in the Los Angeles region have taken advantage of overseas markets, and have expanded their operations internationally. Many of the region's top companies depend on offshore plants and suppliers for manufacturing and assembly as well as raw materials. This expanding international business activity generates demand for both international air travel and air freight services.

In 2007, more than \$80 billion in trade (including imports and exports) through the Los Angeles Customs District was conveyed by air (See **Table I-18**). This represents 19 percent of all trade through the Los Angeles Customs District, and more than 56 percent of California's total value of trade by air. The Los Angeles region's high rate of trade by air reflects the prevalence of just-in-time inventory management of high value components (especially in the technology, defense, and aerospace sectors), as well as an expanding global network of suppliers and manufacturers. Furthermore, as Los Angeles region 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.

One indicator of growth in the trade sector is retail sales, defined as all net sales (gross sales minus refunds and allowances for returns) for establishments engaged primarily in retail trade. **Table I-19** shows that according to data from Woods & Poole Economics, Inc., retail sales in the Los Angeles CSA grew from \$18.9 billion in 2000, to \$22.4 billion in 2007, reflecting a compounded annual growth rate of 2.5 percent. During this same period, retail sales grew at a rate of 2.2 percent annually in the U.S., and at a rate of 2.4 percent annually in California. In the Los Angeles CSA, retail sales are projected to increase to \$23.9 billion in 2010, and then to \$26.4 billion in 2015.

1.5.4.4 Transportation and Public Utilities

In terms of transportation jobs, the Airport itself is responsible for an estimated 12.5 percent of direct employment in the Los Angeles CSA's transportation and public utilities sector. The Airport's direct employment is estimated at 59,000 workers, and an additional 408,000 jobs in the Los Angeles region are attributable to it.³⁸

Approximately 468,000 workers were employed in the transportation and public utilities industries in the Los Angeles CSA in 2007. Employment in these two industries in 2007 accounted for 4.7 percent of non-agricultural employment in the Los Angeles CSA. Transportation and public utilities jobs made up 4.3 percent of non-agricultural employment in California and 4.7 percent of non-agricultural U.S. employment in 2007.

1.5.4.5 Finance, Insurance, and Real Estate

The finance, insurance, and real estate industries (FIRE) employed more than one million workers in the Los Angeles CSA in 2007. In 2007, FIRE employment accounted for 10.6 percent of total non-agricultural employment in the Los Angeles CSA versus 10.3 percent in California and 8.9 percent in the U.S. Estimates from the LAEDC indicate that employment in the region's real estate industry will decrease by a total of 3,800 jobs in 2008 and 2009.

³⁸ Master Plan LAX, "LAX & the Economy: Economic Benefits Created by the Los Angeles International Airport," http://www.laxmasterplan.org/facts_economy.cfm, accessed January 11, 2008.

Table I-18
2007 Total Trade by Conveyance (\$ Billions)

Customs District	Value of Total Trade ^{1/}	Value of Total Trade by Air
Los Angeles	421.2	80.1
California	588.7	142.7
United States	3,116.4	781.2

Note:

^{1/} Total trade = total imports and exports.

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

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

Prepared by: Strategic Economics

Table I-19

Total Retail Sales (\$ Millions)

Year	Los Angeles CSA	California	United States
Historical			
2000	18,860	39,883	361,039
2001	19,112	40,382	363,725
2002	19,430	40,905	367,203
2003	19,989	41,942	375,319
2004	20,748	43,421	388,312
2005	21,385	44,734	400,563
2006	21,974	45,999	412,406
2007	22,435	47,015	421,254
Projected			
2010	23,855	50,143	448,468
2015	26,422	55,798	497,705
Compounded Annual Growth Rate			
2000 - 2007	2.5%	2.4%	2.2%
2007 - 2010	2.1%	2.2%	2.1%
2010 - 2015	2.1%	2.2%	2.1%

Note: Figures shown in constant 2007 dollars.

Source: Woods & Poole Economics, Inc.

Prepared by: Strategic Economics

Bank deposits in the Los Angeles CSA exceeded \$353 billion in 2007. From 2000 to 2007, the average annual growth of bank deposits in the Los Angeles CSA increased at an average annual rate of 8.1 percent per year. This exceeds the average annual bank deposit growth rate in both California, where it was 7.5 percent per year, and the U.S., where it was 7.6 percent over the period (See **Table I-20**).

1.5.4.6 Government

Approximately 1.1 million workers were employed in government in the Los Angeles CSA in 2007, representing 11.1 percent of non-agricultural employment. The region's share of government employment was lower than that of California and the U.S. where government jobs made up 13.3 percent, and 14.0 percent of non-agricultural employment in 2007, respectively.

1.5.4.7 Services

Approximately 3.7 million workers were employed in the services industry in the Los Angeles CSA in 2007, accounting for 37.6 percent of non-agricultural employment in the region — higher than both California and the U.S., where services accounted for 37.0 percent and 35.3 percent of non-agricultural employment, respectively. An analysis of the tourism subsector, which provides a significant source of demand for air travel, is provided below.

1.6 Los Angeles CSA Tourism Industry

1.6.1 Area attractions

In addition to its mild climate, beaches, and relaxed lifestyle, the Los Angeles region offers visitors innumerable entertainment attractions, cultural institutions, shopping districts, dining selections, recreational options and scenic parks and vistas. World famous entertainment venues include Disneyland, Universal Studios, Universal City Walk, Knott's Berry Farm, and Six Flags Magic Mountain. Other sightseeing destinations include the Hollywood Sign, the Hollywood Walk of Fame, the Queen Mary, Venice Beach boardwalk, the Los Angeles Zoo, and the Forest Lawn Memorial Parks located in Cathedral City, Covina, Cypress, Glendale, Los Angeles, Long Beach and Palm Springs.

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, the Los Angeles region offers acclaimed performing arts groups including the Los Angeles Philharmonic, Los Angeles Opera, and Los Angeles Master Chorale. Professional theater is thriving at venues such as the Pasadena Playhouse, Ahmanson Theatre, Geffen Playhouse, and the Mark Taper Forum. Multicultural performances also are available at the Bilingual Foundation of the Arts.

Designed by Frank Gehry, the \$274 million Walt Disney Concert Hall opened in 2003 in Downtown Los Angeles and is the home of the Los Angeles Philharmonic Orchestra, as well as the Los Angeles Master Chorale. Also located in Downtown Los Angeles, the Chinese American Museum is a new, community-based history museum that provides a visual, learning environment through the display of thousands of artifacts, photographs, and oral histories portraying life in early Chinatown.

The Los Angeles region is also a popular destination for shopping and dining. Shopping malls that are best known include Glendale Galleria, South Coast Plaza in Costa Mesa, Century City Shopping

Table I-20
Total Bank Deposits (\$ Millions)

Year^{1/}	Los Angeles CSA	California	United States
2000	204,724	453,772	4,003,744
2001	224,767	492,044	4,326,207
2002	243,534	533,766	4,606,092
2003	277,168	614,726	5,132,110
2004	289,078	671,111	5,464,782
2005	318,751	753,644	5,933,763
2006	339,678	725,878	6,449,864
2007	353,204	750,972	6,702,212
Compounded Annual Growth Rate			
2000-2007	8.1%	7.5%	7.6%

Note:

^{1/} Fiscal year ending June 30.

Sources: Summary of Deposits, Federal Deposit Insurance Corporation (FDIC) website

Prepared by: Strategic Economics

Center, and Beverly Center. Boutiques and shopping districts that attract both a national and international clientele can be found along Melrose Avenue, as well as on Beverly Hills' famous Rodeo Drive, Robertson Boulevard in West Hollywood, and Santa Monica's Third Street Promenade. Restaurant dining options are extensive, and the Los Angeles region is home to one of the highest concentrations of restaurants of any metropolitan area in the U.S. (65.3 restaurants per 10,000 households).³⁹

The Los Angeles region also offers travelers a scenic natural environment. With an annual average of 329 days of sunshine,⁴⁰ 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.

The 2,983-acre Ahmanson Ranch, located north of Calabasas, was recently opened to the public and provides 15 miles of trails to hikers, bikers, equestrians, dog-walkers and nature enthusiasts. The park is home to several rare and endangered species and to preserve open space was purchased by the Santa Monica Mountains Conservancy for \$150 million.

1.6.2 Tourism trends

The Los Angeles Convention and Visitors Bureau estimates that 25.8 million people visited the Los Angeles region in 2007, spending a total of \$14.2 billion, both record highs for the region. Visitor expenditures generate significant fees and taxes, including an estimated \$751 million in state and local sales tax revenue.⁴¹ Travel and tourism employed approximately 507,800 workers in the Los Angeles CSA in 2006, and employment in tourism-related industries totaled 267,400, a 1.5 percent increase over the level in 2005.

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

- 76 percent of domestic overnight visitors and 46 percent of international visitors are leisure travelers;
- 24 percent of domestic overnight visitors and 24 percent of international visitors are traveling on business;
- 44 percent of domestic overnight visitors and 27 percent of international visitors are visiting family or friends; and
- Five percent of domestic overnight visitors and seven percent of international visitors are attending conventions.

While summer is a slightly more popular season for tourism in Los Angeles — 34 percent of visitors travel to Los Angeles in summer — visitorship during the rest of the year is relatively evenly spread. Winter travelers account for 23 percent of the market, spring travelers also represent 23 percent of

³⁹ Claritas, Inc.

⁴⁰ Los Angeles Convention and Visitors Bureau, "L.A. Travel Stats 2006," www.laincresearch.com, accessed December 10, 2007.

⁴¹ Los Angeles Convention and Visitors Bureau, "L.A. Travel Stats 2006," <http://www.laincresearch.com/all/LATravelStats06Final.pdf>, accessed December 10, 2007.

visitors, while fall travelers make up 21 percent.⁴² Historically, this relative lack of seasonality has resulted in the stable performance of occupancy, revenues, and employment in the region's lodging industry. Strong demand from both leisure and business travelers drove annual hotel occupancy rates in Los Angeles and Orange Counties to a level of 75.4 percent and 72.5 percent, respectively, in 2007. Among the top 25 U.S. travel markets, Los Angeles County had the fourth highest annual occupancy rate in 2006 (latest data available). The average daily room rate (ADR) in the Los Angeles region has increased by six percent annually over the past five years, from the mid-\$90 range in 2002 to nearly \$130 in 2007. (See **Table I-21**)

According to the Los Angeles Convention and Visitors Bureau, an estimated 29.6 percent of visitors to the Los Angeles region were travelers from overseas in 2006 (latest data available). A survey from the U.S. Department of Commerce's Office of Tourism Industries shows that 2.2 million travelers from overseas (excluding Canada and Mexico) arrived in Los Angeles in 2006. Following New York and Miami, Los Angeles was the third most popular destination for overseas travelers in 2006 (latest data available), ranking ahead of other major destinations such as Honolulu, Chicago, San Francisco, Atlanta, Washington, D.C. and Orlando. (See **Table I-22**).

⁴² Los Angeles Convention and Visitors Bureau, "L.A. Travel Stats 2006," <http://www.laincresearch.com/all/LATravelStats06Final.pdf>, accessed December 10, 2007.

Table I-21
Annual Los Angeles Market Area^{1/} Lodging Data

Los Angeles County		
Year	Occupancy Rate %	Average Daily Room Rate (ADR)
2002	66.1%	\$96.44
2003	68.0%	\$96.31
2004	72.5%	\$102.02
2005	74.9%	\$109.71
2006	75.7%	\$120.12
2007	75.4%	\$128.87

Orange County		
Year	Occupancy Rate %	Average Daily Room Rate (ADR)
2002	64.6%	\$93.20
2003	66.6%	\$93.99
2004	69.3%	\$97.75
2005	74.5%	\$105.26
2006	72.8%	\$115.75
2007 ^{2/}	72.5%	\$125.21

Notes:

^{1/} The Los Angeles Market Area is defined as Los Angeles County and Orange County.

^{2/} Forecast based on the first three quarters of 2007.

Source: PKF Hospitality Research

Prepared by: Strategic Economics

Table I-22
Top Ports of Entry for Overseas Arrivals (2006)

Rank	U.S. Port of Entry	Number of Arrivals	% of All Overseas Arrivals
1	New York	3,275,729	15.1%
2	Miami	2,526,565	11.7%
3	Los Angeles	2,158,563	10.0%
4	Honolulu	1,486,362	6.9%
5	Newark	1,369,057	6.3%
6	Chicago	1,210,054	5.6%
7	San Francisco	1,203,953	5.6%
8	Atlanta	838,369	3.9%
9	Washington, D.C.	675,143	3.1%
10	Orlando	520,782	2.4%
	Other Ports of Entry	6,403,713	29.6%
Total		21,668,290	100.0%

Note: Data include all countries except Canada and Mexico.

Source: U.S. Department of Commerce, ITA, Office of Tourism Industries

Prepared by: Strategic Economics

II. Air Traffic

This chapter describes historical and projected air traffic activity at the Airport and the key factors affecting these activity levels. In particular, this chapter discusses the role of the Airport (Section 2.1), the regional perspective of the Southern California airport system (Section 2.2), the airlines serving the Airport (Section 2.3), historical Airport activity (Section 2.4), the state of the airline industry (Section 2.5), and projected Airport activity (Section 2.6).

In this chapter, several points or themes are discussed that outline overall trends in aviation activity at the Airport during the years presented. The following discussion regarding activity trends are provided as a summary, with back-up discussion, analyses, tables, and exhibits provided in Sections 2.1 through 2.6.

The Airport serves one of the nation's largest total O&D passenger markets, and was ranked first in the nation in the number of total O&D passengers in FY 2007. The Airport is also one of the nation's premier international gateways and the only international gateway serving Southern California. Nationwide, the Los Angeles CSA 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 (more than \$150,000), among others. This densely populated and relatively wealthy area attracts a broad base of U.S. and foreign flag air carriers to serve the Airport. As a result, the Airport has been, and is expected to continue to be, one of the busiest airports in the world, ranking among the top five airports worldwide in passenger activity and aircraft operations (take-offs and landings).

The Airport is unique in that it has a relatively high percentage of connecting passengers, yet no airline dominates in shares of enplaned passengers or provides "hubbing" activity at the Airport. Approximately 30 percent of the Airport's domestic passenger traffic (and 25 percent of the Airport's total passenger traffic) is connecting, and no air carrier accounted for more than 20 percent of the Airport's domestic enplanements between FY 2003 and FY 2007.

Over the last 10 to 12 years, the Airport has experienced significant shifts in passenger activity. Total passenger activity at the Airport increased from 29.5 million enplanements in FY 1997 to 33.8 million in FY 2001, a compounded annual growth rate of 3.5 percent during this period. This growth was fueled, in part, by the stimulation of passenger demand from intense competition and fare wars among airlines (e.g., Southwest and United's Shuttle) serving the West Coast corridor (California, Oregon, and Washington).

Following the events of September 11, 2001 and an economic slowdown during the same time period, total enplaned passengers at the Airport decreased from 33.8 million in FY 2001 to 27.7 million in FY 2003, a compounded annual decrease of 9.5 percent during this period. Thereafter through FY 2007, total enplaned passengers at the Airport increased at a compounded annual growth rate of 2.7 percent, reaching 30.8 million enplanements in FY 2007. By comparison, U.S. enplanement activity increased at a compounded annual growth rate of 4.5 percent during this same period. Several factors contributed to the Airport's slower recovery as compared to the U.S., including decreased demand levels along the West Coast corridor, the secondary impacts of an

economic downturn in the Silicon Valley in northern California, and systemwide changes in the airlines' route structures and seat capacity. See Section 2.4 "Historical Airport Activity" for further information.

The Airport is one of six commercial service airports serving the Los Angeles CSA. Demand for air travel within the Los Angeles CSA is predominantly served through the Airport, particularly for international travel and nonstop domestic U.S. travel to major medium and long-haul markets. The other five commercial service airports in the Los Angeles CSA (including Bob Hope Airport, John Wayne Airport, Long Beach Airport, LA/Ontario International Airport, and LA/Palmdale Regional Airport) primarily serve O&D travel to short and medium-haul markets, including the West Coast corridor.

Over the last 10 years, patterns of passenger activity among these six airports in the Los Angeles CSA has shifted somewhat, although the Airport accommodates approximately 70 percent of regional passenger demand – a decrease from approximately 77 percent in FY 2000. This decrease was primarily the result of United's elimination of its Shuttle service following the events of September 11, 2001. In late August 2001, jetBlue initiated new nonstop service between Long Beach Airport and John F Kennedy International Airport (JFK). In December 2002, John Wayne Airport increased its passenger cap from 8.4 million annual passengers (MAP) to 10.3 MAP, which allowed it to serve more passengers.

Despite the shifting of demand to the region's other commercial service airports, certain of these airports (John Wayne Airport, Long Beach Airport, and Bob Hope Airport) continue to face a number of constraints to their future growth, thereby enabling the Airport to continue to serve a high percentage of the region's future O&D passenger demand. See Section 2.5.4.2 "Constraints at Other Area Airports" for further information.

The aviation industry is currently facing numerous challenges, including a weakening economy and escalating jet fuel prices (the most significant force affecting the industry today). Aloha, ATA, and SkyBus cited higher fuel prices as contributing factors in their Chapter 11 bankruptcy protection filings. Frontier also filed for Chapter 11 bankruptcy protection recently, primarily due to its principal credit card processor's decision to withhold significant proceeds received from the sale of Frontier tickets, which put severe restraints on the carrier's liquidity. Some airlines have responded to recent industry changes through mergers and acquisitions. US Airways and America West completed their merger in 2005 and began operating under a single operating certificate in September 2007. In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008.

Despite current uncertainties facing the aviation industry today, it is expected that in the long term the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. Given the strength of its economic base and leading socioeconomic indicators, the Los Angeles CSA 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. See Section 2.6 "Projected Airport Activity" for further information.

2.1 Role of the Airport; Domestic O&D Activity

The Airport is one of the busiest airports in the world. **Table II-1** presents the Airport's preliminary worldwide ranking of activity in CY 2007. As shown, the Airport ranked 5th worldwide and 3rd nationwide in total passengers during this period with 61.9 million enplaned and deplaned passengers; 4th worldwide and nationwide in total operations with 681,445 takeoffs and landings; and 12th worldwide and 5th nationwide in total cargo with 1.9 million enplaned and deplaned tons.¹

The Airport serves one of the nation's largest total O&D passenger bases. As shown in **Table II-2**, the Airport was ranked first nationwide in total O&D passengers in FY 2007.

Table II-3 presents domestic O&D passengers for the Airport and the nation between CY 1997 and CY 2007. As shown, domestic O&D activity at the Airport increased from 31.7 million passengers in CY 1997 to 33.5 million in CY 2000. This increase represents a compounded annual growth rate of 1.9 percent during this period, compared to 3.1 percent nationwide. Domestic O&D passengers at the Airport decreased at a compounded rate of 8.9 percent between CY 2000 and CY 2002, while nationwide activity decreased 4.9 percent between these years. Thereafter, domestic O&D passengers at the Airport increased at a compounded annual growth rate of 2.5 percent between CY 2002 and CY 2007, reaching 31.5 million in CY 2007, compared to 4.0 percent growth nationwide during this same period. As also shown, the Airport's share of U.S. domestic O&D passengers decreased between CY 1997 and CY 2007, reflective of the lower compounded annual growth rate experienced at the Airport compared to the nation during this period.

Table II-3 also presents the Airport's percentage of domestic O&D passengers to total domestic passengers. As shown, this percentage decreased moderately between CY 1997 and CY 2000 and has since stabilized at approximately 70 percent. The remaining 30 percent of domestic passengers represents connecting passenger traffic.² The percentage of connecting passenger traffic is relatively high for an airport where no airline dominates or provides hubbing activity due to (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 also one of the nation's premier international gateways and the only international gateway serving Southern California. **Table II-4** presents a comparison of international and total enplanements at top U.S. gateway airports for selected calendar years between 1995 and 2006. As shown, the Airport moved from third position behind JFK and Miami International Airport (MIA) to second position, overtaking MIA in 2006.

2.2 Regional Perspective

The demographic and economic characteristics of the Los Angeles CSA 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. Of the

¹ *ACI Traffic Data 2007*, Airports Council International (preliminary dated 3/12/08).

² When international enplanements are included, approximately 75 percent of total enplaned passengers at the Airport are O&D passengers.

Table II-1

Top 15 Worldwide Ranking of Activity - CY 2007 (preliminary)

Rank	Airport	Total Passengers	Airport	Total Operations	Airport	Total Cargo (tons)
1	Atlanta (ATL)	89,379,287	Atlanta (ATL)	994,346	Memphis (MEM)	3,840,574
2	Chicago (ORD)	76,159,324	Chicago (ORD)	927,834	Hong Kong (HKG)	3,772,673
3	London (LHR)	68,068,554	Dallas (DFW)	684,779	Anchorage (ANC)	2,826,499
4	Tokyo (HND)	66,671,435	Los Angeles (LAX)	681,445	Seoul (ICN)	2,555,582
5	Los Angeles (LAX)	61,895,548	Denver (DEN)	614,169	Shanghai (PVG)	2,494,808
6	Paris (CDG)	59,919,383	Las Vegas (LAS)	609,472	Paris (CDG)	2,297,896
7	Dallas (DFW)	59,784,876	Houston (IAH)	603,836	Tokyo (NRT)	2,252,654
8	Frankfurt (FRA)	54,161,856	Paris (CDG)	552,721	Frankfurt (FRA)	2,169,025
9	Beijing (PEK)	53,736,923	Phoenix (PHX)	538,063	Louisville (SDF)	2,078,290
10	Madrid (MAD)	52,122,214	Charlotte (CLT)	522,541	Miami (MIA)	1,922,982
11	Denver (DEN)	49,863,389	Philadelphia (PHL)	498,963	Singapore (SIN)	1,918,159
12	New York (JFK)	47,810,630	Frankfurt (FRA)	492,569	Los Angeles (LAX)	1,877,876
13	Amsterdam (AMS)	47,793,602	Madrid (MAD)	483,284	Dubai (DXB)	1,668,506
14	Las Vegas (LAS)	47,595,140	London (LHR)	481,356	Amsterdam (AMS)	1,651,385
15	Hong Kong (HKG)	46,995,000	Detroit (DTW)	467,230	Taipei (TPE)	1,605,681

Source: *ACI Traffic Data 2007*, Airports Council International (preliminary dated 3/12/08)

Prepared by Ricondo & Associates, Inc.

Table II-2

Top 20 Total O&D Airports

Rank	Airport	FY 2007 Total O&D Passengers ^{1/}
1	Los Angeles International	36,276,320
2	McCarran International	34,630,370
3	Chicago O'Hare International	33,006,630
4	Orlando International	30,488,780
5	Hartsfield-Jackson Atlanta International	29,163,720
6	Phoenix Sky Harbor International	25,413,790
7	Denver International	24,899,380
8	John F Kennedy International	24,681,780
9	Newark Liberty International	24,678,990
10	Dallas/Ft Worth International	23,902,960
11	General Edward Lawrence Logan International	23,654,920
12	La Guardia	23,038,980
13	Seattle-Tacoma International	21,877,620
14	San Francisco International	20,822,650
15	Philadelphia International	19,322,090
16	Fort Lauderdale/Hollywood International	18,744,180
17	Detroit Metropolitan Wayne County	17,607,460
18	Tampa International	17,247,150
19	Minneapolis/St Paul International/Wold-Chamberlain	17,211,040
20	San Diego International	16,960,970

Note:

^{1/} Excludes foreign flag O&D passengers, of which there were approximately 15 million at the Airport in FY 2007.

Source: US DOT Origin & Destination Survey of Airline Passenger Traffic

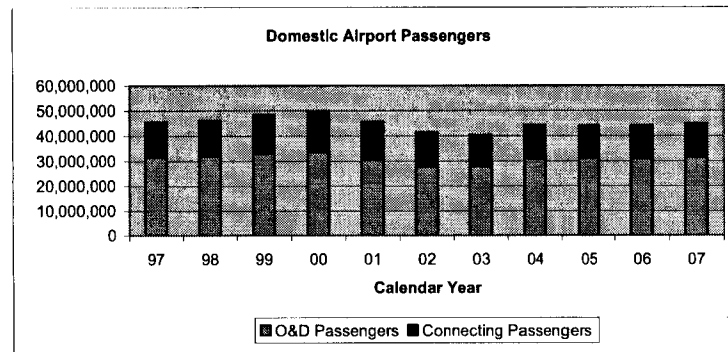
Prepared by: Ricondo & Associates, Inc.

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Table II-3

Historical Domestic O&D Passengers

Calendar Year	LAX Domestic O&D Passengers	LAX Annual Growth	U.S. Domestic O&D Passengers	U.S. Annual Growth	LAX Share of U.S. O&D Passengers	LAX Domestic Enplaned and Deplaned Passengers	LAX O&D Percentage	LAX Domestic Connecting Passengers	LAX Connecting Percentage
1997	31,660,260	-	789,081,200	-	4.0%	45,395,749	69.7%	13,735,489	30.3%
1998	31,871,480	0.7%	798,797,500	1.2%	4.0%	46,127,876	69.1%	14,256,396	30.9%
1999	33,273,400	4.4%	831,774,400	4.1%	4.0%	48,464,655	68.7%	15,191,255	31.3%
2000	33,451,650	0.5%	864,668,800	4.0%	3.9%	49,887,433	67.1%	16,435,783	32.9%
2001	30,601,960	(8.5%)	806,362,990	(6.7%)	3.8%	45,656,025	67.0%	15,054,065	33.0%
2002	27,785,620	(9.2%)	782,752,630	(2.9%)	3.5%	41,379,168	67.1%	13,593,548	32.9%
2003	28,012,880	0.8%	797,484,400	1.9%	3.5%	40,358,935	69.4%	12,346,055	30.6%
2004	30,955,430	10.5%	869,737,660	9.1%	3.6%	44,220,019	70.0%	13,264,589	30.0%
2005	31,200,070	0.8%	917,049,520	5.4%	3.4%	44,003,135	70.9%	12,803,065	29.1%
2006	31,031,850	(0.5%)	923,152,440	0.7%	3.4%	44,129,974	70.3%	13,098,124	29.7%
2007	31,453,800	1.4%	951,736,780	3.1%	3.3%	44,732,810	70.3%	13,279,010	29.7%
Compounded Annual Growth Rate									
1997 - 2000	1.9%		3.1%			3.2%		6.2%	
2000 - 2002	(8.9%)		(4.9%)			(8.9%)		(9.1%)	
2002 - 2007	2.5%		4.0%			1.6%		(0.5%)	



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

Table II-4

Comparison of U.S. International Gateway Airports

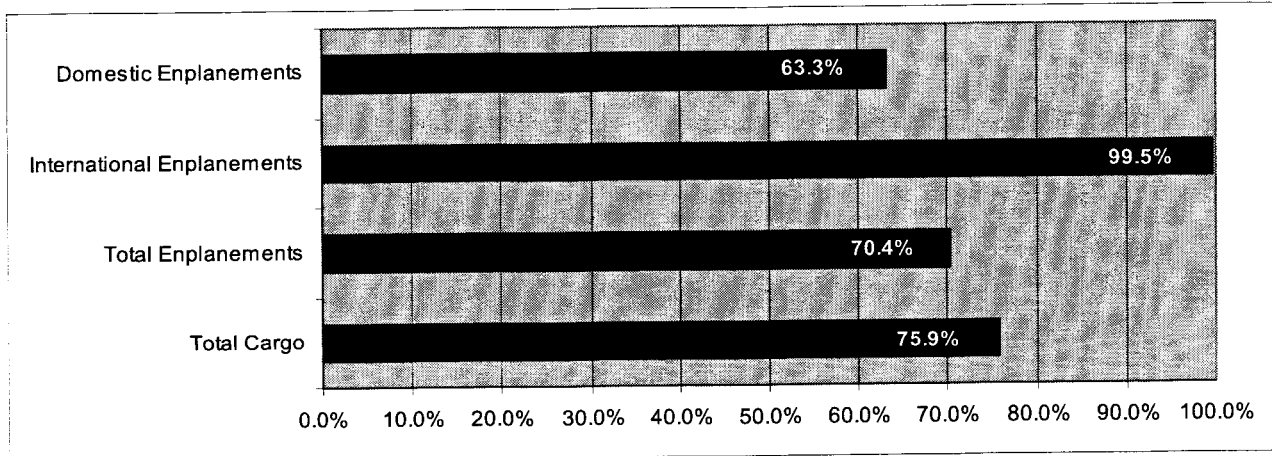
Airport	International Enplanements			Total Enplanements			International Share of Total		
	CY 1995	CY 2000	CY 2006	CY 1995	CY 2000	CY 2006	CY 1995	CY 2000	CY 2006
New York - Kennedy	8,381,084	9,194,966	9,886,390	14,985,951	16,274,588	21,799,124	55.9%	56.5%	45.4%
Los Angeles	6,846,329	8,780,183	8,386,453	27,234,353	33,836,077	28,575,611	25.1%	25.9%	29.3%
Miami	7,179,328	8,096,068	7,272,512	16,594,647	16,756,422	16,266,826	43.3%	48.3%	44.7%
Chicago - O'Hare	3,301,321	5,049,197	5,647,815	32,858,551	35,700,949	37,764,444	10.0%	14.1%	15.0%
New York - Newark	1,926,350	4,199,963	4,802,114	13,320,486	16,948,663	18,432,115	14.5%	24.8%	26.1%
San Francisco	2,981,341	4,023,555	4,176,717	18,162,551	20,196,217	16,554,645	16.4%	19.9%	25.2%
Atlanta	1,436,609	2,916,309	4,060,639	28,857,835	40,154,824	42,524,221	5.0%	7.3%	9.5%
Houston - George Bush	1,445,941	2,830,768	2,997,291	11,994,451	17,520,633	21,336,881	12.1%	16.2%	14.0%
Dallas - DFW	1,599,672	2,590,390	2,801,239	28,245,426	30,363,955	30,020,076	5.7%	8.5%	9.3%
Washington - Dulles	1,316,295	2,083,201	2,414,777	6,147,787	9,971,630	11,392,245	21.4%	20.9%	21.2%
Honolulu	3,069,528	2,567,293	2,081,479	11,542,683	11,264,853	10,005,553	26.6%	22.8%	20.8%
Philadelphia	627,468	1,418,716	1,992,790	9,165,415	12,412,932	15,769,124	6.8%	11.4%	12.6%
Boston	1,644,116	2,153,703	1,822,017	12,043,969	13,720,465	13,840,393	13.7%	15.7%	13.2%
Detroit	1,336,892	1,942,190	1,428,228	14,514,990	17,736,548	17,975,849	9.2%	11.0%	7.9%
Seattle	1,667,788	1,211,174	1,226,559	11,398,987	14,173,752	14,981,560	14.6%	8.5%	8.2%

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

six commercial service airports within the Los Angeles CSA, and as shown in the exhibit below, the Airport accounted for 63.3 percent of domestic enplaned passengers, 99.5 percent of international enplaned passengers, 70.4 percent of total enplaned passengers, and 75.9 percent of total cargo (freight and mail) in calendar year (CY) 2007.³ The other five commercial service airports in the Los Angeles CSA serve primarily O&D travel to short and medium-haul markets, including the West Coast corridor.⁴

Exhibit II-1

LAX Share of Los Angeles CSA Activity - CY 2007



Sources: City of Los Angeles, Department of Airports (LAX, ONT, and PMD); Individual airports (BUR, LGB, SNA).
Prepared by: Ricondo & Associates, Inc.

In addition to the Airport, the other five airports in the Los Angeles CSA include Bob Hope Airport (BUR), John Wayne Airport (SNA), Long Beach Airport (LGB), LA/Ontario International Airport (ONT), and LA/Palmdale Regional Airport (PMD). A brief discussion of these five airports is provided below:

- As shown previously on the map labeled Exhibit I-1, BUR is located 30 miles north of the Airport. As of June 2008, nonstop service was provided to 12 domestic markets with a total of 97 daily flights (compared to the Airport's nonstop service to 79 domestic markets with a total of 713 daily flights; and nonstop service to 56 international markets with a total of 155 daily flights in June 2008). Seven of these 12 markets were short-haul markets (0 to 600 miles) served with a total of 77 daily flights. Service was provided by 10 airlines, including the low-cost carriers jetBlue (seven daily flights) and Southwest (58 daily flights).
- SNA is located 40 miles southeast of the Airport. As of June 2008, nonstop service was provided to 19 domestic markets with a total of 139 daily flights. Service was provided by 13 airlines, including the low-cost carriers Frontier (four daily flights) and Southwest (38 daily flights). There is a legal limit of 10.3 MAP currently in place at SNA. See Section 2.5.4.2 for more details regarding passenger caps at SNA.

³ Based on individual airport data.

⁴ In late August 2001, jetBlue initiated two daily nonstop flights between JFK and LGB, its second-designated hub airport, resulting in significant increases in passenger activity at this facility between CY 2001 and CY 2003.

- LGB is located 25 miles southeast of the Airport. As of June 2008, nonstop service was provided to 16 domestic markets with a total of 49 daily flights. Service was provided by five airlines, including the low-cost carrier jetBlue (30 daily flights). A stipulated settlement agreement entered into by the City of Long Beach 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 2.5.4.2 for more details regarding passenger flight operations at LGB.
- ONT, which is also owned by the City and operated by the Department, is located 50 miles east of the Airport. As of June 2008, nonstop service was provided to 30 domestic markets with a total of 113 daily flights, as well as one flight to Guadalajara, Mexico. Service was provided by 12 airlines, including the low-cost carriers jetBlue (one daily flight) and Southwest (49 daily flights), as well as United's low-fare service provided by Ted (five daily flights).
- PMD, which is also owned by the City and operated by the Department, is located 60 miles north of the Airport. Under a Joint-Use Agreement with the U.S. Air Force, the Department currently operates a passenger terminal on Air Force Plant 42. Since the passenger terminal opened in 1971, several airlines have operated out of this facility, but service has been intermittent. United Express, which initiated service at PMD in June 2007, currently provides two daily flights to/from San Francisco International Airport (SFO) using 50-seat regional jets.⁵ During CY 2007, PMD had 12,022 enplaned passengers, which represents 0.03 percent of the passenger traffic accommodated by the six commercial service airports in the Los Angeles CSA. Since its current service is limited, PMD is excluded from further analyses in this report.

Table II-5 presents average one-way fares for the five principal airports in the Los Angeles CSA for CY 2007. When comparing all markets, average one-way fares at the Airport are much higher than at BUR, LGB, and ONT. However, the predominance of long-haul service at the Airport as measured by average stage length (see Section 2.4.2) distorts the comparison. As shown in Table II-5, the Airport's average one-way fares are competitive when stage lengths (short, medium, and long-haul markets) are compared, one to the other.

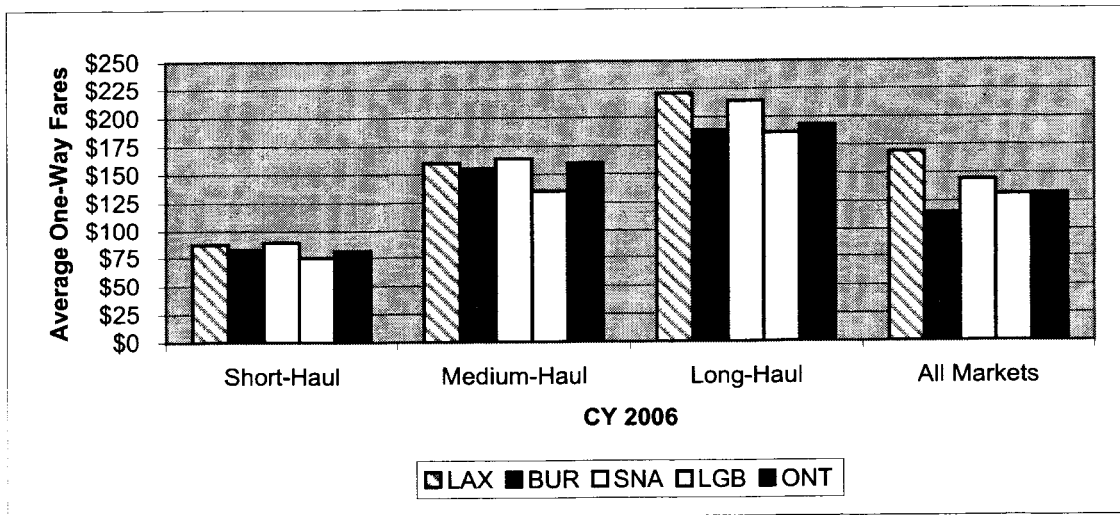
Table II-6 presents historical shares of total enplaned passengers for the five principal airports serving the Los Angeles CSA between CY 1997 and CY 2007. As shown, the Airport's share was relatively stable between CY 1997 and CY 2001, but decreased to 73.3 percent in FY 2002 and then to approximately 70 percent between CY 2003 and CY 2007 due to (1) United eliminating its Shuttle service; (2) jetBlue initiating nonstop service between LGB, its second-designated hub airport, and JFK in late August 2001; and (3) SNA increasing its passenger cap from 8.4 MAP to 10.3 MAP in December 2002. As a result, LGB's share of domestic enplaned passengers increased from 0.7 percent in CY 2001 to 3.3 percent in CY 2007; and SNA's share increased from 9.1 percent to 11.3 percent during this same period. The exhibit below illustrates the CY 2007 shares of total enplaned passengers for the five principal airports serving the Los Angeles CSA.

⁵ Effective September 3, 2008, PMD will have four daily flights to/from SFO using 30-seat turboprop aircraft, a net increase of 20 seats per day traveling each way.

Table II-5

Average One-Way Fares for Airports in the Los Angeles CSA - CY 2007

Airport	Short-Haul Markets ^{1/}	Medium-Haul Markets ^{1/}	Long-Haul Markets ^{1/}	All Markets
Los Angeles (LAX)	\$87	\$160	\$221	\$169
Bob Hope (BUR)	\$82	\$155	\$188	\$115
John Wayne (SNA)	\$89	\$164	\$214	\$144
Long Beach (LGB)	\$75	\$135	\$186	\$131
LA/Ontario (ONT)	\$81	\$160	\$193	\$132



Note:

- ^{1/} (SH) Short Haul = 1 to 600 miles
- (MH) Medium Haul = 601 to 1,800 miles
- (LH) Long Haul = over 1,800 miles

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

Table II-6

Regional Airport Shares of Total Enplanements

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	
1997	30,313,688	75.8%	3,153,825	7.9%	3,841,848	9.6%	2,350,362	5.9%	307,946	0.8%	39,967,669
1998	30,826,859	76.2%	3,212,487	7.9%	3,715,780	9.2%	2,362,692	5.8%	323,357	0.8%	40,441,175
1999	32,298,944	76.7%	3,268,661	7.8%	3,738,519	8.9%	2,358,724	5.6%	434,601	1.0%	42,099,449
2000	33,836,077	77.3%	3,360,634	7.7%	3,894,993	8.9%	2,367,835	5.4%	312,713	0.7%	43,772,252
2001	31,007,930	76.4%	3,354,350	8.3%	3,672,827	9.1%	2,248,654	5.5%	287,245	0.7%	40,571,006
2002	28,181,481	73.3%	3,259,866	8.5%	3,957,565	10.3%	2,312,611	6.0%	731,279	1.9%	38,442,802
2003	27,544,606	70.8%	3,285,577	8.4%	4,274,960	11.0%	2,369,729	6.1%	1,445,547	3.7%	38,920,419
2004	30,210,609	71.0%	3,473,284	8.2%	4,902,263	11.5%	2,464,441	5.8%	1,470,620	3.5%	42,521,217
2005	30,587,592	70.6%	3,611,978	8.3%	4,821,459	11.1%	2,759,984	6.4%	1,523,812	3.5%	43,304,825
2006	28,575,611	69.8%	3,342,627	8.2%	4,814,108	11.8%	2,843,281	6.9%	1,385,260	3.4%	40,960,887
2007	30,980,025	70.4%	3,607,184	8.2%	4,989,018	11.3%	2,960,294	6.7%	1,458,128	3.3%	43,994,649
Compounded Annual Growth Rate											
1997 - 2000	3.7%		2.1%		0.5%		0.2%		0.5%		3.1%
2000 - 2001	(8.4%)		(0.2%)		(5.7%)		(5.0%)		(8.1%)		(7.3%)
2001 - 2002	(9.1%)		(2.8%)		7.8%		2.8%		154.6%		(5.2%)
2002 - 2007	1.9%		2.0%		4.7%		5.1%		14.8%		2.7%
1997 - 2007	0.2%		1.4%		2.6%		2.3%		16.8%		1.0%

Note:

1/ In late August 2001, JetBlue initiated two daily nonstop flights between John F. Kennedy International Airport and Long Beach Airport, its second-designated hub airport, resulting in significant increases in passenger activity between 2001 and 2003.

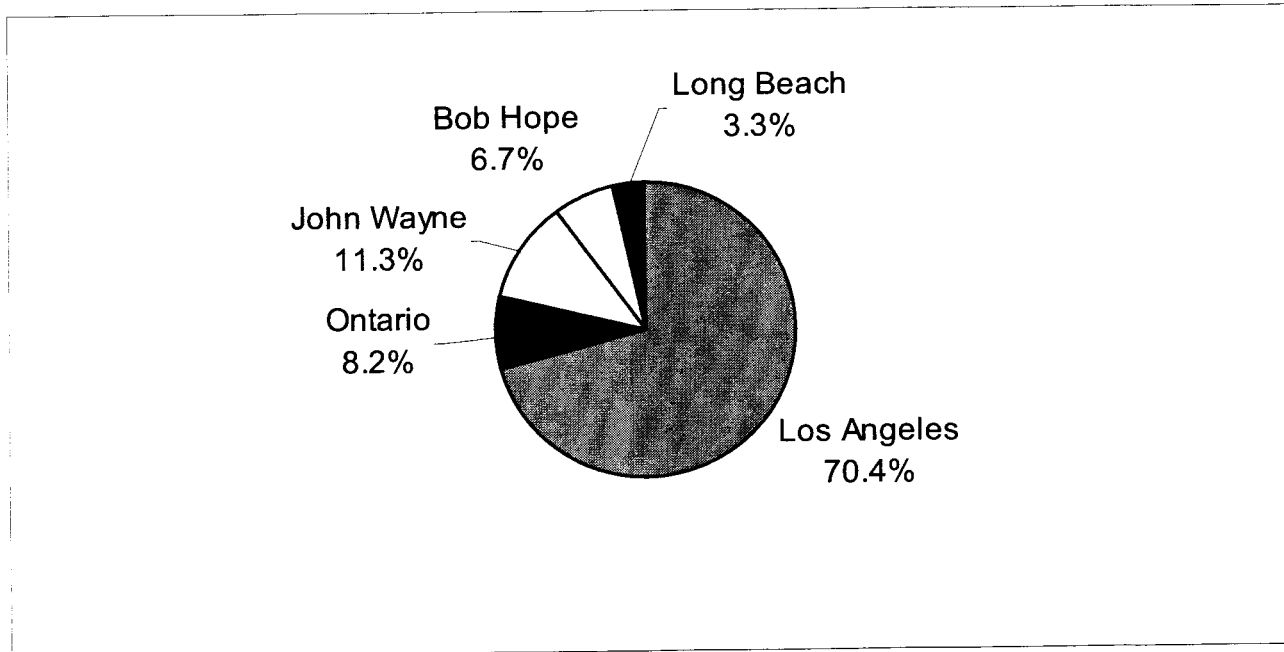
Sources: Airports Council International (1996 - 2006); Individual airport websites 2007

Prepared by: Ricondo & Associates, Inc.

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Exhibit II-2

Los Angeles CSA Airport Shares of Total Enplanements – CY 2007



Sources: City of Los Angeles, Department of Airports (LAX and ONT); Individual airports (BUR, LGB, SNA)
Prepared by: Ricondo & Associates, Inc.

Table II-7 presents the historical shares of West Coast corridor O&D passengers for the five principal commercial service airports serving the Los Angeles CSA. As shown, the Airport's share among the five airports decreased by 9.1 percent between FY 1997 and FY 2007, while the share for LGB increased 5.8 percent during this same period. The Airport's relatively high share of West Coast corridor O&D passengers between FY 1997 and FY 2001 was primarily due to the stimulation of demand by United's Shuttle service in competition with Southwest. Following United's elimination of the Shuttle, demand for travel in the West Coast corridor returned to more normal levels at the Airport. A detailed discussion regarding impacts of Shuttle by United on Airport activity is provided in Section 2.4. BUR's, ONT's, and SNA's shares of West Coast corridor O&D passengers were relatively stable between FY 1997 and FY 2007.

2.3 Airlines Serving the Airport

As of June 2008, scheduled passenger service at the Airport was provided by 20 U.S. flag air carriers, scheduled and nonscheduled service by 43 foreign flag carriers, and nonscheduled service by six charter airlines. In addition, 15 all-cargo carriers provided scheduled cargo service. Fourteen of the nation's 17 major passenger airlines (airlines defined by the U.S. Department of Transportation as having annual operating revenues of over \$1.0 billion) provide scheduled service at the Airport. These airlines include AirTran, Alaska, American, American Eagle, Continental, Delta, ExpressJet, Frontier, Mesa, Northwest, SkyWest, Southwest, United, and US Airways.⁶ A complete list of airlines serving the Airport as of June 2008 is provided in **Table II-8**.

⁶ Major U.S. passenger airlines currently not serving the Airport include Atlantic Southeast, Comair, and jetBlue.

Table II-7

Airport Shares of West Coast Corridor O&D Passengers

Fiscal Year ^{1/}	Airport (LAX)		LA/Ontario (ONT)		Bob Hope (BUR)		Long Beach (LGB)		John Wayne (SNA)		Total O&D Passengers
	O&D Passengers ^{2/}	Percentage of Total	O&D Passengers ^{3/}	Percentage of Total	O&D Passengers ^{4/}	Percentage of Total	O&D Passengers ^{5/}	Percentage of Total	O&D Passengers ^{6/}	Percentage of Total	
1997	6,992,850	45.9%	2,284,240	15.0%	2,782,690	18.3%	490	0.0%	3,176,900	20.8%	15,237,170
1998	6,899,820	46.2%	2,243,110	15.0%	2,807,910	18.8%	800	0.0%	2,990,380	20.0%	14,942,020
1999	7,009,380	46.8%	2,272,130	15.2%	2,840,070	19.0%	1,060	0.0%	2,855,640	19.1%	14,978,280
2000	7,096,240	46.5%	2,313,360	15.2%	2,790,470	18.3%	1,850	0.0%	3,055,270	20.0%	15,257,190
2001	6,576,950	44.6%	2,389,760	16.2%	2,758,460	18.7%	2,200	0.0%	3,034,080	20.6%	14,761,450
2002	5,028,080	40.8%	2,199,910	17.8%	2,467,530	20.0%	2,280	0.0%	2,630,810	21.3%	12,328,610
2003	4,816,510	37.9%	2,159,100	17.0%	2,500,670	19.7%	448,500	3.5%	2,786,040	21.9%	12,710,820
2004	4,784,000	37.4%	2,113,960	16.5%	2,483,340	19.4%	577,520	4.5%	2,840,930	22.2%	12,799,750
2005	5,013,600	37.5%	2,188,500	16.4%	2,568,250	19.2%	623,300	4.7%	2,977,880	22.3%	13,371,530
2006	4,887,650	36.5%	2,250,760	16.8%	2,579,480	19.3%	664,130	5.0%	3,015,400	22.5%	13,397,420
2007	5,122,270	36.8%	2,268,100	16.3%	2,636,620	18.9%	804,360	5.8%	3,106,770	22.3%	13,938,120
Change in Share											
1997 - 2007		(9.1%)		1.3%		0.7%		5.8%		1.4%	
2003 - 2007		(1.1%)		(0.7%)		(0.8%)		2.2%		0.4%	

Notes:

- ^{1/} Fiscal year ends June 30
- ^{2/} Traffic LAX to/from OAK, PDX, SAN, SEA, SFO, SJC, SMF
- ^{3/} Traffic ONT to/from OAK, PDX, SAN, SEA, SFO, SJC, SMF
- ^{4/} Traffic BUR to/from OAK, PDX, SAN, SEA, SFO, SJC, SMF
- ^{5/} Traffic LGB to/from OAK, PDX, SAN, SEA, SFO, SJC, SMF
- ^{6/} Traffic SNA to/from OAK, PDX, SAN, SEA, SFO, SJC, SMF

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

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Table II-8

Airlines Serving the Airport ^{1/}

Scheduled U.S. Carriers (20)	Foreign Flag Carriers (43)	Nonscheduled Carriers (6)	All-Cargo Carriers (15)
AirTran	Aer Lingus	Allegiant Air	Aerotransporte De Carga Union
Alaska	Aeroflot	Clay Lacy Aviation	Aerotransporte Mas De Carga
American	AeroLitoral	Miami Air	Air Transport International
American Eagle	AeroMexico	Pace	Astar
Continental	Air Canada	Skybird	Cargolux
Delta ^{2/}	Air Canada Jazz	World Airways	China Cargo
ExpressJet	Air China		DHL/Airborne
Frontier ^{3/}	Air France		FedEx
Hawaiian	Air India		Florida West
Horizon	Air Jamaica		Kalitta Air
Mesa	Air New Zealand		Nippon Cargo
Midwest	Air Pacific		Polar
Northwest ^{2/}	Air Tahiti Nui		Shanghai Airlines Cargo
SkyWest	Alitalia		Singapore Airlines Cargo
Southwest	All Nippon		United Parcel Service
Spirit	Asiana		
Sun Country	Avianca		
United	British Airways		
US Airways	Cathay Pacific		
Virgin America	China		
	China Eastern		
	China Southern		
	CMA Mexicana		
	Copa		
	Ei Al Israel		
	Eva Airways		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	LTU International		
	Lufthansa German		
	Malaysia		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	Taca		
	Thai Airways		
	Virgin Atlantic		
	WestJet		

Notes:

^{1/} As of June 2008.

^{2/} In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008.

^{3/} Filed for bankruptcy protection in April 2008 but continues to operate at the Airport.

Source: City of Los Angeles, Department of Airports

Prepared by: Ricondo & Associates, Inc.

Table II-9 lists scheduled U.S. flag air carriers at the Airport since FY 1999. As shown, the Airport has had the benefit of a large and relatively stable air carrier base during the years shown, which has helped promote competitive pricing and scheduling diversity in the Airport's major domestic markets. In addition, 15 of the 20 U.S. flag airlines currently serving the Airport have operated there for each of the years shown, including 14 of the 17 major U.S. passenger airlines. Activity by those U.S. flag carriers providing a significant level of service at the Airport is discussed below:⁷

- United, with a 15.7 percent share of total Airport enplanements in FY 2007, provides nonstop service to 17 domestic markets with a total of 91 daily flights; as well as a total of eight daily flights to the international markets of Cancun, Frankfurt, Guatemala City, Hong Kong, London, Mexico City, Sydney, and Tokyo (See **Table II-10**). SkyWest, with a 4.6 percent share and operating as United Express, provides nonstop service to 35 domestic markets with a total of 126 daily flights; as well as three daily flights to Vancouver.
- American, with a 15.2 percent share, provides nonstop service to 21 domestic markets with a total of 83 daily flights; as well as a total of seven daily flights to the international markets of London, Los Cabos, San Jose, Tokyo, and Toronto. American Eagle, with a 1.7 percent share and serving as a code-sharing partner with American, provides nonstop service to eight domestic markets with a total of 48 daily flights.
- Southwest, with a 12.4 percent share, provides nonstop service to 19 domestic markets with a total of 127 daily flights.
- Delta, with a 7.5 percent share, provides nonstop service to 15 domestic markets with a total of 42 daily flights; as well as a total of four daily flights to the international markets of Cancun, Guadalajara, Guatemala City, and Puerto Vallarta.
- US Airways, with a 4.0 percent share, provides nonstop service to five domestic markets with a total of 24 daily flights.
- Continental, with a 3.8 percent share, provides nonstop service to four domestic markets with a total of 26 daily flights.

Table II-11 lists the foreign flag air carriers at the Airport since FY 1999. A large and growing foreign flag air carrier base developed during the years shown. In addition, 35 of the 43 foreign flag carriers serving the Airport have operated there for each of the years shown. Activity by those foreign flag carriers providing a significant level of service at the Airport is discussed below:⁸

- CMA Mexicana, with a 6.8 percent share of international Airport enplanements in FY 2007, provides nonstop service to Cancun, Guadalajara, Leon/Guanajuato, Los Cabos, Mazatlan, Mexico City, Monterrey, Morelia, Puerto Vallarta, and Zacatecas with a total of 17 daily flights.
- Qantas, with a 6.7 percent share, provides nonstop service to Auckland, Brisbane, Melbourne, and Sydney with a total of six daily flights.
- Air Canada, with a 6.0 percent share, provides nonstop service to Calgary, Montreal, Toronto, and Vancouver with a total of 14 daily flights.

⁷ All of the domestic nonstop service discussed below is as of June 13, 2008.

⁸ All of the international nonstop service discussed below is as of June 15, 2008.

Table II-9

Scheduled U.S. Flag Air Carrier Base

Air Carrier	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008 ^{1/}
Alaska	•	•	•	•	•	•	•	•	•	•
American	•	•	•	•	•	•	•	•	•	•
American Eagle	•	•	•	•	•	•	•	•	•	•
Continental	•	•	•	•	•	•	•	•	•	•
Delta ^{2/}	•	•	•	•	•	•	•	•	•	•
Frontier ^{3/}	•	•	•	•	•	•	•	•	•	•
Hawaiian	•	•	•	•	•	•	•	•	•	•
Horizon	•	•	•	•	•	•	•	•	•	•
Midwest	•	•	•	•	•	•	•	•	•	•
Northwest ^{2/}	•	•	•	•	•	•	•	•	•	•
SkyWest	•	•	•	•	•	•	•	•	•	•
Southwest	•	•	•	•	•	•	•	•	•	•
Spirit	•	•	•	•	•	•	•	•	•	•
United	•	•	•	•	•	•	•	•	•	•
US Airways	•	•	•	•	•	•	•	•	•	•
Sun Country		•	•	•	•	•	•	•	•	•
Mesa				•	•	•	•	•	•	•
AirTran							•	•	•	•
ExpressJet							•	•	•	•
Virgin America										•
ATA ^{4/}	•	•	•	•	•	•	•	•	•	•
MAXJet ^{5/}										•
Republic ^{6/}									•	•
Atlantic Southeast							•	•	•	
Air Wisconsin	•	•	•	•	•	•	•	•		
Independence Air							•	•		
Freedom Air					•	•				
Vanguard			•	•	•					
US Airways Express	•	•								
Number of Airlines	18	19	19	20	21	20	23	23	22	23

Notes:

^{1/} As of June 2008.

^{2/} In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008

^{3/} Filed for bankruptcy protection in April 2008 but continues to operate at the Airport.

^{4/} Filed for bankruptcy protection in April 2008 and ceased operations systemwide.

^{5/} Filed for bankruptcy protection in December 2007 and ceased operations systemwide.

^{6/} No longer serving the Airport.

Sources: Official Airline Guide

Prepared by: Ricondo & Associates, Inc.

Table II-10
Scheduled Nonstop Activity for U.S. Flag & Foreign Flag Carriers^{1/}

U.S. Flag Air Carriers					Foreign Flag Air Carriers		
Airline	Domestic Markets Served	Daily Domestic Flights	International Markets Served	Daily International Flights	Airline	Markets Served	Daily Flights
Southwest	19	127			CMA Mexicana	Cancun, Guadalajara, Leon/Guanajuato, Los Cabos, Mazatlan, Mexico City, Monterrey, Morelia, Puerto Vallarta, Zacatecas	17
SkyWest	35	126	Vancouver	3	Air Canada	Calgary, Montreal, Toronto, Vancouver	14
United	17	91	Cancun, Frankfurt, Guatemala, Hong Kong, London, Mexico City, Sydney, Tokyo	8	AeroMexico	Aguascalientes, Guadalajara, Hermosillo, Mexico City	7
American	21	83	London, Los Cabos, San Salvador, Tokyo, Toronto	7	Qantas	Auckland, Brisbane, Melbourne, Sydney	6
American Eagle	8	48			Air France	London, Paris, Papeete	5
Delta ^{2/}	15	42	Cancun, Guadalajara, Guatemala City, Puerto Vallarta	4	Air New Zealand	Auckland, London, Rarotonga	5
Express Jet	16	41	Callacan, La Paz, Loreto, Mazatlan, Zacatecus	5	Korean	Seoul, Tokyo	4
Continental	4	26			TACA	Guatemala City, San Salvador	4
US Airways	5	24			Air Tahiti Nui	Papeete, Paris	3
Alaska	5	23	Cancun, Guadalajara, Loreto, Los Cabos, Mazatlan, Mexico City, Puerto Vallarta, Vancouver	14	British Airways	London	3
Northwest ^{2/}	6	20	Tokyo	1	Cathay Pacific	Hong Kong	3
Horizon	9	19			Eva Airways	Osaka, Taipei	3
Virgin America	4	18			LACSA	Guatemala City, San Jose, San Salvador	3
AirTran	4	11			Lufthansa German	Frankfurt, Munich	3
Frontier ^{3/}	1	6			Asiana	Seoul	2
Hawaiian	1	2			China	Taipei	2
Midwest	1	2			Singapore	Tokyo, Singapore	2
Spirit	2	2			Virgin Atlantic	London	2
Mesa	1	1			WestJet	Calgary, Toronto	2
Sun Country	1	1			Aeroflot	Moscow	1
					AeroLitoral	Hermosillo	1
					Aer Lingus	Dublin	1
					Air Canada Jazz	Edmonton	1
					Air China	Beijing	1
					Air India	Frankfurt	1
					Air Jamaica	Montego Bay	1
					Air Pacific	Nadi	1
					Alitalia	Rome	1
					All Nippon	Tokyo	1
					Avianca	Bogota	1
					China Eastern	Shanghai	1
					China Southern	Guangzhou	1
					Copa	Panama City	1
					El Al Israel	Tel Aviv	1
					Japan	Tokyo	1
					KLM Royal Dutch	Amsterdam	1
					Lan	Santiago	1
					Lan Peru	Lima	1
					LTU International	Dusseldorf	1
					Malaysia	Taipei	1
					Swissair	Zurich	1
					Thai Airways	Bangkok	1
Total		713		42			113

Notes:

^{1/} June 13, 2008 (domestic service) and June 15, 2008 (international service).

^{2/} In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008.

^{3/} Filed for bankruptcy protection in April 2008 but continues to operate at the Airport.

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

Table II-11

Scheduled Foreign Flag Air Carrier Base

Air Carrier	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008 ^{1/}
Aer Lingus	•	•	•	•	•	•	•	•	•	•
Aeroflot	•	•	•	•	•	•	•	•	•	•
Aeromexico	•	•	•	•	•	•	•	•	•	•
Air Canada	•	•	•	•	•	•	•	•	•	•
Air China	•	•	•	•	•	•	•	•	•	•
Air France	•	•	•	•	•	•	•	•	•	•
Air Jamaica	•	•	•	•	•	•	•	•	•	•
Air New Zealand	•	•	•	•	•	•	•	•	•	•
Air Pacific	•	•	•	•	•	•	•	•	•	•
Air Tahiti Nui	•	•	•	•	•	•	•	•	•	•
All Nippon	•	•	•	•	•	•	•	•	•	•
Asiana	•	•	•	•	•	•	•	•	•	•
Avianca	•	•	•	•	•	•	•	•	•	•
British Airways	•	•	•	•	•	•	•	•	•	•
Cathay Pacific	•	•	•	•	•	•	•	•	•	•
China	•	•	•	•	•	•	•	•	•	•
China Eastern	•	•	•	•	•	•	•	•	•	•
China Southern	•	•	•	•	•	•	•	•	•	•
CMA Mexicana	•	•	•	•	•	•	•	•	•	•
El Al Israel	•	•	•	•	•	•	•	•	•	•
Eva Airways	•	•	•	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•	•	•	•
KLM Royal Dutch	•	•	•	•	•	•	•	•	•	•
Korean	•	•	•	•	•	•	•	•	•	•
LACSA	•	•	•	•	•	•	•	•	•	•
Lan	•	•	•	•	•	•	•	•	•	•
LTU International	•	•	•	•	•	•	•	•	•	•
Lufthansa German	•	•	•	•	•	•	•	•	•	•
Malaysia	•	•	•	•	•	•	•	•	•	•
Philippine	•	•	•	•	•	•	•	•	•	•
Qantas	•	•	•	•	•	•	•	•	•	•
Singapore	•	•	•	•	•	•	•	•	•	•
Taca	•	•	•	•	•	•	•	•	•	•
Thai Airways	•	•	•	•	•	•	•	•	•	•
Virgin Atlantic	•	•	•	•	•	•	•	•	•	•
Copa		•	•	•	•	•	•	•	•	•
AeroLitoral				•	•	•	•	•	•	•
Swissair				•	•	•	•	•	•	•
Air India						•	•	•	•	•
WestJet							•	•	•	•
Lan Peru							•	•	•	•
Air Canada Jazz								•	•	•
Alitalia ^{2/}	•	•	•	•						•
Aero California	•	•	•	•	•	•	•	•		
Varig Brazilian	•	•	•	•	•	•	•	•		
Harmony						•	•			
Martinair Holland	•	•	•	•	•					
Canada 3000	•	•	•	•						
Number of Airlines	40	41	41	43	41	42	44	44	42	43

Notes:

^{1/} As of June 2008.

^{2/} Alitalia initiated nonstop service five times a week from the Airport to Rome in June 2008 (the only nonstop service between California and Italy).

Sources: Official Airline Guide

Prepared by: Ricondo & Associates, Inc.

- Air New Zealand, with a 4.5 percent share, provides nonstop service to Auckland, London, and Rarotonga with a total of five daily 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 Passenger Activity

Table II-12 presents historical data on total enplaned passengers (domestic and international activity combined) at the Airport and the nation between FY 1997 and FY 2007. Factors impacting domestic and international activity during this period are discussed in this section.

As shown in **Table II-13**, Southwest nearly tripled its daily nonstop flights at the Airport between FY 1991 and FY 2001, increasing its activity at the Airport from 41 to 115 daily flights during this period. Southwest's passenger activity at the Airport increased accordingly, from approximately 1.0 million enplanements in FY 1991 to approximately 3.9 million in FY 2001, a compounded annual growth rate of 15.0 percent, and its share of domestic enplanements during this same period increased from 4.1 percent to 15.5 percent. Other airlines began matching fares with Southwest in certain markets during the mid to late-1990s, including Shuttle by United (see discussion below), stimulating domestic passenger traffic at the Airport. As also shown in **Table II-13**, nonstop service by Southwest generally remained at FY 2001 levels through FY 2007. Based on Official Airline Guide data, Southwest is expected to add five net additional nonstop flights by the end of FY 2008, with new service to San Francisco (eight daily nonstop flights).

Domestic enplaned passengers at the Airport increased at a compounded annual growth rate of 2.3 percent between FY 2003 and FY 2007, a rate of growth that was well below the 4.1 percent growth experienced nationwide. Factors contributing to the Airport's relatively flat growth during this period include the relative maturity of the service market (which contributed to lower growth rates overall) and the significant decrease in scheduled domestic departing seats. In addition, cutbacks in service systemwide by ATA contributed to a 0.5 percent decrease in domestic enplaned passengers in FY 2006.

Table II-14 presents scheduled domestic departing seats by selected airlines (which accounted for a combined 75 percent of annual scheduled domestic departing seats at the Airport), as well as the total for the Airport between FY 2000 and FY 2008. As shown, scheduled domestic departing seats decreased at a compounded annual rate of 8.5 percent between FY 2000 and FY 2003. This decrease in seat capacity reflected decisions by the airlines to increase load factors systemwide and enhance revenue performance during difficult economic times for the industry. This decrease in capacity was especially pronounced for United and Delta (mainline and affiliates), airlines with high shares of domestic enplaned passengers at the Airport. Their scheduled domestic departing seats at the Airport decreased at a compounded annual rate of 14.0 percent and 8.0 percent, respectively, between FY 2000 and FY 2003. In recent years, scheduled domestic departing seats at the Airport have remained at FY 2003 levels, contributing to the relatively flat growth in domestic enplaned passengers at the Airport in recent years.

United's decrease in domestic departing seats was primarily due to the elimination of Shuttle by United service following the events of September 11, 2001. This service operated as a low-fare

Table II-12
Historical Enplanements

Fiscal Year	Domestic Activity					International Activity		Total Activity	
	Airport Enplanements ^{1/}	Airport Annual Growth	U.S. Enplanements ^{2/}	U.S. Annual Growth	Airport Share of U.S. Enplanements	Airport Enplanements ^{1/}	Annual Growth	Airport Enplanements ^{1/}	Annual Growth
1997	22,391,773	-	577,800,000	-	3.9%	7,152,494	-	29,544,267	-
1998	23,054,854	3.0%	590,400,000	2.2%	3.9%	7,683,028	7.4%	30,737,882	4.0%
1999	23,736,102	3.0%	610,900,000	3.5%	3.9%	7,749,359	0.9%	31,485,461	2.4%
2000	24,880,727	4.8%	641,200,000	5.0%	3.9%	8,350,995	7.8%	33,231,722	5.5%
2001	24,960,755	0.3%	625,800,000	(2.4%)	4.0%	8,879,214	6.3%	33,839,969	1.8%
2002	20,783,817	(16.7%)	575,100,000	(8.1%)	3.6%	7,347,844	(17.2%)	28,131,661	(16.9%)
2003	20,441,104	(1.6%)	587,800,000	2.2%	3.5%	7,269,224	(1.1%)	27,710,328	(1.5%)
2004	21,241,860	3.9%	628,500,000	6.9%	3.4%	7,837,987	7.8%	29,079,847	4.9%
2005	22,143,442	4.2%	669,400,000	6.5%	3.3%	8,404,809	7.2%	30,548,251	5.0%
2006	22,030,697	(0.5%)	668,400,000	(0.1%)	3.3%	8,624,449	2.6%	30,655,146	0.3%
2007	22,361,323	1.5%	689,400,000 ^{3/}	3.1%	3.2%	8,421,686	(2.4%)	30,783,009	0.4%
Compounded Annual Growth Rate									
1997 - 2001	2.8%		2.0%			5.6%		3.5%	
2001 - 2003	(9.5%)		(3.1%)			(9.5%)		(9.5%)	
2003 - 2007	2.3%		4.1%			3.7%		2.7%	

Notes:

- ^{1/} Twelve months ending June 30.
- ^{2/} Twelve months ending September 30.
- ^{3/} Estimated by the FAA.

Sources: City of Los Angeles, Department of Airports (Airport activity); FAA (U.S. activity)
Prepared by Ricondo & Associates, Inc.

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Table II-13

Nonstop Service by Southwest

	Daily Nonstop Flights (Fiscal-Year-End)																	
	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Albuquerque	5	6	6	6	6	6	6	6	6	6	6	6	6	6	5	4	4	4
El Paso	7	7	7	7	7	6	6	6	6	6	6	5	4	4	3	3	3	3
Phoenix	20	24	26	25	22	22	23	21	21	21	19	16	13	13	13	13	13	13
Oakland	9	10	16	18	24	24	24	24	23	24	23	20	21	21	21	21	21	20
Las Vegas		8	13	13	19	19	19	18	17	17	16	14	14	14	14	14	14	14
San Jose				12	12	13	14	13	13	14	13	13	13	13	13	13	13	14
Reno					3	3	3	3	3	3	3	3	3	3	3	3	3	3
Sacramento					6	6	6	7	7	8	8	8	9	9	9	10	10	10
Salt Lake City					4	4	4	4	4	4	4	4	4	4	4	4	4	5
Tucson					4	4	4	4	5	5	5	5	5	5	5	5	6	6
San Antonio						1	1	1	1	1	1	1	1	1	1	1	1	1
Kansas City							2	3	4	5	5	5	5	5	4	4	4	4
Nashville							2	2	3	3	3	3	3	3	3	3	3	3
Austin									1	1	1	1	1	1	1	1	1	1
New Orleans										1	1	1	1	1	1	0	0	0
Indianapolis											1	1	1	1	1	0	0	0
Chicago Midway												3	3	3	5	7	7	7
Houston Hobby												1	1	1	4	4	4	4
Baltimore													2	2	2	2	2	0
St. Louis														1	1	1	1	1
Philadelphia															2	2	2	0
San Francisco																		8
Total	41	55	68	81	107	108	114	112	114	119	115	110	110	111	115	115	116	121

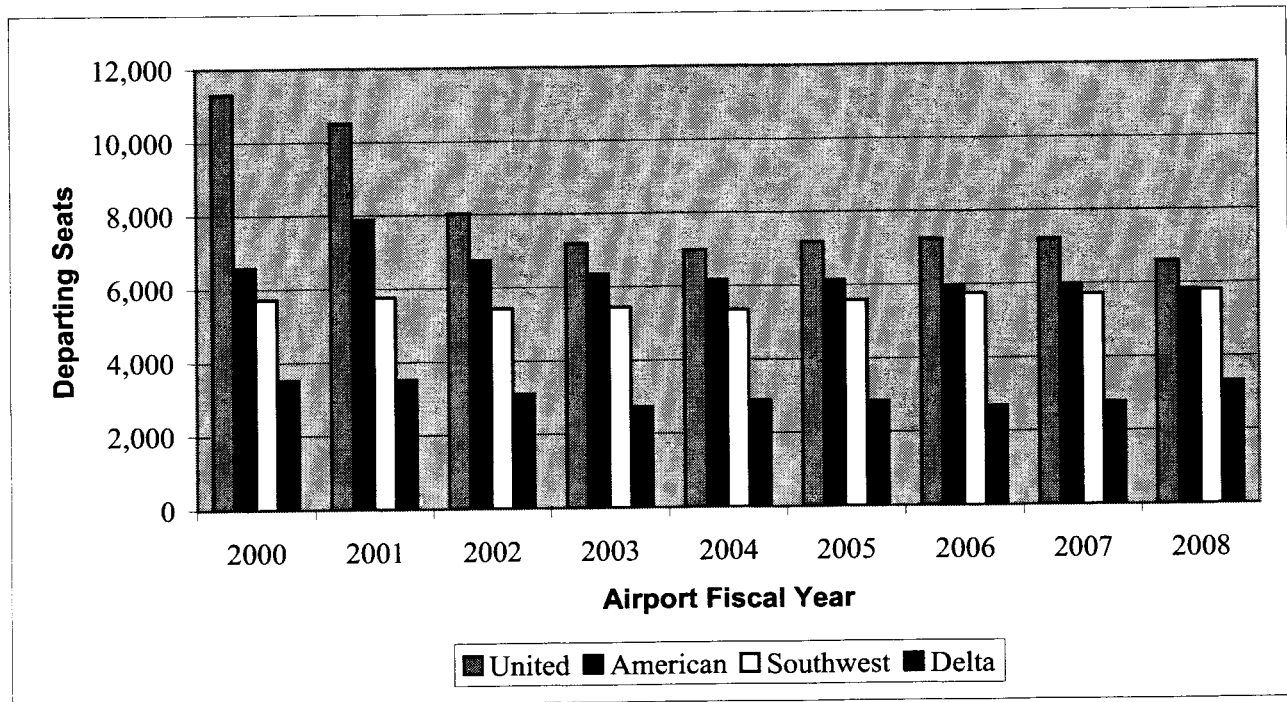
Source: Official Airline Guide
Prepared by: Ricondo & Associates, Inc.

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Table II-14

Scheduled Domestic Departing Seats by Selected Airlines and Airport Total (In Thousands)

Fiscal Year	Scheduled Domestic Departing Seats				Airport
	United	American	Southwest	Delta	Total
2000	11,306	6,572	5,702	3,517	37,267
2001	10,513	7,876	5,757	3,516	37,910
2002	8,030	6,746	5,424	3,102	31,460
2003	7,185	6,355	5,441	2,734	28,505
2004	6,973	6,157	5,350	2,894	28,434
2005	7,182	6,129	5,582	2,839	28,874
2006	7,237	5,931	5,745	2,690	28,369
2007	7,216	5,978	5,709	2,771	28,882
2008	6,594	5,828	5,795	3,309	29,043
Compounded Annual Growth Rate					
2000 - 2003	(14.0%)	(1.1%)	(1.5%)	(8.0%)	(8.5%)
2003 - 2008	(1.7%)	(1.7%)	1.3%	3.9%	0.4%



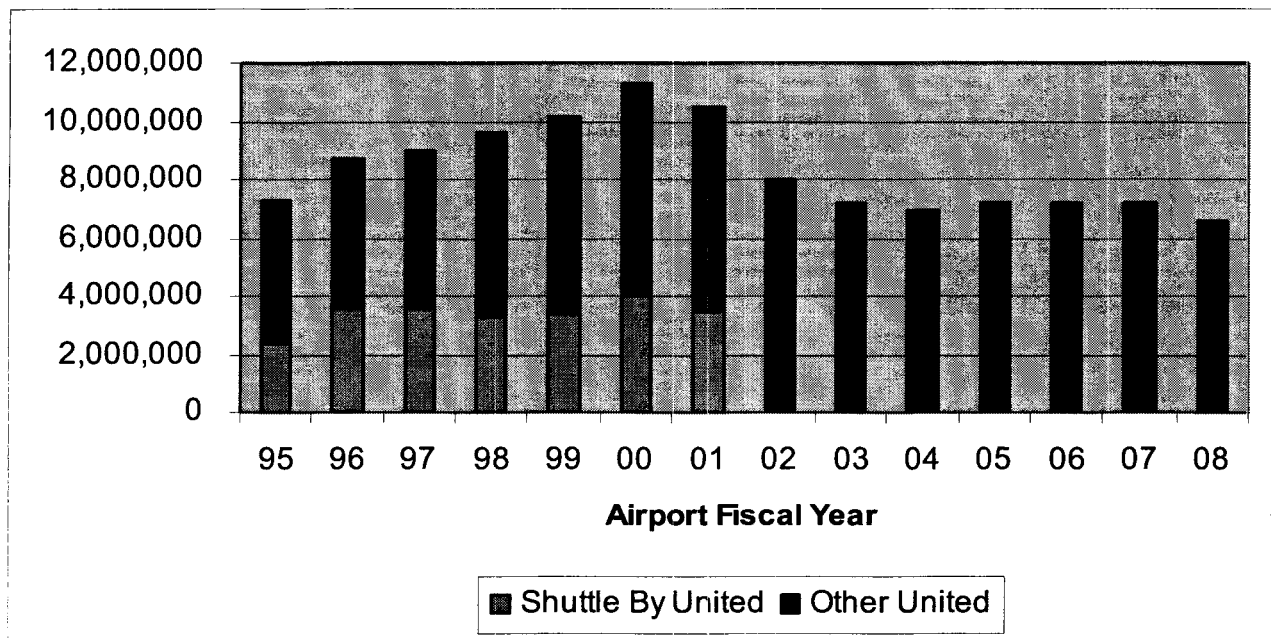
Source: Official Airline Guide

Prepared by: Ricondo & Associates, Inc.

subsidiary along the highly competitive West Coast corridor (markets located in California, Oregon, and Washington) between FY 1995 and early FY 2002 (October 2001) using Boeing-737-300 and Boeing 737-500 aircraft. It competed directly with Southwest on routes to several West Coast corridor markets (including Oakland, Portland, San Jose, and Sacramento) and to additional markets outside the West Coast corridor such as Las Vegas, Phoenix, Reno, Salt Lake City, and Tucson. Other markets served by Shuttle by United in the West Coast corridor included San Diego, Seattle, and San Francisco, its primary market. This frequent, low-fare service artificially stimulated the demand for air travel along the West Coast corridor, resulting in strong growth in passenger activity at the Airport during the mid- to late-1990s and early 2000s. As shown in **Exhibit II-3**, Shuttle by United accounted for approximately 33 percent of United’s total scheduled domestic departing seats at the Airport between FY 1995 and FY 2001. Following elimination, Shuttle markets were served by United with significantly fewer frequencies, primarily by regional jets. United mainline focused primarily on serving its major domestic hubs (e.g., Chicago, Denver, and New York/Newark).

Exhibit II-3

Shuttle by United Share of United Domestic Departing Seats



Source: Official Airline Guide
Prepared by: Ricondo & Associates, Inc.

Table II-15 presents domestic enplanements by airline between FY 2003 and FY 2007. As shown, four airlines (American, United, Southwest, and Delta) accounted for between 65.8 percent and 67.2 percent of domestic enplanements at the Airport during this period, with six other airlines accounting for an additional 26.5 to 27.5 percent. No major shifts in market share among the carriers occurred during the years depicted. Exhibit II-4 focuses on FY 2007.

Table II-15

Historical Domestic Enplanements by Airline ^{1/}

	Airline	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
		Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1	American	3,674,383	18.0%	3,757,526	17.7%	4,219,928	19.1%	4,345,425	19.7%	4,369,207	19.5%
2	United	4,422,616	21.6%	4,452,991	21.0%	4,422,338	20.0%	4,333,904	19.7%	4,347,812	19.4%
3	Southwest	3,498,799	17.1%	3,589,396	16.9%	3,763,817	17.0%	3,930,014	17.8%	3,817,855	17.1%
4	Delta ^{2/}	1,951,175	9.5%	2,182,158	10.3%	2,267,127	10.2%	2,191,476	9.9%	2,193,630	9.8%
5	Skywest	1,144,935	5.6%	1,215,879	5.7%	1,277,811	5.8%	1,317,516	6.0%	1,405,331	6.3%
6	US Airways ^{3/}	1,288,118	6.3%	1,328,619	6.3%	1,424,894	6.4%	1,258,953	5.7%	1,233,073	5.5%
7	Continental	874,142	4.3%	885,956	4.2%	970,121	4.4%	1,085,628	4.9%	1,170,936	5.2%
8	Northwest ^{2/}	901,033	4.4%	903,637	4.3%	988,702	4.5%	996,474	4.5%	995,295	4.5%
9	Alaska	657,225	3.2%	780,700	3.7%	870,079	3.9%	825,034	3.7%	843,616	3.8%
10	American Eagle	552,337	2.7%	520,660	2.5%	512,923	2.3%	502,148	2.3%	509,076	2.3%
11	Frontier ^{4/}	129,241	0.6%	225,304	1.1%	240,639	1.1%	215,757	1.0%	304,274	1.4%
12	Horizon	77,631	0.4%	91,152	0.4%	128,627	0.6%	202,763	0.9%	252,551	1.1%
13	Hawaiian	301,284	1.5%	264,328	1.2%	269,460	1.2%	237,162	1.1%	225,572	1.0%
14	AirTran	-	-	92,695	0.4%	152,400	0.7%	179,265	0.8%	202,376	0.9%
15	ATA ^{5/}	506,731	2.5%	532,842	2.5%	360,873	1.6%	149,296	0.7%	143,041	0.6%
16	Midwest	45,199	0.2%	45,878	0.2%	52,737	0.2%	97,586	0.4%	115,517	0.5%
17	Spirit	138,962	0.7%	123,595	0.6%	75,697	0.3%	45,757	0.2%	70,544	0.3%
18	Atlantic Southeast	-	-	-	-	-	-	1,349	0.0%	63,139	0.3%
19	Qantas	24,211	0.1%	31,007	0.1%	31,067	0.1%	39,668	0.2%	52,243	0.2%
20	Sun Country	23,404	0.1%	34,670	0.2%	39,733	0.2%	43,287	0.2%	40,425	0.2%
	Other	229,678	1.1%	182,867	0.9%	74,469	0.3%	32,235	0.1%	5,810	0.0%
	Airport Total ^{6/}	20,441,104	100.0%	21,241,860	100.0%	22,143,442	100.0%	22,030,697	100.0%	22,361,323	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 activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2007 activity in descending order.

^{2/} In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008.

^{3/} On September 27, 2005, US Airways completed its merger with America West. The FAA granted US Airways a single operating certificate on September 26, 2007.

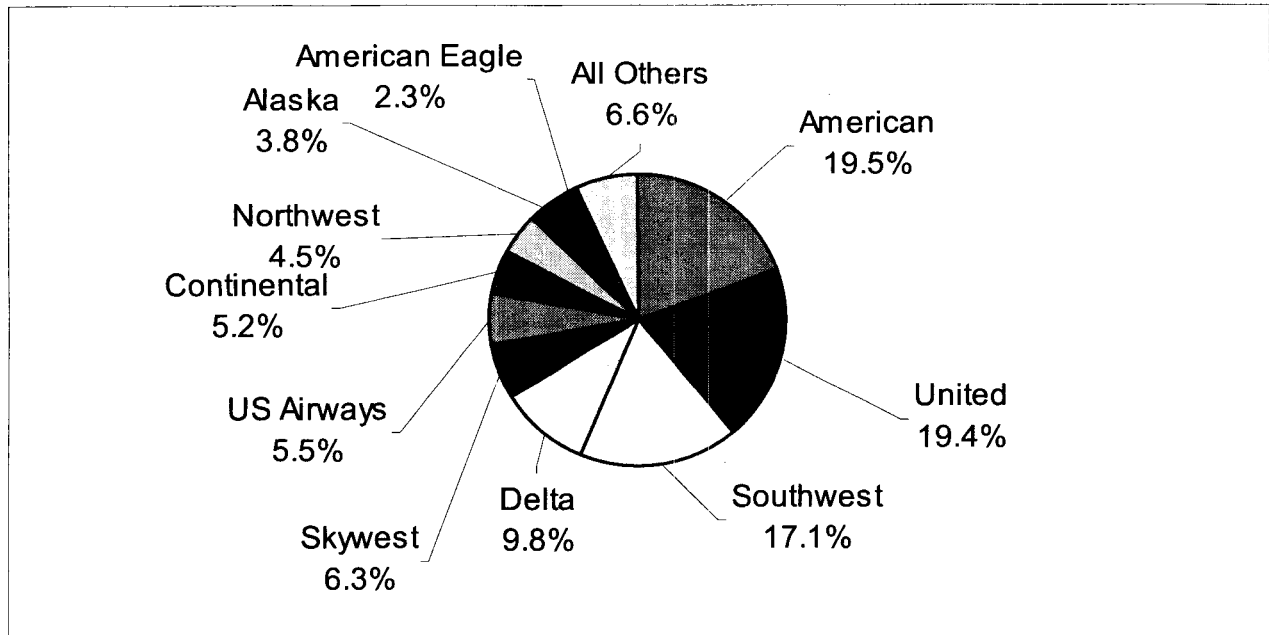
^{4/} Filed for bankruptcy protection in April 2008 but continues to operate at the Airport.

^{5/} Filed for bankruptcy protection in April 2008 and ceased operations systemwide.

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

Exhibit II-4

Domestic Enplanements by Airline – FY 2007



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

Table II-12 presents historical data on international enplaned passengers at the Airport and the nation between FY 1997 and FY 2007. As shown, international passenger activity at the Airport increased from 7.2 million enplanements in FY 1997 to 8.9 million in FY 2001, a compounded annual growth rate of 5.6 percent during this period. Due to the effects of September 11, 2001 and a downturn in the international economy, particularly in Asia, international enplanements at the Airport decreased from 8.9 million in FY 2001 to 7.3 million in FY 2003 (a compounded annual decrease of 9.5 percent during this period). Thereafter, international passenger activity began to recover, with enplaned passengers increasing at a compounded annual growth rate of 3.7 percent between FY 2003 and FY 2007, reaching 8.6 million in FY 2006 before decreasing to 8.4 million in FY 2007 (primarily due to decreased passenger activity by Mexicana and Japan in FY 2007).

Table II-16 presents international enplanements by airline between FY 2003 and FY 2007. International enplanements are spread over a number of airlines, with no airline dominating. Alaska, providing nonstop service to seven cities in Mexico and one city in Canada, had the highest share of international enplanements at the Airport in FY 2007 with 7.6 percent of the traffic. Mexicana was second with a 6.8 percent share in FY 2007, providing nonstop service to 10 cities in Mexico. As also shown, the top 20 airlines in FY 2007 accounted for between 76 and 78 percent of international activity during the years depicted. **Exhibit II-5** presents this information for FY 2007.

Table II-16

Historical International Enplanements by Airline ^{1/}

Airline	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 Alaska	492,601	6.8%	552,970	7.1%	566,505	6.7%	634,635	7.4%	636,063	7.6%
2 CMA Mexicana	517,025	7.1%	505,384	6.4%	618,550	7.4%	712,492	8.3%	572,616	6.8%
3 Qantas	445,978	6.1%	522,258	6.7%	538,885	6.4%	555,133	6.4%	567,899	6.7%
4 Air Canada	448,456	6.2%	434,406	5.5%	449,757	5.4%	487,446	5.7%	508,083	6.0%
5 United	461,107	6.3%	418,686	5.3%	436,265	5.2%	491,252	5.7%	478,622	5.7%
6 Air New Zealand	460,305	6.3%	464,881	5.9%	441,266	5.3%	433,551	5.0%	381,194	4.5%
7 Korean	306,087	4.2%	327,165	4.2%	344,808	4.1%	356,190	4.1%	338,740	4.0%
8 Cathay Pacific	154,251	2.1%	191,058	2.4%	215,110	2.6%	301,119	3.5%	312,261	3.7%
9 American	132,811	1.8%	170,343	2.2%	272,185	3.2%	297,428	3.4%	310,698	3.7%
10 British Airways	218,813	3.0%	232,513	3.0%	254,371	3.0%	289,601	3.4%	274,435	3.3%
11 Air France	236,064	3.2%	246,393	3.1%	253,446	3.0%	250,465	2.9%	273,314	3.2%
12 Eva Airways	165,298	2.3%	202,916	2.6%	204,483	2.4%	227,505	2.6%	256,952	3.1%
13 Singapore	152,214	2.1%	201,027	2.6%	230,389	2.7%	240,380	2.8%	248,402	2.9%
14 Lufthansa German	233,163	3.2%	261,067	3.3%	259,300	3.1%	241,768	2.8%	247,882	2.9%
15 China	179,379	2.5%	241,391	3.1%	220,505	2.6%	230,174	2.7%	235,672	2.8%
16 AeroMexico	214,516	3.0%	233,827	3.0%	227,778	2.7%	232,589	2.7%	229,085	2.7%
17 Virgin Atlantic	191,674	2.6%	183,724	2.3%	193,580	2.3%	187,358	2.2%	195,061	2.3%
18 Air Tahiti Nui	128,127	1.8%	184,999	2.4%	198,491	2.4%	196,057	2.3%	193,798	2.3%
19 Japan	252,397	3.5%	283,844	3.6%	272,277	3.2%	279,531	3.2%	160,937	1.9%
20 Philippine	137,618	1.9%	144,584	1.8%	153,442	1.8%	153,085	1.8%	159,533	1.9%
Other	1,741,340	24.0%	1,834,551	23.4%	2,053,416	24.4%	1,826,690	21.2%	1,840,439	21.9%
Airport Total ^{2/}	7,269,224	100.0%	7,837,987	100.0%	8,404,809	100.0%	8,624,449	100.0%	8,421,686	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 activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2007 activity in descending order.

^{2/} Totals may not add due to individual rounding.

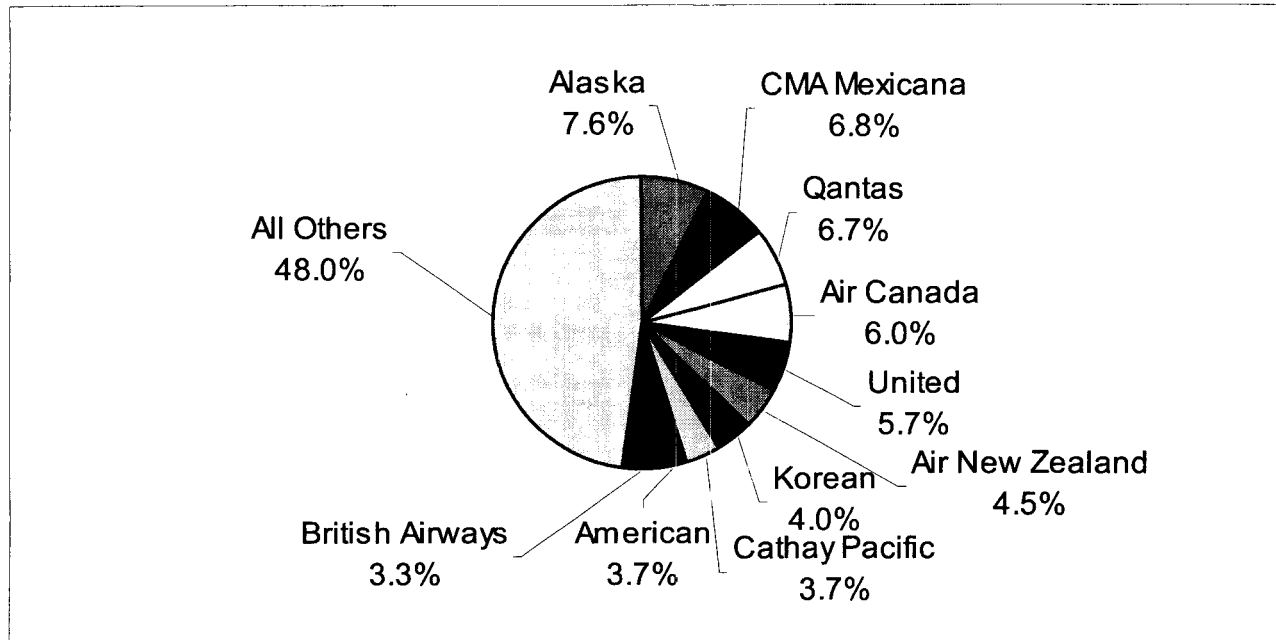
Sources: City of Los Angeles, Department of Airports

Prepared by: Ricondo & Associates, Inc.

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Exhibit II-5

International Enplanements by Airline – FY 2007



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

Table II-17 presents total enplanements by airline at the Airport between FY 2003 and FY 2007. Four airlines (United, American, Southwest, and Delta) accounted for slightly more than half of total enplanements at the Airport during this period. For the most part, each airline’s market share of total enplaned passengers at the Airport remained steady between FY 2003 and FY 2007.

2.4.2 Air Service

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as it serves primarily O&D passengers. **Table II-18** presents historical data on the Airport’s top 50 domestic O&D markets for FY 2001 and FY 2007. As shown, many markets along the West Coast corridor occupy the highest ranks during both years depicted. Notwithstanding this strong regional demand, the Airport’s markets in FY 2001 and FY 2007 had an average stage length (i.e., passenger trip distance) of 1,429 and 1,533 miles, respectively, compared to 812 and 871 miles nationwide. Historically, the Airport’s average stage length has significantly exceeded the nation’s, reflecting strong local demand for service to long-haul markets such as New York, Honolulu, Washington, D.C., Atlanta, and Boston.

Nonstop scheduled domestic air service available from the Airport is presented in **Table II-19**. As shown, 79 domestic cities are served with a total of 713 daily nonstop flights. In FY 2007, each of the Airport’s top 50 domestic O&D markets was served with nonstop flights on a daily basis. New York/Newark, the Airport’s largest domestic O&D market, was provided 39 daily nonstop

Table II-17

Historical Total Enplanements by Airline ^{1/}

Airline	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 United	4,883,723	17.6%	4,871,677	16.8%	4,858,603	15.9%	4,825,156	15.7%	4,826,434	15.7%
2 American	3,807,194	13.7%	3,927,869	13.5%	4,492,113	14.7%	4,642,853	15.1%	4,679,905	15.2%
3 Southwest	3,498,799	12.6%	3,589,396	12.3%	3,763,817	12.3%	3,930,014	12.8%	3,817,855	12.4%
4 Delta ^{2/}	2,029,728	7.3%	2,266,517	7.8%	2,329,863	7.6%	2,230,835	7.3%	2,312,650	7.5%
5 Alaska	1,149,826	4.1%	1,333,670	4.6%	1,436,584	4.7%	1,459,669	4.8%	1,479,679	4.8%
6 Skywest	1,144,935	4.1%	1,215,879	4.2%	1,277,811	4.2%	1,317,516	4.3%	1,425,685	4.6%
7 US Airways ^{3/}	1,288,118	4.6%	1,328,661	4.6%	1,506,080	4.9%	1,287,043	4.2%	1,238,267	4.0%
8 Continental	874,142	3.2%	885,956	3.0%	970,303	3.2%	1,085,628	3.5%	1,170,936	3.8%
9 Northwest ^{2/}	1,004,893	3.6%	1,026,338	3.5%	1,103,405	3.6%	1,118,732	3.6%	1,129,526	3.7%
10 Qantas	470,189	1.7%	553,265	1.9%	569,952	1.9%	594,801	1.9%	620,142	2.0%
11 CMA Mexicana	517,025	1.9%	505,384	1.7%	618,550	2.0%	712,492	2.3%	572,616	1.9%
12 American Eagle	552,337	2.0%	520,660	1.8%	512,923	1.7%	502,148	1.6%	509,076	1.7%
13 Air Canada	448,456	1.6%	434,406	1.5%	449,757	1.5%	487,446	1.6%	508,083	1.7%
14 Air New Zealand	460,305	1.7%	464,886	1.6%	441,285	1.4%	433,578	1.4%	381,369	1.2%
15 Korean	306,087	1.1%	327,165	1.1%	344,808	1.1%	356,190	1.2%	338,740	1.1%
16 Frontier ^{4/}	129,241	0.5%	225,304	0.8%	240,639	0.8%	215,757	0.7%	317,062	1.0%
17 Cathay Pacific	154,251	0.6%	191,058	0.7%	215,110	0.7%	301,119	1.0%	312,261	1.0%
18 British Airways	218,813	0.8%	232,513	0.8%	254,371	0.8%	289,601	0.9%	274,435	0.9%
19 Air France	236,064	0.9%	246,393	0.8%	253,446	0.8%	250,465	0.8%	273,314	0.9%
20 Eva Airways	165,298	0.6%	202,916	0.7%	204,483	0.7%	227,505	0.7%	256,952	0.8%
Other	4,370,904	15.8%	4,729,934	16.3%	4,704,348	15.4%	4,386,598	14.3%	4,338,022	14.1%
Airport Total ^{5/}	27,710,328	100.0%	29,079,847	100.0%	30,548,251	100.0%	30,655,146	100.0%	30,783,009	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 activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2007 activity in descending order.

^{2/} In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008.

^{3/} On September 27, 2005, US Airways completed its merger with America West. The FAA granted US Airways a single operating certificate on September 26, 2007.

^{4/} Filed for bankruptcy protection in April 2008 but continues to operate at the Airport.

^{5/} Totals may not add due to individual rounding.

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

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Table II-18

Primary Domestic O&D Passenger Markets

FY 2001				FY 2007				
Rank	Market	Trip Length ^{1/}	Total O&D Passengers	Rank	Market	Nonstop Service ^{2/}	Trip Length ^{1/}	Total O&D Passengers
1	New York/Newark	LH	2,955,470	1	New York/Newark	•	LH	2,676,270
2	Las Vegas	SH	1,885,740	2	Chicago	•	MH	1,513,170
3	Oakland	SH	1,614,230	3	Las Vegas	•	SH	1,339,190
4	Chicago	MH	1,513,950	4	Honolulu	•	LH	1,192,900
5	Phoenix	SH	1,191,010	5	San Francisco	•	SH	1,159,530
6	San Francisco	SH	1,177,940	6	Oakland	•	SH	1,085,850
7	San Jose	SH	1,153,630	7	Seattle	•	MH	902,860
8	Honolulu	LH	1,126,990	8	Washington	•	LH	862,490
9	Seattle	MH	1,062,260	9	Phoenix	•	SH	849,060
10	Sacramento	SH	823,290	10	Atlanta	•	LH	832,590
11	Washington	LH	822,680	11	Denver	•	MH	824,930
12	Denver	MH	796,030	12	Dallas	•	MH	778,810
13	Salt Lake City	SH	719,500	13	San Jose	•	SH	766,980
14	Boston	LH	712,690	14	Houston	•	MH	765,040
15	Dallas	MH	645,510	15	Boston	•	LH	678,110
16	Atlanta	LH	642,360	16	Philadelphia	•	LH	665,350
17	Portland	MH	596,440	17	Sacramento	•	SH	617,340
18	Baltimore	LH	586,020	18	Detroit	•	LH	585,670
19	Houston	MH	571,100	19	Minneapolis	•	MH	554,410
20	Philadelphia	LH	529,160	20	Orlando	•	LH	550,050
21	Detroit	LH	527,040	21	Portland	•	MH	535,730
22	Orlando	LH	507,980	22	Salt Lake City	•	SH	535,550
23	Minneapolis	MH	498,240	23	Kahului	•	LH	525,460
24	Kahului	LH	442,860	24	Baltimore	•	LH	426,410
25	Tucson	SH	425,030	25	Fort Lauderdale	•	LH	395,820
26	Reno	SH	383,410	26	Miami	•	LH	384,110
27	Miami	LH	367,540	27	Tucson	•	SH	364,370
28	Kansas City	MH	311,990	28	Kansas City	•	MH	339,580
29	New Orleans	MH	311,560	29	St Louis	•	MH	324,500
30	Albuquerque	MH	304,480	30	Austin	•	MH	288,350
31	St Louis	MH	290,770	31	Indianapolis	•	LH	283,660
32	Fort Lauderdale	LH	259,070	32	Reno	•	SH	281,770
33	Tampa	LH	259,040	33	Tampa	•	LH	255,370
34	Indianapolis	LH	248,990	34	Albuquerque	•	MH	254,820
35	Cleveland	LH	244,120	35	Nashville	•	MH	253,720
36	Nashville	MH	212,470	36	Cleveland	•	LH	242,340
37	Austin	MH	207,110	37	Charlotte	•	LH	232,340
38	Hartford	LH	191,120	38	Lihue	•	LH	223,850
39	Columbus	LH	189,230	39	San Antonio	•	MH	205,220
40	Milwaukee	MH	183,730	40	New Orleans	•	MH	194,100
41	Raleigh	LH	181,810	41	Kona	•	LH	189,820
42	Kona	LH	177,740	42	Pittsburgh	•	LH	188,840
43	San Antonio	MH	172,970	43	Raleigh	•	LH	175,530
44	Pittsburgh	LH	168,990	44	Milwaukee	•	MH	175,420
45	Providence	LH	168,550	45	Hartford	•	LH	175,010
46	El Paso	MH	154,850	46	Columbus	•	LH	145,790
47	Charlotte	LH	154,230	47	Memphis	•	MH	135,840
48	San Diego	SH	149,160	48	Boise	•	MH	125,780
49	Cincinnati	LH	141,680	49	El Paso	•	MH	121,700
50	Lihue	LH	135,310	50	Spokane	•	MH	113,640
	Others		4,310,740		Others			3,983,440
	Total		33,407,810		Total			31,278,480

Average

Airport ^{3/} 1,429 miles

United States 812 miles

Average

Airport ^{3/} 1,533 miles

United States 871 miles

Notes:

- ^{1/} (SH) Short Haul = 1 to 600 miles
- (MH) Medium Haul = 601 to 1,800 miles
- (LH) Long Haul = over 1,800 miles

^{2/} As of June 13, 2008.

^{3/} Average calculated for all of the Airport's O&D markets.

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

Table II-19 (1 of 2)

Nonstop Domestic Markets

Market	Daily Nonstop Flights	Number of Airlines	Airline
San Francisco	50	6	Alaska (1), American (7), ExpressJet (65), Southwest (12), United (17), Virgin America (7)
New York City ^{1/}	39	7	American (2-EWR), Continental (8-EWR), United (1-EWR), American (9-JFK), Delta (7-JFK), United (8-JFK), Virgin America (4-JFK)
Las Vegas	35	8	American (1), American Eagle (4), ExpressJet (1), Mesa (13), Northwest (1), Southwest (14), United (7), US Airways (6)
San Diego	33	2	American Eagle (17), SkyWest (16)
Chicago ^{2/}	29	3	American (10-ORD), United 12-ORD), Southwest (7-MDW)
Phoenix	29	4	ExpressJet (3), SkyWest (5), Southwest (13), US Airways (8)
Denver	28	5	American (3), ExpressJet (4), Frontier (6), Southwest (5), US Airways (11)
Seattle	27	4	Alaska (15), ExpressJet (4), United (4), Virgin America (4)
San Jose	26	4	American Eagle (6), ExpressJet (3), Southwest (13), United (4)
Oakland	25	3	ExpressJet (3), SkyWest (4), Southwest (18)
Dallas	19	2	American (17), SkyWest (2)
Sacramento	18	3	ExpressJet (4), SkyWest (5), Southwest (9)
Atlanta	17	2	Air Tran (6), Delta (11)
Houston ^{3/}	17	2	Continental (11-IAH), Southwest (4-HOU)
Honolulu	15	6	American (4), Continental (1), Delta (2), Hawaiian (2), Northwest (1), United (5)
Salt Lake City	15	3	Delta (6), SkyWest (4), Southwest (5)
Washington, DC ^{4/}	15	3	Alaska (1-DCA), American (3-IAD), United (8-IAD), Virgin America (3-IAD)
Portland	13	4	Alaska (4), ExpressJet (2), Horizon (2), SkyWest (4)
Santa Barbara	13	2	American Eagle (7), SkyWest (6)
Tucson	13	3	ExpressJet (2), Sky West (5), Southwest (6)
Fresno	11	2	American Eagle (5), SkyWest (6)
Reno	11	4	ExpressJet (3), Horizon (4), SkyWest (1), Southwest (3)
Minneapolis	9	2	Northwest (8), Sun Country (1)
San Luis Obispo	9	2	American Eagle (5), SkyWest (4)
Boston	8	3	American (4), Delta (1), United (3)
Monterey	8	2	American Eagle (3), SkyWest (5)
Albuquerque	7	2	SkyWest (3), Southwest (4)
Carlsbad	7	1	SkyWest
Detroit	7	2	Northwest (6), Spirit (1)
Kahului	7	3	American (2), Delta (1), United (4)
Miami	7	1	American
Philadelphia	7	2	United (2), US Airways (5)
Boise	6	3	ExpressJet (2), Horizon (2), SkyWest (2)
Palm Springs	6	1	SkyWest
San Antonio	6	3	American (1), SkyWest (2), Southwest (3)
Austin	5	3	American (3), SkyWest (1), Southwest (1)
Orlando	5	3	American (1), Delta (2), United (2)
Santa Maria	5	1	SkyWest
St. Louis	5	2	American (4), Southwest (1)
Baltimore	4	2	AirTran (2), United (2)
Charlotte	4	1	US Airways
Cincinnati	4	1	Delta
Cleveland	4	1	Continental

Table II-19 (2 of 2)

Nonstop Domestic Markets

Market	Daily Nonstop Flights	Number of Airlines	Airline
Kansas City	4	1	Southwest (4)
Lihue	4	2	American (1), Delta (1), United (2)
Milwaukee	4	2	AirTran (2), Midwest (2)
Modesto	4	1	SkyWest
Nashville	4	2	American (1), Southwest (3)
Oxnard	4	1	SkyWest
Spokane	4	2	ExpressJet (2), Horizon (2)
Anchorage	3	2	Alaska (2), Delta (1)
Bakersfield	3	1	SkyWest
Colorado Springs	3	1	SkyWest
El Paso	3	1	Southwest
Indianapolis	3	2	AirTran (1), Northwest (2)
Inyokern	3	1	SkyWest
Kona	3	3	American (1), Delta (1), United (1)
New Orleans	3	2	Delta (1), SkyWest (2)
El Centro/Imperial	2	1	SkyWest
Eugene	2	1	ExpressJet
Eureka/Arcata	2	1	Horizon
Fort Lauderdale	2	2	American (1), Sprint (1),
Medford	2	1	Horizon
Memphis	2	1	Northwest
Oaklahoma	2	1	SkyWest
Redmond	2	1	Horizon
Santa Rosa	2	1	Horizon
St. George	2	1	SkyWest
Tampa	2	1	Delta
Yuma	2	1	SkyWest
Aspen	1	1	SkyWest
Columbus	1	1	Delta
Des Moines	1	1	SkyWest
Fayetteville	1	1	American Eagle
Hartford	1	1	Delta
Pittsburgh	1	1	US Airways
Redding	1	1	Horizon
San Juan	1	1	American
Tulsa	1	1	SkyWest
Total Daily Departures	713		

Notes:

- ^{1/} Individual flights to Kennedy, LaGuardia, and Newark.
- ^{2/} Individual flights to Chicago O'Hare and Chicago Midway.
- ^{3/} Includes flights to Houston G. Bush International and Houston Hobby.
- ^{4/} Includes flights to Washington Reagan International and Washington Dulles International.

Sources: Official Airline Guide (June 13, 2008).

Prepared by: Ricondo & Associates, Inc.

flights. Other domestic markets with significant daily nonstop service include San Francisco (50), Las Vegas (35), and San Diego (33). **Exhibit II-6** graphically illustrates the Airport's nonstop domestic markets, as of June 15, 2008.

Table II-20 presents historical data on the Airport's top 50 international O&D markets for FY 2007. As shown, numerous international markets are represented including cities in Mexico, Central and South America, the Caribbean, Europe, Asia, and the Pacific. Nonstop scheduled international air service available from the Airport is presented in **Table II-21**. As shown, 56 international cities are served with a total of 155 nonstop flights. Each of the Airport's top 13 international O&D markets in FY 2007 are served with nonstop service, as well as 47 of the Airport's top 50 international O&D markets (Buenos Aires is served by direct, same-plane service from the Airport through Santiago, Chile). London, the largest international O&D market for the Airport in FY 2007, is provided 10 nonstop flights. Other international markets with significant nonstop service from the Airport include Vancouver (13 nonstop flights), Mexico City (nine), Guadalajara (nine), Tokyo (seven), and Toronto (seven). **Exhibit II-7** graphically illustrates the Airport's nonstop international markets, as of June 15, 2008.

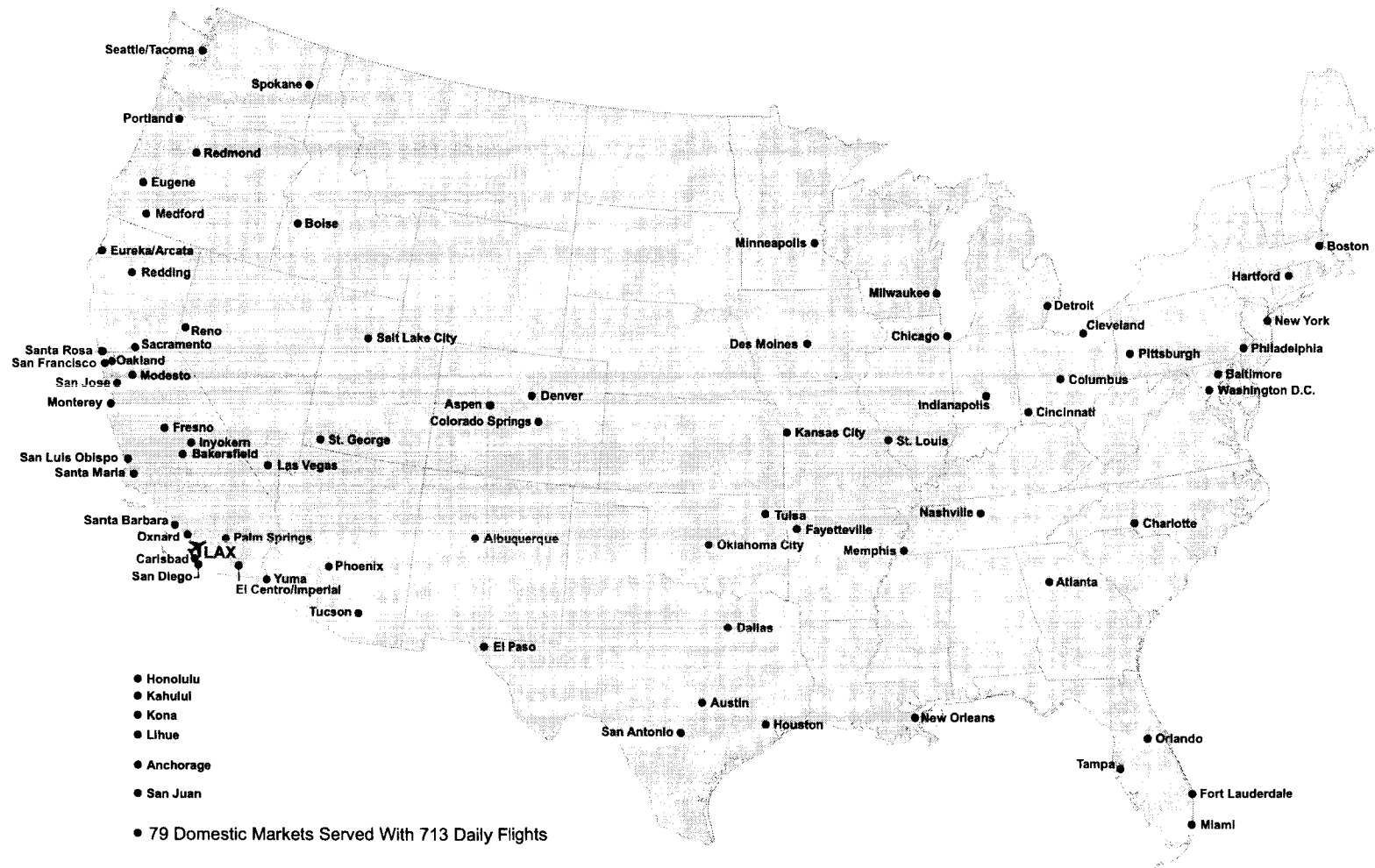
Several announcements regarding international service from the Airport have occurred since January 2008, including (1) nonstop service five times a week to Rome by Alitalia that began in June 2008 (the only nonstop service between California and Italy), (2) daily nonstop service to London by Air France that began in March 2008 under the new open skies agreement between the United States and the European Union, (3) an additional daily nonstop flight to Beijing by Air China beginning in the summer of 2009, and (4) daily nonstop service to Dubai by Emirates beginning September 2008.

2.4.3 Aircraft Operations

Table II-22 presents historical operations (take-offs and landings) at the Airport by major user group between FY 1997 and FY 2007. As shown, total aircraft activity at the Airport increased from 762,194 in FY 1997 to 796,129 in FY 2001, a compounded annual growth rate of 1.1 percent during this period, compared to a compounded decrease of 1.3 percent nationwide. As also shown, total aircraft activity at the Airport steadily decreased from 796,129 operations in FY 2001 to 636,687 in FY 2004, a compounded annual decrease of 7.2 percent during this period. This decrease was 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. Thereafter, total operations at the Airport increased at a compounded annual growth rate of 1.4 percent between FY 2004 and FY 2007, reaching 663,509 operations in FY 2007. By comparison, the FAA estimates that total aircraft operations nationwide decreased at a 1.1 percent compounded rate during this same period.

Passenger airline activity at the Airport was relatively stable between FY 1997 and FY 2001, averaging approximately 707,600 operations during this period. Passenger airline activity at the Airport steadily decreased from 726,536 operations in FY 2001 to 571,088 in FY 2004, a compounded annual decrease of 7.7 percent during this period. However, this activity increased 2.8 percent in FY 2005 from FY 2004 levels, primarily due to AirTran initiating service at the Airport, as well as expanded service by American and Mexicana, in FY 2005. Passenger airline operations increased at a compounded annual growth rate of 0.8 percent between FY 2004 and FY 2007,

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Source: Official Airline Guide, Inc., (June 15, 2008)
 Prepared by: Ricondo & Associates, Inc.

Exhibit II-6

Nonstop Domestic Markets

Table II-20
Primary International O&D Passenger Markets

FY 2007				
Rank	City	Country	Nonstop Service ^{1/}	Total O&D Passengers ^{2/}
1	London	United Kingdom	•	1,247,162
2	Taipei	Taiwan	•	841,049
3	Mexico City	Mexico	•	729,329
4	Seoul	South Korea	•	715,275
5	Tokyo	Japan	•	691,662
6	Guadalajara	Mexico	•	665,891
7	Vancouver	British Columbia	•	607,035
8	Paris	France	•	523,610
9	Hong Kong	Hong Kong	•	473,590
10	Toronto	Ontario	•	465,940
11	Auckland	New Zealand	•	406,883
12	San Salvador	El Salvadore	•	361,029
13	Frankfurt	Germany	•	358,389
14	Manila	Philippines	•	313,574
15	Los Cabos	Mexico	•	300,382
16	Calgary	Alberta	•	284,526
17	Sydney	Australia	•	261,495
18	Papeete (Tahiti)	French Polynesia	•	255,212
19	Amsterdam	Netherlands	•	233,195
20	Cancun	Mexico	•	227,399
21	Singapore	Singapore	•	214,470
22	Guatemala City	Guatemala	•	213,842
23	Beijing	China	•	174,706
24	Puerto Vallarta	Mexico	•	172,995
25	Shanghai	China	•	163,637
26	Montreal	Quebec	•	154,797
27	Lima	Peru	•	149,535
28	San Jose	Costa Rica	•	146,361
29	Munich	Germany	•	138,289
30	Nadi (Viti Levu)	Fiji	•	132,490
31	Zurich	Switzerland	•	121,999
32	Tel Aviv	Israel	•	121,888
33	Dublin	Ireland	•	102,011
34	Panama City	Panama	•	95,290
35	Guangzhou	China	•	94,639
36	Kuala Lumpur	Malaysia	•	92,187
37	Bangkok	Thailand	•	87,797
38	Brisbane	Australia	•	86,195
39	Leon/Guanajuato	Mexico	•	84,845
40	Melbourne	Australia	•	80,338
41	Moscow	Russian Federation	•	78,156
42	Mazatlan	Mexico	•	76,011
43	Rome	Italy	•	73,040
44	Osaka	Japan	•	69,722
45	Santiago	Chile	•	68,896
46	Montego Bay	Jamaica	•	67,257
47	Edmonton	Alberta	•	65,582
48	Morelia	Mexico	•	51,103
49	Buenos Aires	Argentina	Direct	49,290
50	Monterrey	Mexico	•	48,429
	Others			1,659,298
	Total			14,897,722

Notes:

^{1/} As of June 15, 2008.

^{2/} Results for FY 2007 combine U.S. Carrier Origin & Destination data plus Gateway to Gateway Data for passengers using foreign flag carriers as their LAX gateway to/from International gateways.

Sources: US DOT *Origin & Destination Survey of Airline Passenger Traffic, International*
US DOT T-100(f) Onflight Market Data for Foreign Carriers

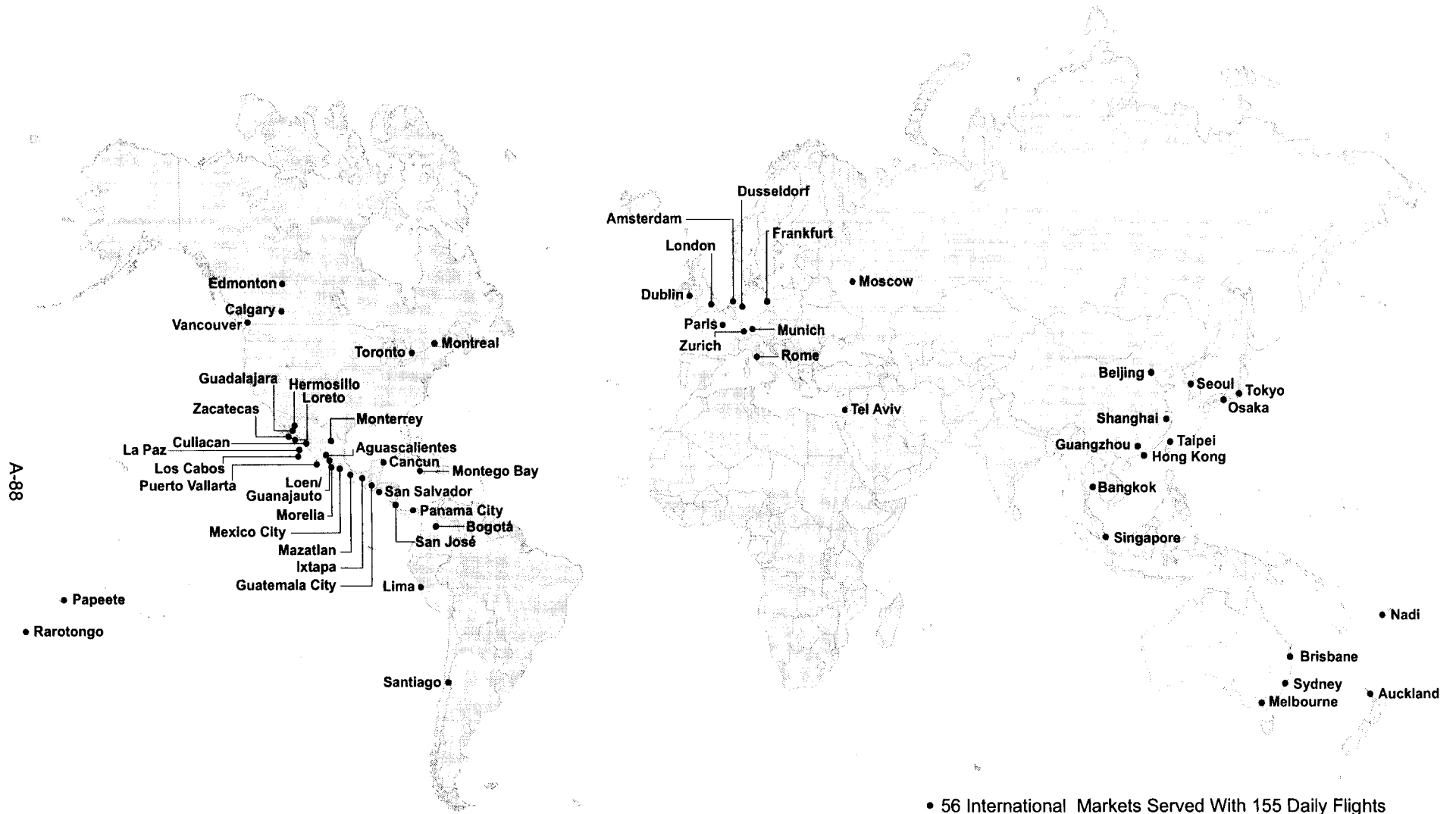
Prepared by: Ricondo & Associates, Inc.

Table II-21

Nonstop International Markets

Market	Nonstop Flights	Number of Airlines	Airline
Vancouver, British Columbia	13	3	Air Canada (5), Alaska Airlines (5), SkyWest (3)
Mexico City, Mexico	11	4	Aeromexico (3), Mexicana (6), United Airlines (1), Alaska (1)
London, England	10	6	Air France (1), Air New Zealand (1), American (2), British Airways (3), United (1), Virgin Atlantic (2)
Guadalajara, Mexico	9	4	AeroMexico (2), Delta Airlines (1), Mexicana (5), Alaska (1)
Tokyo, Japan	7	7	Japan (1), All Nippon (1), Northwest (1), Singapore (1), United Airlines (1), Korean Air (1), American (1)
Toronto, Ontario	7	3	American (1), Air Canada (5), WestJet (1)
Los Cabos, Mexico	5	3	Alaska Airlines (2), Mexicana (1), American (1)
San Salvador, El Salvador	5	3	American (1), LACSA (1), TACA (3)
Seoul, Korea	5	2	Korean Air (3), Asiana (2)
Taipei, Taiwan	5	3	Eva Airways (2), China (2), Malaysia (1)
Calgary, Alberta	4	2	Air Canada (3), WestJet (1)
Cancun, Mexico	4	4	Alaska (1), Delta (1), Mexicana (1), SkyWest (1)
Guatemala City, Guatemala	4	4	Delta (1), LACSA (1), TACA (1), United Airlines (1)
Hong Kong, China	4	2	Cathay Pacific (3), United (1)
Paris, France	4	2	Air France (3), Air Tahiti Nui (1)
Puerto Vallarta, Mexico	4	3	Alaska Airlines (2), Delta (1), Mexicana (1)
Sydney, Australia	4	2	Qantas (3), United (1)
Auckland, New Zealand	3	2	Air New Zealand (2), Qantas (1)
Frankfurt, Germany	3	2	Lufthansa German (2), United (1)
Loen/Guanajuato, Mexico	3	3	Mexicana
Mazatlan, Mexico	3	3	Alaska (1), ExpressJet (1), Mexicana (1)
Papeete, French Polynesia	3	2	Air Tahiti Nui (2), Air France (1)
Loreto, Mexico	2	2	Alaska (1), ExpressJet (1)
Aguaascalientes, Mexico	1	1	Aeromexico
Amsterdam, Netherlands	1	1	KLM-Royal Dutch
Bangkok, China	1	1	Thai Airways
Beijing, China	1	1	Air China
Bogota, Colombia	1	1	Avianca
Brisbane, Australia	1	1	Qantas
Culiacan, Mexico	1	1	ExpressJet
Dublin, Ireland	1	1	Aer Lingus
Dusseldorf, Germany	1	1	LTU International
Edmonton, Alberta	1	1	Air Canada Jazz
Guangzhou, China	1	1	China Southern
Hermosillo, Mexico	1	1	AeroLitoral
La Paz, Mexico	1	1	ExpressJet
Lima, Peru	1	1	Lan Peru
Melbourne, Australia	1	1	Qantas
Montego Bay, Jamaica	1	1	Air Jamaica
Monterrey, Mexico	1	1	Mexicana
Montreal, Quebec	1	1	Air Canada
Morelia, Mexico	1	1	Mexicana
Moscow, Russia	1	1	Aeroflot
Munich, Germany	1	1	Lufthansa German
Nadi, Fiji	1	1	Air Pacific
Osaka, Japan	1	1	Eva Airways
Panama City, Panama	1	1	Copa
Rarotongo, So. Pacific	1	1	Air New Zealand
Rome, Italy	1	1	Alitalia
San Jose, Costa Rica	1	1	LACSA
Santiago, Chile	1	1	Lan
Shanghai, China	1	1	China Eastern
Singapore, Changi	1	1	Singapore
Tel Aviv, Israel	1	1	El Al Israel
Zacatecas, Mexico	1	1	ExpressJet
Zurich, Switzerland	1	1	Swiss International
Total Daily Flights	155		

Sources: Official Airline Guide (June 15, 2008).
Prepared by Ricondo & Associates, Inc.



• 56 International Markets Served With 155 Daily Flights

Source: Official Airline Guide, Inc., (June 13, 2008)
 Prepared by: Ricondo & Associates, Inc.

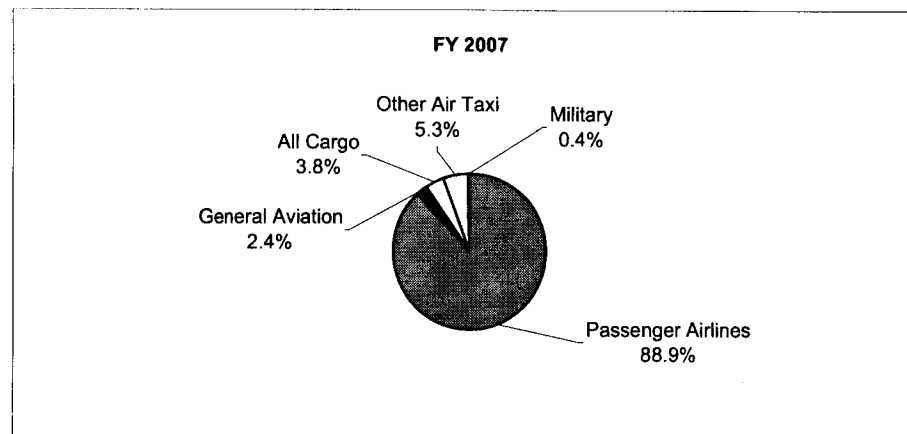
Exhibit II-7

Nonstop International Markets

Table II-22
Historical Aircraft Operations

Fiscal Year	U.S. Carriers	Foreign Flag Carriers	Airline Total	General Aviation	All Cargo	Other Air Taxi	Military	Total
1997	639,960	61,964	701,924	24,520	29,828	2,714	3,208	762,194
1998	638,476	68,728	707,204	30,556	31,712	22,035	3,821	795,328
1999	624,110	70,376	694,486	18,430	33,918	13,330	2,664	762,828
2000	633,404	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	647,792	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	528,750	66,650	595,400	15,188	31,694	12,818	2,315	657,415
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
Compounded Annual Growth Rate								
1997 - 2001	0.3%	6.2%	0.9%	(7.7%)	4.9%	50.0%	(11.5%)	1.1%
2001 - 2004	(8.5%)	(1.9%)	(7.7%)	(6.1%)	(11.1%)	18.3%	12.6%	(7.2%)
2004 - 2007	0.9%	0.2%	0.8%	2.0%	(0.1%)	15.5%	(3.9%)	1.4%

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

reaching 585,128 operations in FY 2007. By comparison, the FAA estimates that combined air carrier and air taxi/commuter operations nationwide increased at a compounded annual growth rate of 0.1 percent during this same period.

General aviation activity at the Airport was relatively stable between FY 1999 and FY 2007, with a low of 14,040 operations in FY 2005 and a high of 18,430 in FY 1999. This activity accounted for only 2.3 percent of total operations at the Airport between FY 1999 and FY 2007, as the majority of general aviation activity in the Los Angeles CSA is accommodated at Van Nuys Airport, ranked as the busiest general aviation airport in the world by averaging approximately 400,000 operations annually. Van Nuys Airport is one of four airports owned by the City and operated by the Department, including ONT, PMD, and the Airport.

Activity by all-cargo carriers at the Airport increased from 29,828 operations in FY 1997 to 36,110 in FY 2001, a compounded annual growth rate of 4.9 percent during this period. Activity by all-cargo carriers at the Airport then decreased from 36,110 operations in FY 2001 to 25,344 in FY 2004, a compounded annual decrease of 11.1 percent during this period. Thereafter, activity by this user group was relatively stable between FY 2004 and FY 2007, with a low of 25,232 in FY 2007 to a high of 27,100 in FY 2005.

In recent years, activity by other air taxi operators (i.e., for-hire charters, fixed base operators, etc.) averaged approximately 26,500 operations between FY 2004 and FY 2007.

Military activity at the Airport was relatively stable between FY 1997 and FY 2007, averaging approximately 2,700 operations during this period.

2.4.4 Landed Weight

Table II-23 presents landed weight for passenger airlines and all-cargo carriers at the Airport between FY 1997 and FY 2007. As shown, landed weight for passenger airlines increased from 50,933,536 thousand pounds in FY 1997 to 56,668,681 thousand pounds in FY 2001, a compounded annual growth rate of 2.7 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 2007, averaging 47,256,030 thousand pounds between FY 2004 and FY 2007. As also shown, landed weight for all-cargo carriers at the Airport increased from 5,135,084 thousand pounds in FY 1997 to 6,181,982 thousand pounds in FY 2001, a compounded annual growth rate of 4.7 percent during this period. After reaching a low of 4,290,136 thousand pounds in FY 2004, all-cargo landed weight steadily increased to 4,965,020 thousand pounds by FY 2007.

Table II-24 presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 2003 and FY 2007. As shown, four airlines (United, American, Southwest, and Delta) accounted for 41.3 percent to 44.7 percent of total landed weight at the Airport during this period. Four other airlines accounted for an additional 12.9 percent to 13.6 percent of landed weight between FY 1998 and FY 2002. FedEx accounted for the highest share of landed weight among all-cargo carriers at the Airport during each of the years shown. This carrier averaged approximately 1,900,000 thousand pounds of landed weight between FY 2003 and FY 2007. The exhibit below presents airline shares of landed weight at the Airport for FY 2007.

Table II-23

Historical Landed Weight (thousand pounds)

Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	All Cargo	Airport Total
Historical							
1997	34,911,620	2,087,980	2,557,107	11,376,829	50,933,536	5,135,084	56,068,620
1998	33,726,528	2,483,068	2,898,873	12,523,065	51,631,534	5,519,881	57,151,415
1999	33,529,789	2,443,970	3,305,432	12,834,346	52,113,537	5,744,879	57,858,416
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198
2007	26,676,844	2,926,437	2,843,496	14,845,477	47,292,254	4,965,020	52,257,274
Compounded Annual Growth Rate							
1997 - 2001	1.1%	4.3%	10.7%	5.2%	2.7%	4.7%	2.9%
2001 - 2002	(18.6%)	(2.7%)	(5.0%)	(14.3%)	(15.9%)	(5.5%)	(14.9%)
2002 - 2007	(2.1%)	4.0%	(4.8%)	4.5%	(0.1%)	(3.2%)	(0.5%)

Sources: City of Los Angeles, Department of Airports

Prepared by: Ricondo & Associates, Inc.

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Table II-24

Historical Landed Weight by Airline (000 pounds) ^{1/}

Airline	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share	Landed Weight	Share
1 United	8,321,019	16.1%	7,740,449	15.0%	7,255,290	13.9%	7,261,268	14.0%	7,144,632	13.7%
2 American	6,650,156	12.8%	6,513,413	12.6%	6,530,522	12.5%	6,224,562	12.0%	6,342,564	12.1%
3 Southwest	4,674,214	9.0%	4,634,360	9.0%	4,880,226	9.3%	5,004,196	9.7%	4,982,430	9.5%
4 Delta	3,503,886	6.8%	3,535,878	6.9%	3,277,142	6.3%	2,990,123	5.8%	3,116,374	6.0%
5 FedEx	1,888,808	3.6%	1,840,006	3.6%	1,956,507	3.7%	1,936,856	3.7%	1,876,769	3.6%
6 Alaska	1,612,857	3.1%	1,785,885	3.5%	1,747,446	3.3%	1,714,678	3.3%	1,830,572	3.5%
7 Skywest	1,534,142	3.0%	1,502,103	2.9%	1,579,730	3.0%	1,641,276	3.2%	1,752,097	3.4%
8 Northwest	1,657,263	3.2%	1,635,986	3.2%	1,644,806	3.1%	1,700,969	3.3%	1,652,306	3.2%
9 Qantas Airways	1,044,321	2.0%	1,223,094	2.4%	1,338,635	2.6%	1,409,692	2.7%	1,435,397	2.7%
10 Continental	1,261,222	2.4%	1,330,107	2.6%	1,292,606	2.5%	1,329,656	2.6%	1,421,707	2.7%
11 Korean	1,079,371	2.1%	1,041,396	2.0%	1,166,751	2.2%	1,147,742	2.2%	1,117,802	2.1%
12 Cathay Pacific Airways	594,960	1.1%	629,371	1.2%	693,234	1.3%	909,054	1.8%	926,376	1.8%
13 America West	873,024	1.7%	1,020,905	2.0%	1,186,957	2.3%	1,003,338	1.9%	907,645	1.7%
14 Mexicana	738,864	1.4%	717,313	1.4%	871,919	1.7%	955,836	1.8%	842,123	1.6%
15 Eva Airways	612,965	1.2%	687,792	1.3%	749,455	1.4%	793,100	1.5%	776,928	1.5%
16 Air New Zealand	905,443	1.7%	940,778	1.8%	860,046	1.6%	851,797	1.6%	732,190	1.4%
17 China	662,148	1.3%	685,940	1.3%	685,498	1.3%	719,650	1.4%	728,974	1.4%
18 Air Canada	666,836	1.3%	624,295	1.2%	601,590	1.2%	647,325	1.2%	668,390	1.3%
19 American Eagle	781,095	1.5%	719,565	1.4%	690,923	1.3%	662,888	1.3%	659,198	1.3%
20 British Airways	457,380	0.9%	467,460	0.9%	515,340	1.0%	594,090	1.1%	594,090	1.1%
Other	12,277,034	23.7%	12,289,847	23.8%	12,703,268	24.3%	12,305,102	23.8%	12,748,710	24.4%
Airport Total ^{2/}	51,797,008	100.0%	51,565,943	100.0%	52,227,891	100.0%	51,803,198	100.0%	52,257,274	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 activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2007 activity in descending order.

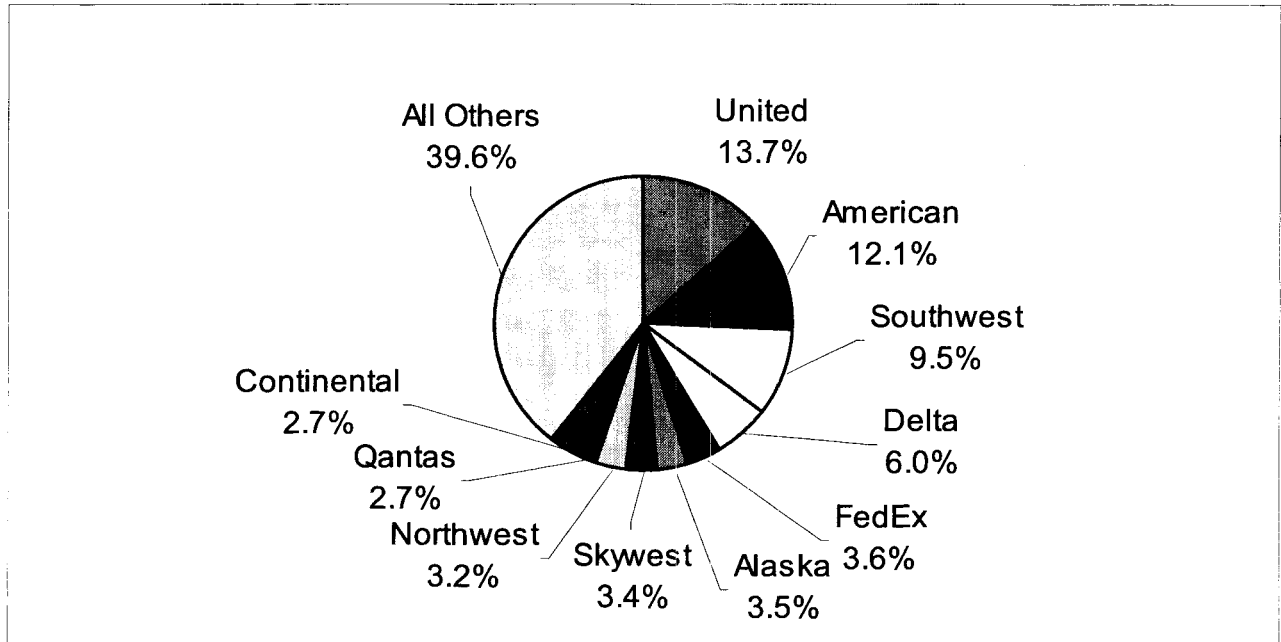
^{2/} Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports

Prepared by: Ricondo & Associates, Inc.

Exhibit II-8

Landed Weight by Airline – FY 2007



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

2.4.5 Cargo

As discussed earlier, the Airport ranked 12th worldwide and 5th nationwide in total cargo handled with approximately 1.9 million enplaned and deplaned tons.⁹ **Table II-25** presents historical enplaned and deplaned cargo handled at the Airport between FY 1997 and FY 2007. As shown, total cargo increased from 1,975,729 tons in FY 1997 to 2,145,062 tons in FY 2001, a compounded annual growth rate of 4.1 percent during this period. As a result of the events of September 11, 2001 and an economic slowdown, total cargo decreased 12.2 percent in FY 2002. Thereafter, it increased at a compounded annual growth rate of 2.0 percent, reaching 2,081,633 tons in FY 2007.

As also presented in **Table II-25**, 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). Similar to the passenger airlines, the air cargo industry has been impacted in recent years by the global economy, increasing fuel costs, continued decreases to the U.S. dollar, uncertainties in the Middle East, and new security regulations. The worldwide gross domestic product remains the primary driver for air cargo industry growth. As a leading economic indicator, air cargo traffic growth has slowed, or even decreased in certain markets (including LAX) in recent years, both from the increased prices of jet fuel since 2006 (particularly since late 2007), and the more recent U.S. economic recession.

Table II-26 presents the share of cargo handled by passenger airlines and all-cargo carriers at the Airport between FY 2003 and FY 2007. As shown, FedEx accounted for the highest share of cargo

⁹ *ACI Traffic 2007*, Airports Council International (preliminary dated 3/12/08).

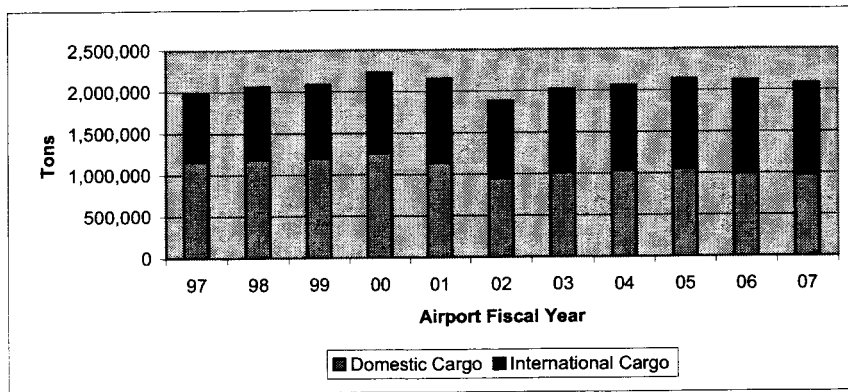
Table II-25

Historical Enplaned and Deplaned Cargo (tons)

Fiscal Year	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
1997	1,157,227	-	818,503	-	1,975,729	-
1998	1,187,727	2.6%	870,297	6.3%	2,058,024	4.2%
1999	1,197,765	0.8%	888,012	2.0%	2,085,776	1.3%
2000	1,263,279	5.5%	965,904	8.8%	2,229,183	6.9%
2001	1,112,803	(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%)

Compounded
Annual Growth Rate

1997 - 2001	(1.0%)	5.7%	4.1%
2001 - 2002	(14.3%)	(10.0%)	(12.2%)
2002 - 2007	0.5%	3.5%	2.0%
1997 - 2007	(1.7%)	3.1%	0.5%



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

Table II-26

Historical Enplaned and Deplaned Cargo by Airline (tons) ^{1/}

Airline	FY 2003		FY 2004		FY 2005		FY 2006		FY 2007	
	Cargo Volume	Share	Cargo Volume	Share	Cargo Volume	Share	Cargo Volume	Share	Cargo Volume	Share
1 FedEx	417,297	20.7%	419,416	20.3%	448,482	21.0%	425,737	20.1%	405,210	19.5%
2 American	98,903	4.9%	115,840	5.6%	112,332	5.3%	106,074	5.0%	111,763	5.4%
3 Korean	109,819	5.4%	104,323	5.1%	104,142	4.9%	102,537	4.8%	106,654	5.1%
4 United	135,294	6.7%	109,012	5.3%	101,677	4.8%	92,765	4.4%	82,247	4.0%
5 Kalitta Air	24,170	1.2%	52,502	2.5%	76,915	3.6%	65,222	3.1%	80,077	3.8%
6 Singapore Airlines Cargo	54,974	2.7%	59,383	2.9%	80,016	3.7%	78,650	3.7%	78,727	3.8%
7 Airborne/DHL	29,155	1.4%	26,466	1.3%	25,778	1.2%	34,797	1.6%	73,875	3.5%
8 Eva Airways	61,096	3.0%	68,644	3.3%	75,296	3.5%	75,975	3.6%	70,834	3.4%
9 Northwest	66,134	3.3%	67,191	3.3%	63,835	3.0%	75,254	3.6%	63,500	3.1%
10 Cathay Pacific Airways	49,739	2.5%	56,079	2.7%	62,764	2.9%	62,584	3.0%	62,426	3.0%
11 China	53,225	2.6%	54,811	2.7%	55,727	2.6%	60,430	2.9%	59,236	2.8%
12 Japan	44,568	2.2%	43,787	2.1%	50,665	2.4%	52,428	2.5%	51,243	2.5%
13 Polar	35,738	1.8%	42,820	2.1%	9,976	0.5%	28,241	1.3%	45,813	2.2%
14 Cargolux	31,638	1.6%	43,689	2.1%	46,016	2.2%	44,836	2.1%	41,201	2.0%
15 Delta	76,499	3.8%	67,900	3.3%	70,757	3.3%	52,008	2.5%	39,912	1.9%
16 Aerotransportes Mas De Carga SA	26,035	1.3%	28,413	1.4%	32,065	1.5%	30,856	1.5%	39,904	1.9%
17 Nippon Cargo Airlines	37,503	1.9%	34,143	1.7%	35,077	1.6%	39,363	1.9%	38,456	1.8%
18 Qantas Airways	30,388	1.5%	28,197	1.4%	36,459	1.7%	39,433	1.9%	37,204	1.8%
19 United Parcel Service	24,387	1.2%	27,042	1.3%	27,045	1.3%	24,637	1.2%	34,358	1.7%
20 Air New Zealand	28,131	1.4%	28,904	1.4%	27,335	1.3%	28,645	1.4%	29,918	1.4%
Other	582,064	28.9%	583,279	28.3%	594,012	27.8%	596,695	28.2%	529,074	25.4%
Airport Total ^{2/}	2,016,757	100.0%	2,061,840	100.0%	2,136,373	100.0%	2,117,164	100.0%	2,081,633	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 activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2007 activity in descending order.

^{2/} Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports

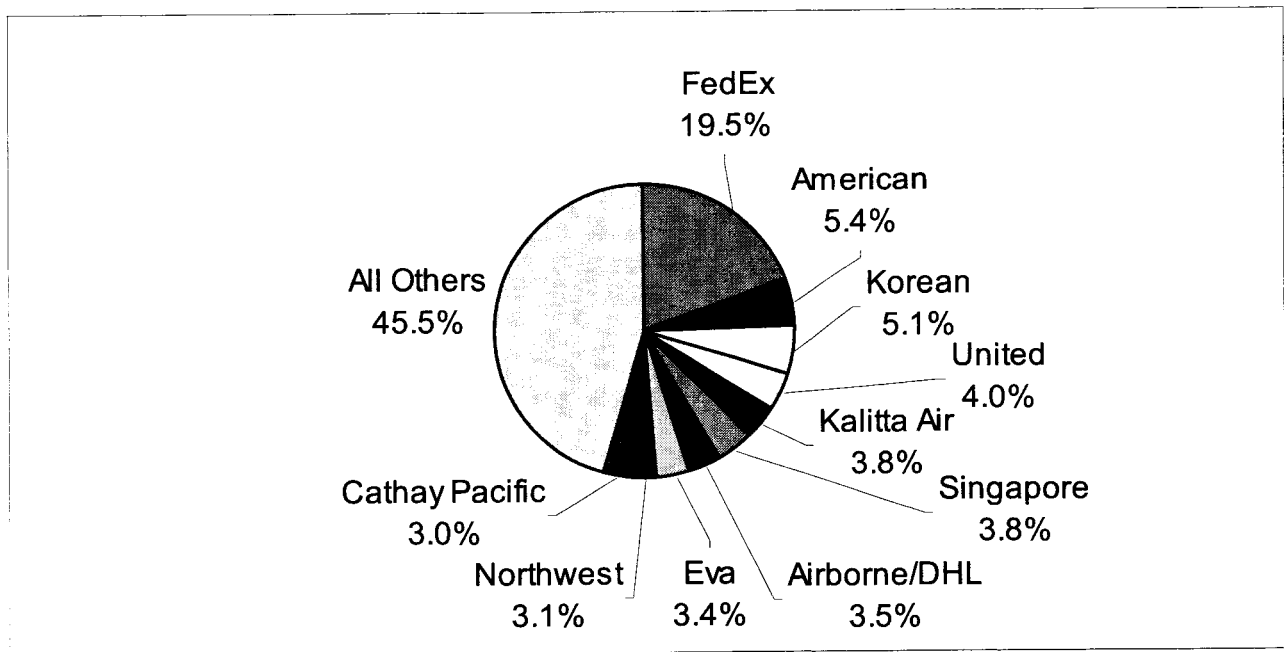
Prepared by: Ricondo & Associates, Inc.

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handled at the Airport during each of the years shown. Between FY 2003 and FY 2007, its share averaged approximately 20.3 percent. Although not shown in Table II-26, total cargo handled by FedEx increased 10.5 percent in FY 2002 as a result of its overall strategy to add capacity and improve service to Europe and Asia based on the growth prospects that these regions represent. Except for FY 2003, American accounted for the highest share of total cargo handled among passenger airlines at the Airport during each of the years shown. Other airlines handling significant amounts of cargo at the Airport include Korean and United. **Exhibit II-9** presents passenger airline and all-cargo carrier shares of cargo handled at the Airport for FY 2007.

Exhibit II-9

Enplaned and Deplaned Cargo by Airline – FY 2007



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

2.5 Factors Affecting Aviation Demand

This section discusses qualitative factors that could influence future aviation activity at the Airport.

2.5.1 National Economy

Air travel demand is directly correlated to income. As consumer income and business profits increase, so does air travel. Economic indicators in the nation prior to September 11, 2001 were beginning to show signs of a recession. In November 2001, the National Bureau of Economic Research officially announced that in March 2001 the U.S. economy had entered its 10th recession since the end of World War II. The effects of September 11, 2001 accelerated the downturn in consumer spending on consumer goods and services, including spending on air travel.

According to the Bush Administration’s Council of Economic Advisors, the recovery of the national economy begun in 2003 became a full-fledged expansion in 2004, with strong output growth and steady improvement in the labor market. This expansion of the U.S. economy continued in 2005 and

2006, with the economy increasing 3.1 percent and 3.4 percent, respectively, from the previous year, and payroll employment increasing by 2.0 million employees in 2005 and 2.2 million employees in 2006.^{10,11} Economic expansion continued in 2007 with a 2.5 percent increase from the prior year despite a weak housing sector, tightening credit, and high energy prices.

According to Blue Chip Economic Indicators, a consensus forecast of over 50 U.S. economists, the U.S. economy has already entered into recession or will do so this year.¹² According to the panelists' April 10, 2008 newsletter, "Real personal consumption expenditures are expected to register the smallest year-to-year increase in 17 years, pretax corporate profits the first decline since 2001, nonresidential fixed investment the slowest growth since 2003, and total industrial production the most tepid gain since 2002". The panelists expect the U.S. economy to expand by 1.4 percent for all of 2008.

2.5.2 State of the Airline Industry

The U.S. aviation industry has been significantly affected by a number of events that occurred earlier this decade (e.g., September 11, 2001, an economic slowdown, the outbreak of SARS in Asia and Canada, and the Middle East conflicts). These events contributed to substantial financial losses for the aviation industry between 2001 and 2005 (\$35 billion in cumulative net losses during this period, excluding extraordinary restructuring charges and gains). The U.S. aviation industry recorded a \$3 billion net profit in 2006 and a \$5 billion net profit in 2007.

Since the beginning of the decade, numerous U.S. passenger airlines filed for bankruptcy protection including (in chronological order) US Airways (in 2002 and 2004), United, Hawaiian, Midway, ATA (in 2004 and 2008), Aloha (in 2004 and 2008), Delta, Northwest, Mesaba, Independence Air, SkyBus, and Frontier. Midway, Independence Air, and SkyBus ceased operations in 2003, 2006, and 2008, respectively; while Aloha and ATA filed for bankruptcy protection for a second time in March 2008 and April 2008, respectively, and ceased operations thereafter. Frontier has continued operating while under bankruptcy protection.

The airlines have responded to the changing nature of the industry by furloughing employees, negotiating significant wage reductions, deferring aircraft deliveries, streamlining operations, and improving productivity. The airlines have also responded to industry changes through mergers and acquisitions. US Airways and America West completed their merger in 2005 and began operating under a single operating certificate in September 2007. In April 2008, Delta and Northwest announced their merger agreement, subject to regulatory approval, which they expect will be granted by late 2008.

The way airlines do business has dramatically changed over the last five years. Faced with the growth of low-cost airlines and evolving business technology, U.S. legacy airlines have been forced to change business practices. Carriers that once structured their services around the business traveler during the economic boom in the 1990s found that more and more businesses were either switching to low-cost carriers or significantly reducing or eliminating business travel. U.S. legacy carriers were therefore forced to reduce, eliminate, or switch service to smaller regional jets on unprofitable

¹⁰ *Economic Report of the President*, February 2006.

¹¹ *Economic Report of the President*, February 2007.

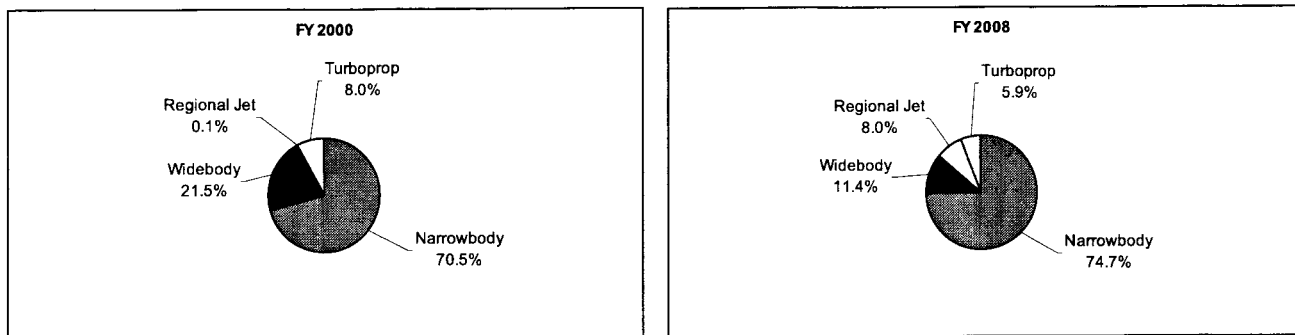
¹² *Blue Chip Economic Indicators Survey*, Aspen Publishers, Inc., April 10, 2008.

routes, reduce work force and implement pay cuts, and reduce fares in order to compete with low-cost carriers. The reduction in fares by the U.S. legacy carriers following the events of September 11, 2001 is especially evident at the Airport. As shown in **Exhibit II-10**, average one-way domestic fares at the Airport steadily decreased from \$163 in FY 2001 (pre-September 11, 2001) to \$142 in FY 2005, and were generally below average fares nationwide. As discussed later in this section, the cost of aviation fuel has increased significantly in recent years. As a result, airlines have been forced in many cases to increase fares accordingly. As also shown in Exhibit II-10, average one-way domestic fares at the Airport increased from \$142 in FY 2005 to \$159 in FY 2006, and then to \$165 in FY 2007. In the same years, average fares nationwide increased from \$150 to \$161 and then to \$162.

A major tangible change in the airline industry has been the increased use of smaller, regional jets. According to Official Airline Guide data, scheduled flights on regional jets nationwide increased from an average of 85,300 monthly departures in 2000 to 279,600 in 2007, a compounded annual growth rate of 18.5 percent during this period. Scheduled regional jet traffic nationwide accounted for approximately 33 percent of scheduled domestic flights in 2007, compared to approximately 10 percent in 2000. Accompanying this trend has been the reduction in use of widebody jet aircraft on domestic routes and increased use of narrowbody jet aircraft and regional jet aircraft. As shown in the exhibit below, this trend has occurred at the Airport between FY 2000 and FY 2008.

Exhibit II-11

Shares of Scheduled Domestic Departing Seats by Aircraft Type



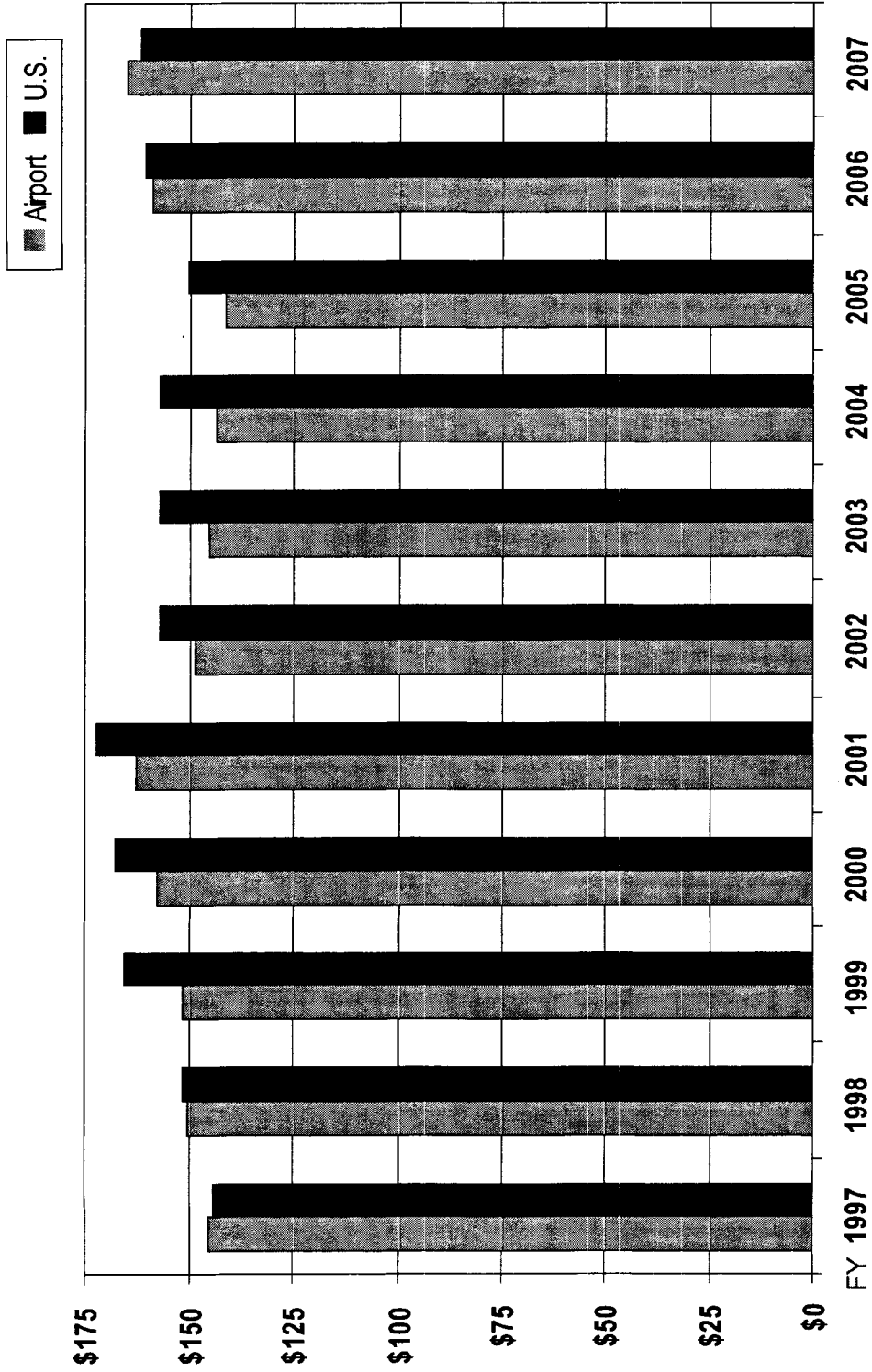
Source: Official Airline Guide
Prepared by: Ricondo & Associates, Inc.

Most industries have one or more of three inherent structural weaknesses: they are labor intensive, capital intensive, and/or vulnerable to cost and supply of a key commodity. Airlines have all three weaknesses. As discussed above, four of the six U.S. legacy carriers have undergone reorganization under Chapter 11 since the beginning of the decade. Chapter 11 protection affords these carriers the ability to pursue cuts in wages, pension, and health benefits for workers and retirees, among other strategies.

2.5.3 Factors Directly Affecting the Airline Industry

2.5.3.1 Cost of Aviation Fuel

The price of fuel is the most significant force affecting the industry today. The average price of jet fuel was \$0.81 per gallon in 2000 compared to \$2.10 in 2007. In May 2008, the average price of jet



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

Exhibit II-10

Average One-Way Domestic Fares at the Airport

fuel increased to \$3.79 per gallon. According to the Air Transport Association, every one-cent increase in the price per gallon increases annual airline operating expenses by approximately \$190 million to \$200 million.

Also according to the Air Transport Association, U.S. airline fuel expense increased from \$16.4 billion in 2000 to \$41.6 billion in 2007, a compounded annual growth rate of 14.2 percent during this period. The airline industry paid \$7.5 billion more for fuel in 2004 than in 2003, \$10.4 billion more in 2005 than in 2004, \$4.9 billion more in 2006 than in 2005, and \$3.0 billion more in 2007 than in 2006. According to the Air Transport Association's airline cost index for the third quarter of 2007, fuel has overtaken labor as the industry's top cost (26.5 percent of industry expenditures compared to 23.4 percent, respectively).

The recent significant increases in the price of jet fuel have airlines further reducing their capacity. American announced in mid-May 2008 that it will reduce its domestic capacity by as much as 12 percent systemwide in fourth quarter 2008, its largest single service cutback since the events of September 11, 2001. In addition, Continental and United announced in June 2008 that mainline domestic capacity will be reduced by as much as 11 percent and 18 percent systemwide, respectively, over the 2008 and 2009 period. Other carriers, many of which have announced capacity reductions of their own, are expected to continue reducing capacity to offset the rapidly rising fuel costs. The price of jet fuel has forced some airlines to find ways of becoming more fuel efficient by taking certain actions including using newer, more fuel-efficient airplanes, using only a single engine for taxi, lowering cruise speeds, onboard weight reduction, more direct routes, and other measures.

Some airlines have hedged fuel prices through the purchase of oil futures contracts; however, the amount of hedged fuel cost has varied tremendously by airline and is limited by an individual airline's financial condition. The substantial increase in fuel prices has had a significant impact on profitability and future increases or sustained higher prices could affect airfares and airline service. Higher fuel prices were cited by Aloha, ATA, and SkyBus as contributing factors in their recent bankruptcy filings.

2.5.3.2 Airport Security

With enactment of the Aviation and Transportation Security Act (ATSA) in November 2001, the Transportation Security Administration (TSA) was created, which established different 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.

In November 2002, Congress enacted the Homeland Security Act, which created the Department of Homeland Security (DHS) to accomplish several primary goals: (1) prevent terrorist attacks within the United States, (2) reduce the nation's vulnerability to terrorism, (3) minimize the damage of and assist in the recovery from terrorist attacks that do occur, (4) and monitor connections between illegal drug trafficking and terrorism and coordinate efforts to sever such connections. The TSA is now a part of the DHS.

2.5.3.3 Threat of Terrorism

As has been the case since September 11, 2001, the recurrence of terrorism incidents directly against either domestic or world aviation or against other targets that directly affect either domestic or world aviation during the projection period remains a risk to achieving the activity projections contained

herein. Tighter security measures have restored the public's confidence in the integrity of U.S. and world aviation security systems. Any terrorist incident aimed at aviation would have an immediate and significant impact on the demand for aviation services.

2.5.4 Other Factors Affecting the Airport

2.5.4.1 Stipulated Settlement

In December 2004, the Los Angeles Board of Airport Commissioners and the City Council of the City of Los Angeles adopted a comprehensive development program for the Airport, by way of adopting a LAX Master Plan (also known as Alternative D), the City's general plan for the Airport known as the LAX Plan, and the LAX Specific Plan. The LAX Specific Plan is the implementing ordinance that establishes zoning and land use regulations and procedures for the processing of future specific projects and activities anticipated under the LAX Master Plan. The LAX Specific Plan calls for a Specific Plan Amendment Study (SPAS) to comprehensively address security, traffic, aviation activity and corresponding environmental analysis for, among other things, certain projects known as Yellow Light Projects. Yellow Light Projects include the development of the Ground Transportation Center (GTC), including baggage tunnel and associated structures and equipment, construction of the Automated People Mover (APM) from the GTC to the Central Terminal Area (CTA), including its stations and related facilities and equipment, demolition of CTA Terminals 1, 2 and 3, construction of the Midfield Satellite Concourse (MSC), reconfiguration of the north airfield as contemplated in the LAX Master Plan (including center taxiways), and improvements to on-site roadways related to the GTC, APM and CTA.

On February 17, 2006, a Stipulated Settlement (Settlement) was reached in connection with litigation commenced by the Cities of El Segundo, Inglewood, and Culver City, the County of Los Angeles, and the Alliance for a Regional Solution to Airport Congestion against the Department, the City of Los Angeles, the Los Angeles City Council, the Mayor of the City of Los Angeles, and the Los Angeles Board of Airport Commissioners, challenging their approval of the LAX Master Plan.

The Settlement removed potential litigation obstacles and allows development to proceed with a series of projects in the LAX Master Plan that are not subject to the SPAS. Specifically, pursuant to the Settlement, the Department may move forward with all non-Yellow Light Projects. This includes, but is not limited to, the South Airfield Improvement Project, the Consolidated Rental Car Facilities, the Taxiway C-13 Construction with Bridge, the TBIT Expansion, the reclassification of the Midfield Satellite Concourse Project as a non-Yellow Light project, and various other terminal, airfield, and apron projects that are included in the Series 2008 Projects, Other Incorporated Projects, and Future Projects. The state environmental review and approval was programmatic for Alternative D, all projects to be developed pursuant to Alternative D are subject to project level environmental review. Project level environmental review is complete for the South Airfield Improvement Project.

Project level environmental review has formally begun for the Crossfield Taxiway Project (the notice of preparation was issued in April 2008) and the SPAS (the notice of preparation was issued in March 2008).

The Settlement sets forth in greater detail the requirements of SPAS, as called for by the LAX Specific Plan. The Settlement requires the Department to focus SPAS on three areas: 1) potential alternative designs, technologies, and configurations for the LAX Master Plan that would provide solutions to the problems that the Yellow Light Projects were designed to address consistent with a practical capacity at the Airport of 78.9 million annual passengers (Alternative Projects), 2) security, traffic, and aviation activity of such alternative designs, technologies, and configurations, and 3)

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.

The Settlement also provides that the Department may operate no more than 163 gates at the Airport. Additionally, the Department will discontinue passenger operations at ten narrowbody-equivalent gates at the rate of two gates per year starting in 2010. By December 31, 2015, the total number of gates at the Airport shall be reduced to no more than 153 gates. These reductions will be achieved through the build out of improved contact passenger gate facilities and the elimination of remote gate facilities as approved in the FAA's Record of Decision issued in connection with the LAX Master Plan. The requirement to reduce gates will remain in effect until December 31, 2020. If the Airport does not reach the 75 MAP activity level (the Airport had approximately 61.9 MAP in CY 2007) or the LAX Master Plan is substantially revised pursuant to the SPAS process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction in gates is necessary.

2.5.4.2 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 Los Angeles CSA may have an effect on enplaned passengers at the Airport. Some of these constraints are discussed below.

Beginning in 1968, the owner and operator of SNA, Orange County, 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. From 1981 on, Orange County and the City of Newport Beach (joined by two residents' groups) were engaged in litigation in both state and federal courts. In order 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. The SNA Agreement was written to be in effect until December 31, 2005, and has been amended eight times by consent of the parties, most recently in 2002 whereby 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. Other changes to the SNA Agreement included increasing the maximum number of passenger loading bridges from 14 to 20 and increasing the number of noise-regulated flights from 73 average daily departures to 85.

In 1981, the City of Long Beach adopted a noise control ordinance that limited the number of air carrier flights at LGB to 15 per day and required the use of quieter aircraft. The ordinance was eventually challenged on constitutional grounds by various commercial airlines in federal court. In an effort to resolve protracted litigation, the City of Long Beach and the airlines entered into a stipulated settlement agreement in 1995. Under the settlement, the Long Beach City Council adopted the current Airport Noise Compatibility Ordinance (Ordinance). One component of the Ordinance permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB. These operational levels equate to a capacity of approximately 4.2 MAP (LGB reached approximately 3.0 MAP in CY 2007). These operational activity levels may be increased as long as flights operate at or below annual noise budgets for each class of operator.

The Ordinance allows the minimum permitted number of flights per day to be increased at LGB in each operator flight restriction category so long as flights operate at or below annual noise budgets

for each class of operator defined in the Ordinance. At no time since adoption of the Ordinance has the City of Long Beach authorized any increase in the minimum number of permitted air carrier or commuter flights at LGB. Such increases, however, could occur in the future if the airlines optimize their flight operations at LGB. For the air carriers, this would include using the quietest feasible models of aircraft for every flight at LGB and substantially reducing late night operations to reduce curfew violations. Under these optimal conditions, which have never been achieved at LGB, the estimated number of increased air carrier flights would range between seven and 11 additional flights.

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 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. According to an analysis conducted by the Southern California Association of Governments (SCAG), the existing 14 aircraft parking positions/gates at BUR have a physical capacity of approximately 9.4 MAP (BUR had 5.9 MAP in CY 2007). Based on this SCAG analysis, BUR can accommodate an additional 3.5 MAP or 1.8 million enplaned passengers.

2.6 Projected Airport Activity

Projections of aviation demand at the Airport were prepared on the basis of local socioeconomic and demographic factors, the Airport's historical share of U.S. enplanements, and anticipated trends in air carrier usage of the Airport.

In developing the projections of enplaned passengers at the Airport, two methodologies were used:

- **Market Share Approach.** In this methodology, judgments are made as to how and to what extent the Airport's rate of growth will differ from that projected for the nation by the FAA. On a macro scale, the U.S. projection provides a growth base reflecting how industry traffic in general is anticipated to grow in the future. The growth rate used for the Airport can be reflected as an increase or decrease in its future share of the market. For projected domestic activity, this approach was used individually for American, United, and Southwest (airlines with the highest share of domestic enplanements at the Airport in FY 2007), as well as collectively for the remaining domestic airlines.
- **Socioeconomic Regression Approach.** Statistical linear regression modeling is used in this methodology, with local socioeconomic factors as the independent variable and enplaned passengers as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, per capita income, and employment. Of interest in the analyses, among other factors, was how well each socioeconomic variable explained the annual variations in enplaned passengers at the Airport (i.e., the model's correlation coefficient).

Activity projections for the Airport are based on a number of underlying assumptions that are further based on national aviation trends, regional economic conditions, and the professional judgment of

R&A. The following presents the specific assumptions used in developing activity projections at the Airport through FY 2014.

- No major national security events are assumed to occur during the projection period.
- The Airport will continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its air carrier base will also continue to foster competitive pricing and scheduling diversity. O&D passengers will continue to account for a high percentage of enplaned passengers at the Airport, for both domestic and international activity.
- Activity at the Airport will continue to be served over a broad base of airlines, with no one or two airlines dominating in market shares of activity during the projection period.
- The demand for air service in the Los Angeles CSA 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 Los Angeles CSA. 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 under-utilized ONT, which is located in an area with growing population and number of businesses, and to a certain extent at BUR.
- International traffic growth at the Airport will continue to outpace domestic traffic growth due to increasing demand for air travel around the world and the advancements in open skies agreements.
- Airline consolidation/mergers (including Delta/Northwest) or bankruptcies that may occur during the projection period are not likely to negatively impact passenger activity levels at the Airport due to its high percentage of O&D passengers.
- New airline alliances, should they develop, will be restricted to code sharing and joint frequent flyer programs, and should not reduce airline competition at the Airport.
- The price of aviation fuel has steadily increased in recent years, requiring some passenger airlines to implement a surcharge to their pricing structure. Whereas a certain segment of leisure travelers will be negatively affected by higher fares, air travel demand at the Airport (especially business travel demand) will adjust to the higher fares required by escalating fuel prices.
- The Airport is located in a seismically active region of the State of California. During the past 150 years, the Los Angeles CSA has experienced several major and minor earthquakes. Although an earthquake(s) may occur during the projection period, it will not be of a magnitude to disrupt service at the Airport.¹³
- Economic disturbances will occur in the projection period causing year-to-year traffic variations; however, a long-term increase in nationwide traffic is expected to occur.

¹³ On January 17, 1994, the Los Angeles CSA experienced an earthquake that measured 6.7 on the Richter Scale. There was no disruption of service at the Airport from this event.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified. As a result, the projection process should not be viewed as precise. Actual future traffic levels at the Airport may differ from projections presented herein because of unforeseen events.

2.6.1 Enplanement Projections

Table II-27 presents historical and projected enplanements at the Airport. Specific points regarding projected enplaned passengers are discussed below.

- Domestic passenger activity has recovered from a low of 20.4 million enplanements in FY 2003 to 22.4 million enplanements in FY 2007. As discussed earlier, however, growth in domestic enplaned passengers has been relatively flat at the Airport in recent years, primarily due to a significant decrease in domestic seat capacity between FY 2000 and FY 2003 and minimal growth thereafter by the legacy carriers. Based on nine months of actual data for FY 2008, as well as recent announcements by certain carriers of decreased domestic capacity systemwide, this trend is expected to continue through FY 2009 as certain legacy carriers (including United, American, and Delta, among others) focus more on growth and expansion in the more profitable international markets rather than in the domestic markets. As a result, it is expected that domestic enplanements will increase from 22.4 million in FY 2007 to 25.0 million in FY 2014. This increase represents a compounded annual growth rate of 1.6 percent during this period, compared to 2.8 percent projected nationwide by the FAA. With the expected shifting of certain air service by the legacy carriers, regional/commuter domestic enplanements are projected to increase at a higher rate than the domestic major/national enplanements (compounded annual growth rates of 2.6 percent and 1.5 percent, respectively, between FY 2007 and FY 2014).
- The number of international enplaned passengers at the Airport for the first nine months of FY 2008 was 6.9 percent higher compared to the same period in FY 2007. As discussed earlier, it appears that international passenger traffic at the Airport has rebounded from the effects of the events of September 11, 2001, a nationwide economic slowdown at the beginning of this decade, and SARS. In addition, it is expected that certain legacy carriers at the Airport will focus more on growth and expansion in the more profitable international markets during the projection period. As a result, it is projected that international enplanements will increase at a greater rate than domestic enplanements. Total international enplanements at the Airport are projected to increase from 8.4 million in FY 2007 to 10.4 million in FY 2014. This increase represents a compounded annual growth rate of 3.0 percent during this period. With the expected focus on expansion and growth in international markets by certain legacy carriers, international enplanements by U.S. flag carriers are projected to increase at a higher rate than international enplanements by foreign flag carriers (compounded annual growth rates of 4.9 percent and 2.5 percent, respectively, between FY 2007 and FY 2014). In FY 2007, foreign flag carriers served approximately 79 percent of the Airport's total international enplanements, while U.S. flag carriers accounted for the remaining 21 percent. By FY 2014, it is projected that foreign flag carriers will serve approximately 75 percent and U.S. flag carriers will carry 25 percent of total international enplanements.
- Combining domestic and international activity, total enplaned passengers at the Airport are projected to increase from 30.8 million in FY 2007 to 35.3 million in FY 2014, representing a compounded annual growth rate of 2.0 percent during this period.

Table II-27

Enplanement Projections

Fiscal Year	Domestic Majors/Nationals	Regionals/ Commuters	Total Domestic	International U.S. Flag Carriers	International Foreign Flag Carriers	Total International	Airport Total
Historical							
1997	21,172,231	1,219,542	22,391,773	1,899,711	5,252,783	7,152,494	29,544,267
1998	21,569,675	1,485,179	23,054,854	1,758,207	5,924,821	7,683,028	30,737,882
1999	22,162,103	1,573,999	23,736,102	1,634,775	6,114,584	7,749,359	31,485,461
2000	23,370,480	1,510,247	24,880,727	1,705,862	6,645,133	8,350,995	33,231,722
2001	23,421,360	1,539,395	24,960,755	1,801,060	7,078,154	8,879,214	33,839,969
2002	19,202,331	1,581,486	20,783,817	1,369,295	5,978,549	7,347,844	28,131,661
2003	18,567,188	1,873,916	20,441,104	1,332,111	5,937,113	7,269,224	27,710,328
2004	19,254,785	1,987,075	21,241,860	1,423,386	6,414,601	7,837,987	29,079,847
2005	20,169,841	1,973,601	22,143,442	1,604,210	6,800,599	8,404,809	30,548,251
2006	19,986,545	2,044,152	22,030,697	1,657,549	6,966,900	8,624,449	30,655,146
2007	20,131,226	2,230,097	22,361,323	1,757,609	6,664,077	8,421,686	30,783,009
Projected							
2008	20,077,500	2,239,000	22,316,500	1,852,600	6,782,400	8,635,000	30,951,500
2009	20,078,800	2,241,200	22,320,000	1,920,700	6,878,000	8,798,700	31,118,700
2010	20,489,500	2,318,400	22,807,900	2,024,700	7,097,900	9,122,600	31,930,500
2011	20,915,300	2,400,400	23,315,700	2,129,200	7,312,600	9,441,800	32,757,500
2012	21,358,400	2,484,600	23,843,000	2,236,400	7,521,700	9,758,100	33,601,100
2013	21,814,200	2,573,600	24,387,800	2,346,300	7,728,600	10,074,900	34,462,700
2014	22,288,100	2,664,800	24,952,900	2,461,200	7,906,300	10,367,500	35,320,400
Compounded Annual Growth Rate							
1997 - 2001	2.6%	6.0%	2.8%	(1.3%)	7.7%	5.6%	3.5%
2001 - 2002	(18.0%)	2.7%	(16.7%)	(24.0%)	(15.5%)	(17.2%)	(16.9%)
2002 - 2007	0.9%	7.1%	1.5%	5.1%	2.2%	2.8%	1.8%
2007 - 2014	1.5%	2.6%	1.6%	4.9%	2.5%	3.0%	2.0%

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

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2.6.2 Operations Projections

Table II-28 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, other air taxi operators, and military. As shown, total aircraft activity at the Airport is projected to increase from 663,509 operations in FY 2007 to 718,520 in FY 2014. This projected increase represents a compounded annual growth rate of 1.1 percent during this period, compared to 1.7 percent projected by the FAA for the nation.

Passenger airline aircraft operations at the Airport are projected to increase from 585,128 operations in FY 2007 to 630,620 in FY 2014, representing a 1.1 percent compounded annual growth rate 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 156.0 seats in FY 2007 to 158.0 seats in FY 2014, similar to average seat levels prior to September 11, 2001.
- Average seats for regionals/commuters are projected to increase approximately 0.50 seats per year, from 41.0 seats in FY 2007 to 44.5 seats in FY 2014. 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 1.50 seats per year, from 209.7 seats in FY 2007 to 221.0 seats in FY 2014. 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 by 2009.
- Combined load factors for domestic majors/nationals, regionals/commuters, and international carriers are projected at 78 to 80 percent during the projection period, consistent with load factor assumptions used by the FAA in its nationwide projections.

General aviation activity at the Airport is expected to grow moderately during the projection period, reflecting the assumption that growth in this activity will occur primarily at outlying airports within the Los Angeles CSA due to cost and delay considerations. As a result, general aviation activity at the Airport is expected to increase moderately from 15,624 operations in FY 2007 to 17,200 operations in FY 2014. It is expected that the majority of general aviation traffic at the Airport will be corporate/business travel.

All-cargo activity at the Airport is expected to increase from 25,232 operations in FY 2007 to 29,700 operations in FY 2014. This increase represents a compounded annual growth rate of 2.4 percent during this period, the same rate projected for air carriers nationwide by the FAA.

Activity by other air taxi operators is projected to increase from approximately 35,000 operations in FY 2007 to approximately 38,300 in FY 2014. The increase between FY 2007 and FY 2014 represents a compounded annual growth rate of 1.3 percent during this period, compared to the 2.6 percent growth projected for air taxi activity nationwide by the FAA.

Table II-28

Operations Projections

Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	General Aviation	All Cargo	Other Air Taxi	Military	Airport Total
Historical										
1997	422,404	190,822	26,734	61,964	701,924	24,520	29,828	2,714	3,208	762,194
1998	411,860	196,638	29,978	68,728	707,204	30,556	31,712	22,035	3,821	795,328
1999	407,454	182,632	34,024	70,376	694,486	18,430	33,918	13,330	2,664	762,828
2000	409,720	186,710	36,974	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	423,184	183,842	40,766	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	331,630	158,412	38,708	66,650	595,400	15,188	31,694	12,818	2,315	657,415
2003	322,238	162,950	21,752	71,834	578,774	16,379	25,834	18,208	2,239	641,434
2004	326,042	149,898	20,772	74,376	571,088	14,709	25,344	22,740	2,806	636,687
2005	330,038	150,094	26,286	80,808	587,226	14,040	27,100	22,605	2,852	653,823
2006	321,562	151,788	25,580	81,476	580,406	16,116	26,272	25,582	2,488	650,864
2007	326,424	155,414	28,372	74,918	585,128	15,624	25,232	35,037	2,488	663,509
Projected										
2008	325,400	155,800	29,480	75,580	586,260	16,000	25,800	35,500	2,700	666,260
2009	325,200	156,400	30,120	75,980	587,700	16,200	26,400	35,900	2,700	668,900
2010	328,600	158,400	31,300	77,720	596,020	16,500	27,000	36,300	2,700	678,520
2011	332,000	160,600	32,440	79,380	604,420	16,700	27,600	36,800	2,700	688,220
2012	335,600	162,800	33,600	80,960	612,960	16,800	28,300	37,300	2,700	698,060
2013	339,400	165,200	34,760	82,480	621,840	17,000	29,000	37,800	2,700	708,340
2014	343,400	167,600	35,940	83,680	630,620	17,200	29,700	38,300	2,700	718,520
Compounded Annual Growth Rate										
1997 - 2001	0.0%	(0.9%)	11.1%	6.2%	0.9%	(7.7%)	4.9%	50.0%	(11.5%)	1.1%
2001 - 2002	(21.6%)	(13.8%)	(5.0%)	(15.4%)	(18.0%)	(14.6%)	(12.2%)	(6.6%)	17.6%	(17.4%)
2002 - 2007	(0.3%)	(0.4%)	(6.0%)	2.4%	(0.3%)	0.6%	(4.5%)	22.3%	1.5%	0.2%
2007 - 2014	0.7%	1.1%	3.4%	1.6%	1.1%	1.4%	2.4%	1.3%	1.2%	1.1%

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

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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 average activity level between FY 1997 and FY 2007.

2.6.3 Passenger Airline and All-Cargo Landed Weight Projections

Table II-29 presents historical and projected passenger airline and all-cargo carrier landed weight at the Airport. As shown, passenger airline landed weight is projected to increase from 47,292,254 thousand pounds in FY 2007 to 53,898,170 thousand pounds in FY 2014, a compounded annual growth rate of 1.9 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 4,965,020 thousand pounds in FY 2007 to 5,937,241 thousand pounds in FY 2014, a compounded annual growth rate of 2.6 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, including the anticipated initiation of new generation aircraft at the Airport by 2009.

Table II-29

Landed Weight Projections (thousand pounds)

Year	Domestic Majors/Nationals	Regionals/ Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger Airlines	All Cargo	Airport Total
Historical							
1997	34,911,620	2,087,980	2,557,107	11,376,829	50,933,536	5,135,084	56,068,620
1998	33,726,528	2,483,068	2,898,873	12,523,065	51,631,534	5,519,881	57,151,415
1999	33,529,789	2,443,970	3,305,432	12,834,346	52,113,537	5,744,879	57,858,416
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198
2007	26,676,844	2,926,437	2,843,496	14,845,477	47,292,254	4,965,020	52,257,274
Projected							
2008	26,593,158	2,962,932	3,040,722	15,031,008	47,627,820	5,076,788	52,704,608
2009	26,576,813	3,015,375	3,106,735	15,295,796	47,994,719	5,208,635	53,203,355
2010	26,855,507	3,095,492	3,228,446	15,835,561	49,015,007	5,341,109	54,356,116
2011	27,330,465	3,180,619	3,346,032	16,367,316	50,224,432	5,474,209	55,698,641
2012	27,823,588	3,266,901	3,465,680	16,890,474	51,446,644	5,627,822	57,074,466
2013	28,337,916	3,358,402	3,585,329	17,408,673	52,690,319	5,782,166	58,472,486
2014	28,874,005	3,451,163	3,707,040	17,865,962	53,898,170	5,937,241	59,835,411
Compounded Annual Growth Rate							
1997 - 2001	1.1%	4.3%	10.7%	5.2%	2.7%	4.7%	2.9%
2001 - 2002	(18.6%)	(2.7%)	(5.0%)	(14.3%)	(15.9%)	(5.5%)	(14.9%)
2002 - 2007	(2.1%)	4.0%	(4.8%)	4.5%	(0.1%)	(3.2%)	(0.5%)
2007 - 2014	1.1%	2.4%	3.9%	2.7%	1.9%	2.6%	2.0%

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc.

Prepared by: Ricondo & Associates, Inc.

III. Airport Facilities and Capital Program

This chapter presents a review of existing Airport facilities, a discussion of the Series 2008 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 3,651 acres of land, consisting of the Central Terminal Area (CTA), airfield facilities, air cargo facilities, and ancillary facilities. The Airport is generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the South by Imperial Highway, and on the west by the Pacific Ocean. Existing facilities at the Airport are described in the following paragraphs and are shown on **Exhibit III-1**.

3.1.1 Airfield Facilities

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

Primary runway use is arrival operations on the outboard runways and departure operations on the inboard runways. Simultaneous approaches to the outboard and inboard runways are conducted only in west flow during Visual Flight Rules (VFR) using visual approach procedures. All four runways are capable of accommodating fully loaded widebody aircraft, such as the Boeing 747 and 787 or Airbus 340. Runway 7R-25L is capable of accommodating the Airbus 380.

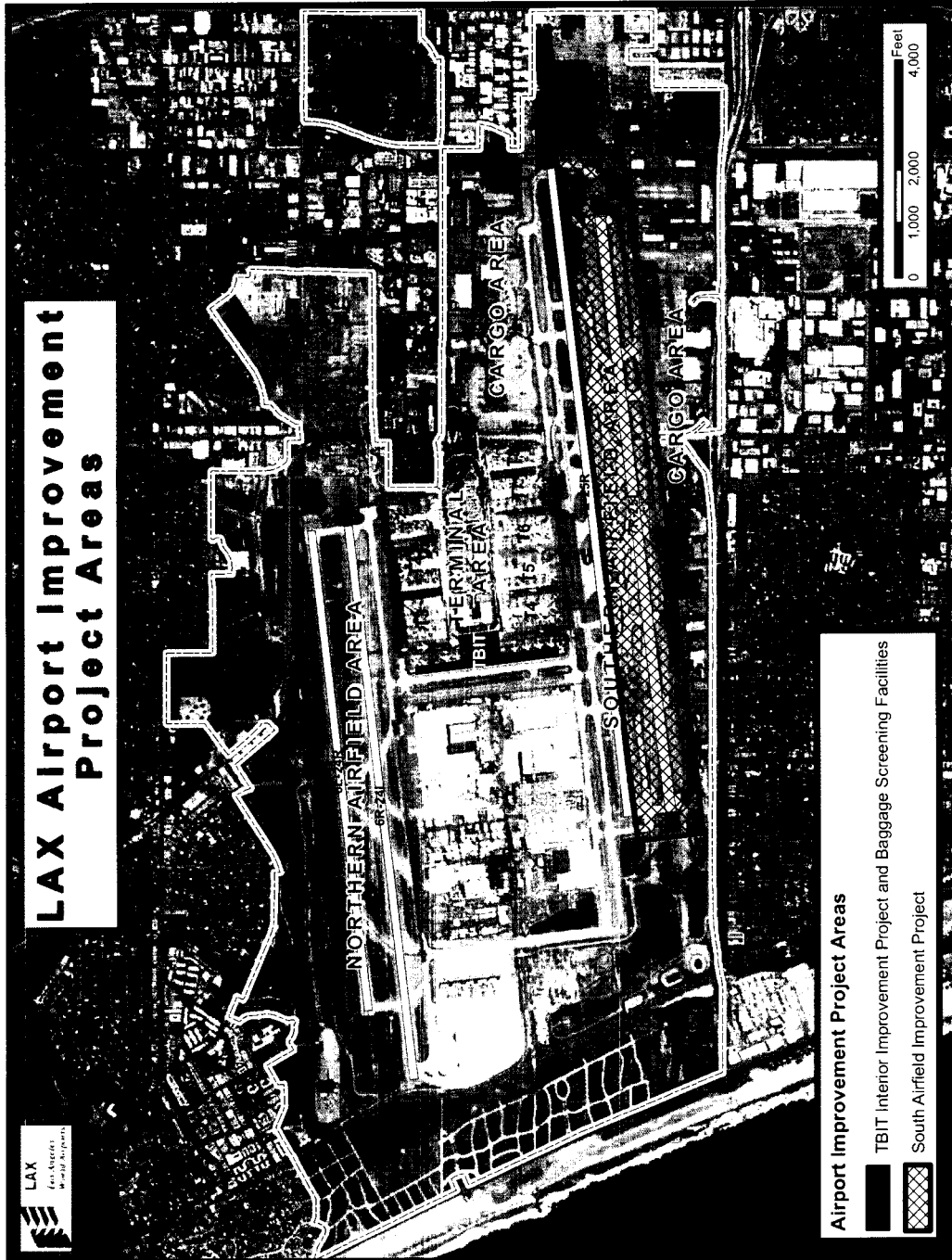
A taxiway network to facilitate the movement of aircraft between the runways and the CTA and other airport facilities serves both sets of parallel runways. The north and south airfield complexes are separated by the CTA, aircraft maintenance hangar facilities, the fuel farm, and remote aircraft gates, 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 4.4 million square feet. Each of the nine terminals is briefly described below:



Source: LAWA.
Prepared by: LAWA and Ricondo & Associates, Inc., April 2008.

Exhibit III-1

Existing Airport Facilities and Series 2008 Projects

- **Terminal 1** is used for domestic operations and comprises approximately 350,000 square feet, on three levels. Tenants of this facility include Southwest Airlines and US Airways.
- **Terminal 2** is leased by LAX TWO Corp. and is used by 13 airlines, including Air Canada, Air China, Air France, Hawaiian Airlines, Northwest Airlines, and Virgin Atlantic for domestic and international use. The building is comprised of approximately 501,000 square feet on three levels. In addition, there is a mezzanine level with airline clubs and offices.
- **Terminal 3** is a Joint Use Facility and is used by seven airlines (AirTran, Alaska, Frontier, Horizon, Midwest, Spirit, and Sun Country) primarily for domestic operations, although international departures may occur. This terminal is comprised of approximately 303,000 square feet and includes two levels and a mezzanine.
- **Terminal 4** is leased by American for both domestic and international operations at many of its gates. Other tenants include American Eagle and Qantas. The terminal is comprised of approximately 575,000 square feet and includes two levels and a mezzanine.
- **Terminal 5** is leased by Delta and also used by Aerolitoral, Aeromexico, Air Jamaica, and Alitalia and includes approximately 505,000 square feet. The configuration includes three levels, capable of both domestic and international operations at many of its gates.
- **Terminal 6** is a Joint Use Facility used by Continental, Delta, and United and is also used by three other airlines (including Virgin America) mainly for domestic operations, although international operations do occur from time to time. The two levels comprise approximately 428,000 square feet.
- **Terminals 7 and 8** are leased by United for domestic and international operations, and encompass approximately 692,000 square feet, consisting of two pier concourses supported by a single ticketing area and a split baggage claim facility, arranged on three levels with a mezzanine in the satellite.
- **Tom Bradley International Terminal (TBIT)** encompasses approximately 1,008,000 square feet and is the major international terminal serving both foreign flag and U.S. carriers. This terminal is comprised of four levels and is used by approximately 33 airlines providing international service at the Airport.

3.1.3 Public Parking Facilities

Approximately 21,000 public parking spaces are available at the Airport, including 10,000 parking spaces in eight parking garages in the CTA and 11,000 spaces in two economy-rate, long term surface parking lots, including Lot B (111th Street and La Cienega Boulevard) and Lot C (96th Street and Sepulveda Boulevard). Crosswalks on the lower-level roadway and sky bridges provide pedestrian connections between the eight parking garages in the CTA and the terminal buildings.

To help reduce vehicle traffic congestion in the CTA, the Airport also provides a 79-space cell phone waiting lot (located on Airport Boulevard near Arbor Vitae Street, approximately five minutes away from the CTA) where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside.

Free shuttle service to the terminals is provided 24 hours per day from Lot B and Lot C. Lot C also contains the Los Angeles County Metropolitan Transportation Authority Bus Center, which connects public bus systems with the courtesy shuttle bus service provided by the Airport.

In addition to the public parking spaces discussed above, nearly 3,300 parking spaces are available in various parking lots for Department employees. Other individual employers at the Airport provide parking spaces for employees in various lots at the Airport.

3.1.4 Rental Car Facilities

Approximately 40 rental car companies operate at the Airport, with vehicle rental sites located off-Airport. Ready/return spaces are included among the various off-Airport sites. Ten rental car companies operating at the Airport provide free shuttle service between the Airport and the rental cars companies and are permitted to pick up and drop off their customers directly from the airline terminals. Customers of the other rental car companies use the free LAX Shuttle Bus to reach the Off-Airport Rental Car Terminal (located at Lot C) to meet their rental car courtesy shuttle.

3.1.5 Cargo Facilities

Based on preliminary data obtained from the Airports Council International (ACI) for CY 2007 (the latest year for which such rankings are available), the Airport ranked 12th worldwide and 5th nationwide in total cargo handled with approximately 1.9 million enplaned and deplaned tons.

The cargo areas at the Airport comprise 2.1 million square feet of building space in 26 buildings on 194 acres of land used for cargo-related purposes; approximately 92 percent of this space is leased. Four million square feet is developed for cargo use in the immediate vicinity of the Airport. The City owns all of the cargo-related property at the Airport although the tenants own some buildings located on the property.

The Airport cargo areas are generally oriented around three primary areas, including the 98-acre “Cargo City” (also known as “Century Cargo Complex”), the 57.4-acre “Imperial Cargo Complex,” and a number of terminals on the south side of the Airport comprising the “South Cargo Area.” Improvements and enhancements by tenants and the Department have been made continually at the Century Cargo Complex, the Airport’s first air cargo area. America, United, Virgin Atlantic, Asiana, Alaska, British Airways, Southwest, and US Airways utilize this facility. The Imperial Cargo Complex has also undergone extensive development by domestic and international carriers. Major tenants include Lufthansa, Japan Airlines, Korean Air, Federal Express, China Airlines, Delta and Air Canada.

Each Cargo complex at the Airport has a unique landside access system. The primary access for the Airport’s cargo areas is provided from three arterial roadways: Century Boulevard, Aviation Boulevard, and Imperial Highway. Parking areas are generally adjacent to each cargo building. To accommodate the truck activity, each cargo building has designated truck docks. Many of these docks are used for storage and other nonloading/unloading activities.

3.1.6 Ancillary Facilities

Ancillary facilities support the aviation-related activities at the Airport. The facilities identified as ancillary are categorized as General Aviation, Ground Service, Federal Aviation Administration, Transportation Security Administration (TSA), Airline Administration and Maintenance, Los Angeles World Airports (the Department), Flight Kitchens, Fuel, Aircraft Rescue and Firefighting and Other Ancillary Facilities.

- **General Aviation.** Two fixed base operators (FBOs), Landmark Aviation and Mercury Aviation, operate at the Airport, encompassing approximately 14 acres. They provide a full

array of services to the general aviation community, such as refueling, light maintenance and pilot lounges.

- **Ground Service.** Several ground service companies operate at the Airport providing a variety of services, employing some 2,400 employees and occupying approximately nine acres.
- **Federal Aviation Administration (FAA).** The FAA occupies the 277-foot Air Traffic Control Tower and handles all flight arrivals and departures as well as ground movement.
- **Transportation Security Administration (TSA).** The TSA occupies the sixth floor of the former control tower.
- **Airline Administration and Maintenance.** These hangars and support facilities are concentrated in six primary airline complexes at the Airport:
 - Delta/United Airlines
 - American Airlines (2)
 - Continental Airlines
 - Federal Express
 - US Airways
- **The Department.** The Department maintains facilities occupying approximately 30 acres at the Airport, consisting of maintenance yard, warehouse, inspection office, administration offices, a telecommunication center and executive offices in the former control tower.
- **Flight Kitchen.** Two catering companies operate flight kitchens at LAX, including Gate Gourmet and LSG Sky Chefs.
- **Fuel.** Fuel is transported into the Airport's bulk storage fuel farm facility via underground pipelines from several petroleum refineries in the South Bay area. The bulk storage fuel farm at the Airport encompasses approximately 20 acres on the north side of World Way West. Six petroleum refineries provide fuel to the Airport, and five principal companies store and deliver fuel to aircraft at the Airport for a combined total of over 130 million gallons per month.
- **Other Ancillary Facilities.** Other ancillary and support facilities at the Airport include the U.S. Post Office, Aircraft Rescue and Firefighting, Airport Police Bureau, and the U.S. Coast Guard.

3.2 Summary of Capital Planning

Capital planning at the Airport is based upon a series of adopted, comprehensive land use plans and procedures, namely a LAX Master Plan, LAX Plan and LAX Specific Plan. See Section 2.5.4.1 of this report for a more detailed discussion, including the status of programmatic and project level environment review processes. Based upon this planning framework, each year the Department reviews its 3-Year Capital Improvement Program (CIP), which incorporates projects that are moving along in the scoping, costing and approval process and/or are in the implementation phase. Finally, as part of the annual budget development process, the Department prepares an annual Capital Plan for the Airport, summarizing projects planned to be implemented in the upcoming Fiscal Year, along with detailed estimates of costs and a specific identification of funding sources.

As discussed further in Chapter 4 of this report, specific funding source decisions are driven by the CIP and the annual capital budget and are made based upon 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 this report, the Airport's capital program is organized into the following three categories (each of which is discussed in the sections that follow in this chapter of the report):

- **The Series 2008 Projects.** Includes capital projects to be funded, in part, with Series 2008 Bond proceeds. Each of the capital projects included in the Series 2008 Projects are consistent with the adopted LAX Master Plan. The capital and operating costs, and any estimated revenue impacts, associated with the Series 2008 Projects **have been included** in the financial analysis incorporated in this report and the financial tables accompanying this report (see Chapter 4). As described in Chapter 4, debt associated with the Series 2008 Projects is reflected in two assumed financings: the Series 2008 Bonds and an additional series of bonds projected to be issued in 2009, which will fund remaining costs associated with these projects after taking into account the Series 2008 Bond proceeds.
- **Other Incorporated Projects.** Includes projects other than the Series 2008 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in this report, and are expected by the Department to be completed during the projection period (through FY 2014). These projects are referred to in the report as the Other Incorporated Projects. The capital and operating costs, and any estimated revenue impacts, associated with the Other Incorporated Projects **have been included** in the financial analysis incorporated in this report and the financial tables accompanying this report (see Chapter 4). As described in Chapter 4, debt associated with the Other Incorporated Projects is incorporated in the analysis using assumptions that reflect the Department's strategic approach to managing its long-term funding plan. Certain of the Other Incorporated Projects are consistent with the adopted LAX Master Plan.
- **Future Projects.** Includes other potential future projects at the Airport that the Department is pursuing (referred to as Future Projects) that are not reflected in this report or in the accompanying tables because the scope, timing, cost, and approval of these projects are uncertain. Future Projects include a range of facility improvements, enhancements and additions that seek to preserve and reinvest in existing infrastructure and to develop the incremental airfield, terminal and ground side capacity needed to meet long-term growth projections. Certain of the Future Projects are subject to the Specific Plan Amendment Study (see Section 2.5.4.1 of this report). The Department will only undertake Future Projects when demand warrants, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by a reasonable level of Airport user fees or other discrete funding sources such as grants, PFCs, CFCs, Department funds or third party funds.

3.3 The Series 2008 Projects

The Series 2008 Projects are Airport projects that will be funded in part with the proceeds of the Series 2008 Bonds and include (1) the Tom Bradley International Terminal (TBIT) Interior Improvements and Baggage Screening Facilities Project and (2) the South Airfield Improvement Project, as described in detail in the following sections.

Exhibit III-1 highlights the location of key elements of the Series 2008 Projects. **Table III-1** presents gross costs for the Series 2008 Projects (and the Other Incorporated Projects discussed below in Section 3.4).

The Series 2008 Projects are estimated to cost approximately \$1.1 billion (including design, engineering, construction, escalation for inflation, and contingency amounts). As described in the sections below, certain expenditures associated with the Series 2008 Projects have already been made by the Department. Preliminary cost estimates for the Other Incorporated Projects total approximately \$3.0 billion. Sources of funding for the Series 2008 Projects and the Other Incorporated Projects are described in Section 4.7 of this report. The financial impacts of both the Series 2008 Projects and the Other Incorporated Projects are incorporated in this report and the accompanying financial tables in Chapter 4.

3.3.1 Tom Bradley International Terminal (TBIT) Interior Improvements and Baggage Screening Facilities

The TBIT Interior Improvements and Baggage Screening Facilities Project (the TBIT Renovation Project) includes major interior renovations of the departure lobby, departures and arrivals concourses, meeter/greeter areas, and Federal Inspection Services areas; installation of an in-line explosive detection bag screening system and facilities; replacement and upgrade of baggage handling systems and baggage makeup rooms; and construction of new dual loading bridges and a new large aircraft gate. As shown on Table III-1, the Department estimates that the TBIT Renovation Project will cost \$723.5 million (including design, engineering, escalation for inflation, and contingency amounts). The TBIT Renovation Project commenced construction in February 2007 and the Department expects the project to be substantially completed by mid-2010. The TBIT Renovation Project is comprised of three elements: interior improvements, installation of the in-line baggage screening system, and the renovation of airline lounges and a new large aircraft gate.

3.3.1.1 Interior Improvements

The TBIT Interior Improvements are the first major upgrades to TBIT since it was originally opened in 1984. As shown on Table III-1, the Interior Improvements are estimated by the Department to cost \$567.5 million, and include:

- Renovation to Arrivals and Departures Level lobby and concourses
- Replacement of new passenger loading bridges
- Construction of dual loading bridges at five gates
- Accessibility improvements for passengers with disabilities
- Restroom improvements and upgrades
- New paging system
- Improved terminal signage
- Temperature control and ventilation improvements
- Fire and life safety system upgrades
- Electrical system improvements
- Owner Controlled Insurance Program Administration
- Project Labor Agreement Administration
- Architectural/Engineering/Program and Construction Management Services

Table III-1

Summary of the Series 2008 Projects and Other Incorporated Projects -- Estimated Costs

	Estimated Project Costs ^{1/}
The Series 2008 Projects	
<u>Tom Bradley International Terminal (TBIT) Interior Improvements</u>	
Interior Improvements	\$ 567,507,000
In-Line Explosive Detection Bag Screening System	140,000,000
Terminal Operations Relocation	8,465,000
New Large Aircraft Project	7,528,000
	\$ 723,500,000
<u>South Airfield Improvement Program (SAIP)</u>	
Runway 25L Relocation	\$ 222,000,000
Construction of Center Taxiway	111,000,000
	\$ 333,000,000
Total Series 2008 Projects	\$ 1,056,500,000
Other Incorporated Projects ^{2/}	
<u>Terminal</u>	
TBIT Additions ("Bump-out")	1,161,000,000
TBIT South 4 Gates	214,100,000
Ancillary Facilities Demolish & Construct - Enabling Projects	158,000,000
TBIT North 4 Gates	146,600,000
Pedestrian Tunnel Structure	75,500,000
In-Line EDS Bag System--Terminal 3	65,000,000
	\$ 1,820,200,000
<u>Airfield and Apron Projects</u>	
Noise mitigation and soundproofing	\$ 475,000,000
Residential land acquisition	100,000,000
Taxiway C-13 Construction w/ Bridge	51,000,000
Ancillary Facilities Demolish & Construct - Enabling Projects	51,000,000
Northside Airfield Improvement Program--Airfield Intersection Improvements	47,971,000
Taxiway S Relocation	35,000,000
Taxiway C-12 North w/ Bridge	34,000,000
Taxiway Q Relocation	32,000,000
Remain Over Night (RON) Apron	28,000,000
TBIT Apron South 4 Gates	19,900,000
TBIT Apron North 4 Gates	19,400,000
Taxiway C-12 South	15,000,000
Taxiway "D" Extension West to Taxiway C13	14,000,000
AOA Perimeter Fence Enhancement - World Way West	10,000,000
ASDE-X Pilot Project	6,000,000
	\$ 938,271,000
<u>Infrastructure and Other Projects</u>	
Central Utility Plant	\$ 269,000,000
Theme Building Restoration	11,000,000
	\$ 280,000,000
Total Other Incorporated Projects	\$ 3,038,471,000
Total Series 2008 Projects and Other Incorporated Projects	\$ 4,094,971,000

Notes:

^{1/} Estimated costs shown include design, engineering, escalation for inflation, and contingency amounts.

^{2/} The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the financial tables included in Chapter 4 of this report.

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

3.3.1.2 New In-Line Explosive Detection Bag Screening System and Related Facilities

The TBIT Renovation Project will add approximately 30,700 square feet of new building terminal space to house a new in-line explosive detection bag screening facility. The new building area consists of a North and South Matrix buildings. As shown on Table III-1, this new bag screening system and facility is estimated by the Department to cost \$140.0 million. The explosive detection machines currently in the ticket lobbies of TBIT will be removed to reduce congestion, improve safety and ease processing of passengers. The new in-line system will use newer generation CTX 9400 machines, manufactured by General Electric, with higher efficiency and through-put. The new North Matrix building will house nine CTX 9400 machines for outbound baggage screening. The new South Matrix building will house four CTX 9400 machines for re-check baggage screening. Implementation of the new in-line baggage screening system will increase the total length of the baggage conveyor system for TBIT from approximately 5,000 linear feet to approximately 16,000 linear feet.

3.3.1.3 Renovation of Airline Lounges and New Large Aircraft Gate

The construction of four new airline lounges will consolidate and replace the 16 existing individual lounges, and expand TBIT's overall airline lounge space to approximately 47,000 square feet, an increase of 72 percent over current space.

Renovations to Gate 123 on the north end of the TBIT concourse will provide a second gate in TBIT that can accommodate the new generation of aircraft such as the Airbus 380 and Boeing 747-800. The first, Gate 101 on the south end of the terminal concourse, was renovated in June 2006 (as part of a separate project) to accommodate the new large aircraft in advance of test flights at LAX.

As of May 31, 2008, the Department had spent approximately \$366 million on the costs of the TBIT Renovation Project elements discussed above—including architectural and engineering design, construction management, new passenger loading bridges, and construction costs. Such costs have been paid from Department funds and proceeds from Subordinate Commercial Paper Notes. As discussed in Section 4.7 of this report, approximately \$500 million of the cost of the TBIT Renovation Project is expected to be paid (or reimbursed) from proceeds of the Series 2008A Senior Bonds.

3.3.2 South Airfield Improvement Project (SAIP)

The South Airfield Improvement Project (SAIP) includes (1) a new parallel taxiway between the two south airfield runways at the Airport and (2) relocation of the southern-most runway, Runway 7R-25L. As shown on Table III-1, the SAIP is estimated to cost \$333 million (including design, construction management, engineering, escalation for inflation, and contingency amounts). Construction of the SAIP started in March 2006 was substantially completed in June 2008.

The primary purpose of the SAIP is to further enhance the safety of the runways at the Airport. The SAIP was initiated by the Department to reduce the potential for runway incursions at the Airport, which could result in aircraft accidents. The SAIP is expected to improve safety by changing the way aircraft move about the south airfield complex. Following completion of the SAIP, aircraft landing on Runway 7R-25L – the primary landing runway on the South Airfield of the Airport, will then be routed to the center taxiway and will hold parallel to the runway until air traffic controllers give clearance to taxi forward, turn and cross Runway 7L-25R. This will help reduce the likelihood of an aircraft inadvertently taxiing onto Runway 7L-25R when it is occupied. In a joint study with

the FAA and the NASA Ames Research Center, air traffic controllers at the Airport found that the center parallel taxiway offered an effective solution to the primary cause of the most severe types of potential runway incursions at the Airport. In addition, the SAIP is expected to reduce aircraft taxi and idle times, thereby reducing emissions.

Although the SAIP will enhance the safety of runways at the Airport, it is not designed, or expected by the Department, to increase the airfield capacity of the Airport. The Department also does not expect the SAIP to have an appreciable effect on airspace traffic.

The SAIP includes two elements, described as follows:

- **Construction of New Center Parallel Taxiway.** A new 75-foot wide parallel taxiway is to be constructed between Runways 7L-25R and 7R-25L in the South Airfield area of the Airport. As shown on Table III-1, the new taxiway is estimated by the Department to cost \$111 million. The new center parallel taxiway is being designed to accommodate Airplane Design Group V (ADG-V), which based on the FAA's classification, includes aircraft with wingspan of up to, but not including 214 feet. The Boeing 747-400 is a typical aircraft of ADG-V. The classification of the taxiway as ADG-V dictates the geometric layout and separation requirements. Accordingly, this new center parallel taxiway will be 75 feet wide and will be separated by 400 feet from either runway in the South Airfield area. Construction of the center taxiway began in April 2007 and was substantially completed in June 2008.
- **Relocation of Runway 7R-25L.** The southernmost runway at the Airport, Runway 7R-25L, was relocated in its entirety 55.42 feet south of its previous centerline location. As shown on Table III-1, this element of the SAIP is estimated to cost \$222 million. This project began in March 2006, and was substantially completed in May 2007. This element was necessary to meet the FAA-required centerline spacing of the new parallel center taxiway (described above). The new center parallel taxiway would provide a runway-to-taxiway centerline spacing of 400 feet from both Runway 7L-25R and the relocated 7R-25L. The project included the relocation and replacement of all navigational and visual aids and other associated improvements, such as drainage, utilities, lighting, signage, and grading.

As of May 31, 2008, the Department had spent approximately \$303 million on the costs of the SAIP including architectural and engineering design, and construction costs. Such costs have been paid from Department funds and from proceeds from Subordinate Commercial Paper Notes. As discussed in Section 4.7 of this report, approximately \$225 million of the cost of the SAIP is expected to be paid from the proceeds of the Series 2008C Subordinate Bonds.

3.4 Other Incorporated Projects

As described in Section 3.2, Other Incorporated Projects include projects expected by the Department to be completed during the projection period (through FY 2014), 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. The Other Incorporated Projects are discussed in the sections below. The estimated financial impacts of the Other Incorporated Projects **are incorporated in this report** and the accompanying financial tables in Chapter 4.

3.4.1 Terminal Projects

3.4.1.1 TBIT Expansion

The TBIT Expansion project generally consists of an expansion to the West (or “Back”) side of TBIT. This project is expected to include, among other things, eight to 12 new gates (including new large aircraft gates), additional concession space, existing tenant relocations and ancillary facilities demolition and construction. The TBIT Expansion is expected to add roughly 700,000 to 1,000,000 square feet of terminal space and increase passenger processing capacity at the Airport. For purposes of the financial analysis incorporated in this report, the TBIT Expansion is assumed to include eight new gates and approximately 730,000 square feet of terminal space. The TBIT Expansion project will also include tenant relocations and associated utilities and drainage improvements.

As reflected on Table III-1, preliminary cost estimates for the TBIT Expansion total \$1.755 billion. The Department estimates that the future TBIT Expansion, if approved, would be completed in 2011. For purposes of this report, the TBIT Expansion is assumed to open at the beginning of FY 2012.

3.4.1.2 Terminal 3 In-Line Explosives Detection Bag Screening System

This project will generally consist of the construction of an in-line baggage screening system in LAX Terminal 3 pursuant to the requirements of TSA. This project includes replacement of the existing airline baggage handling spaces; construction of new baggage screening rooms; replacement of the outbound baggage conveyor systems; and installation/integration of TSA-provided Explosion Detection System (EDS) machines. Also included are Explosion Trace Detection (ETD) work stations, On-screen Resolution (OSR) Control Rooms and CCTV systems.

As reflected on Table III-1, the Terminal 3 In-Line EDS Bag System is estimated to cost \$65.0 million. The Department estimates this project will be completed by January 2010.

3.4.2 Airfield and Apron Projects

As shown on Table III-1, preliminary cost estimates for Airfield and Apron Projects total \$938.3 million. The majority of these estimated costs are for Noise Mitigation and Soundproofing and Residential Land Acquisition, which are ongoing programs (as described in more detail below) that are expected to be funded with PFC revenues as discussed in Section 4.7 of this report. The remaining costs are for the various taxiway and apron projects which are generally expected to be completed in the FY 2010-2011 timeframe.

3.4.2.1 Noise Mitigation and Soundproofing

The Department is 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. This project is ongoing.

3.4.2.2 Residential Land Acquisition

Residential land acquisition refers to the Voluntary Residential Acquisition and Relocation Program. Under this program, at the request of property owners, the Department is in the process of acquiring residences in the Manchester Square and Belford Areas in lieu of soundproofing.

3.4.2.3 Taxiway C-13 Construction with Bridge

Construction of a new Taxiway C-13 connecting the North and South Airfield Areas will allow for the safe and efficient movement of the new large aircraft at the Airport.

3.4.2.4 North Airfield Improvement Program—Airfield Intersection Improvements

North airfield intersection improvements include improvements related to the future proposed relocation of Runway 6R-24L and Taxiways E and D, consistent with the adopted LAX Master Plan.

3.4.2.5 Other Airfield and Apron Improvements

Other Airfield and Apron Improvements reflected on Table III-1 include ancillary Airfield and Apron projects related to the TBIT Expansion project, various other taxiway and apron projects, an Airport Surface Detection Equipment--Model X (ASDE-X) pilot project, and Airfield Operations Area (AOA) perimeter fence enhancements.

3.4.3 Infrastructure and Other Projects

As reflected on Table III-1, Infrastructure and Other Projects include a new Central Utility Plant and restoration of the Theme Building. Preliminary cost estimates for these two projects are \$269 million for the Central Utility Plant and \$11 million for the Theme Building Restoration.

3.4.3.1 Central Utility Plant

The Central Utility Plant project includes planning, design, and construction of a new Central Utility Plant (replacing the existing facility). The new Central Utility Plant will provide a fully integrated and centralized building management and monitoring system, a chilled water plant system, a thermal storage system, a water system, HVAC control systems, an upgraded terminal fire life/safety control systems, and a new cooling tower. The new Central Utility Plant may also provide decentralization of the heating system.

3.4.3.2 Theme Building Restoration

The restoration of the Theme Building includes seismic retrofitting of the entire structure and reconstruction of the upper and lower arches to restore appearance and provide weather protection.

It should be noted that in addition to the Other Incorporated Projects discussed above and the Future Projects discussed in Section 3.5 below, there are other ongoing CIP projects at the Airport that are generally smaller in terms of estimated cost and more routine in nature relative to the majority of projects listed on Table III-1. These projects (1) are not being funded with Series 2008 Bonds, (2) are not expected to be funded with future Bonds, and (3) are not estimated to have an impact on Airport operating expenses or revenues, and therefore are not reflected in this report or in the accompanying financial tables.

3.5 Future Projects

As described previously in Section 3.2, there are several other potential future projects at the Airport that the Department is pursuing (referred to as Future Projects). Because the scope, timing, cost, and approval of these Future Projects are uncertain, the financial impacts from developing and implementing them are not reflected in this report or in the accompanying financial tables.

Future Projects include a range of facility improvements, enhancements and additions that seek to preserve and reinvest in existing infrastructure and to develop the incremental airfield, terminal and ground side capacity needed to meet long term growth projections. Certain of the Future Projects are subject to the Specific Plan Amendment Study (see Section 2.5.4.1 of this report).

Future Projects include, but are not limited to, the following:

- New Midfield Satellite Concourse
- North Airfield Improvements
- Terminal 1 and Terminal 3 Improvements
- Consolidated Rental Car Facility
- Automated People Mover/Intermodal Facility
- Information Technology Improvements

The Department will only undertake construction on Future Projects when demand warrants, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by a reasonable level of Airport user fees or other discrete funding sources such as grants, PFCs, CFCs, Department funds or third party funds.

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IV. Financial Analysis

This chapter examines the financial structure of the Airport and the financial implications of the Series 2008 Projects and the Other Incorporated Projects; presents debt service, operating expense, and revenue projections; and presents projections of debt service coverage, airline rates and charges, and other key financial measures.

4.1 Financial Structure

This section discusses the City Charter, accounting practices employed by the Department, the cost center structure utilized for airline rate-setting purposes, the requirements and provisions of the Department's governing bond documents, and the status of the business and operating relationship between the Department and the airlines operating at the Airport.

4.1.1 City Charter

The City adopted a new City Charter that became effective July 1, 2000. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for use of the Airport System.

Section 609 of the City Charter confers upon the Department the power to borrow money for any lawful purpose relating to the Department. Bonds so issued do not constitute or evidence indebtedness of the City. The Department has no taxing power. As of July 1, 2008, there were four series of Senior Bonds outstanding (Series 1995C, 1995D, 2002A, and 2003B), with a combined principal amount outstanding of approximately \$125 million. As of July 1, 2008, there were three series of Subordinate Obligations outstanding (Series 2002C-1, 2002C-2, and 2003A), with a combined principal amount outstanding of approximately \$81 million. Additionally, pursuant to the Parity Subordinate Indenture, the Department is authorized to issue up to \$500 million aggregate principal amount of its Subordinate Commercial Paper Notes, which as of July 1, 2008 were outstanding with a maturity value of approximately \$330 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 Department also operates LA/Ontario International Airport (ONT), Van Nuys Airport (VNY), and LA/Palmdale Regional Airport (PMD) (collectively with the Airport, 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 ONT is financially self-sustaining, requiring no revenues from other airports in the Airport System, though LAX revenues could be used at 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. Operations at PMD are funded in part with grants received from the U. S. Department of Transportation (DOT) Small Community Air Service Development Program. Any potential shortfalls associated with the operation of PMD are funded with the Department's available discretionary funds (generated from Airport revenues after meeting obligations under the Department's governing bond documents).

The Airport is reported as a single enterprise fund and maintains its records on the accrual basis of accounting. The accounting and financial reporting policies of the Department conform to generally accepted accounting principles for local government units set forth by the Government Accounting Standards Board (GASB) as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges.

Maintenance and Operation (M&O) Expenses at the Airport are categorized into Cost Centers. Cost Centers include those areas or functional activities used for the purposes of accounting for the financial performance of the Airport. There are five direct revenue-producing and four indirect Cost Centers included in the Airport's financial structure. The Cost Centers included in the Airport's financial structure are described in greater detail below:

4.1.2.1 Direct Cost Centers

- **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

- **Systems Cost Center.** The Systems Cost Center includes the costs of providing, maintaining, operating, and administering airport systems. Examples include electrical distribution system, gas distribution system, potable water distribution system, chilled water distribution system, storm and sanitary sewer system, and industrial waste disposal. The Central Utility Plant (CUP) has been treated as a separate cost pool allocable to cost centers based upon BTU consumption.
- **General Maintenance Cost Center.** The General Maintenance Cost Center includes the costs of providing, maintaining, operating, and administering maintenance services, facilities, and equipment that cannot be directly allocated to cost centers.
- **General Administration Cost Center.** The General Administration Cost Center includes the general administrative and support costs related to providing, maintaining, operating, and administering the Airport that cannot be directly allocated to cost centers.
- **Access Cost Center.** The Access Cost Center includes the costs of providing, maintaining, operating, and administering facilities and services for on-Airport and off-Airport ground access for vehicles and pedestrians, including airside and landside access, and Airport access generally. It also includes the costs of increasing, preserving, or managing the throughput capacity of the Airport's access facilities; that is the volume of, and rate at which, users can be accommodated.

4.2 Senior Indenture

Pursuant to the terms of the Master Trust Indenture, dated as of April 1, 1995, as subsequently amended and supplemented (and referred to in this report as the Senior Indenture), the Department may issue Los Angeles International Airport Revenue Bonds (referred to in this report as Senior Bonds) secured by Pledged Revenues and by certain other security interests as specified therein.

Articles II, IV and V of the Senior Indenture establish the requirements for the Department to issue Senior Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Senior Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key provisions of the Senior Indenture as they pertain to this report are summarized below. The capitalized terms used in this Section 4.2 are used as defined in the Senior Indenture.

As summarized in the Official Statement for the Series 2008 Bonds (in Appendix D-1 - "Proposed Amendments to the Master Senior Indenture"), certain amendments are proposed to the Senior Indenture that require the consent of the holders of Senior Bonds. Some of these amendments will

not become effective until the Department has received the consent of the owners of at least 51 percent in aggregate principal amount of all of the Senior Bonds Outstanding and the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Series 2002C-1 and C-2 Subordinate Bonds and the Series 2003A Subordinate Bonds (51 Percent Senior Indenture Amendments). Certain other amendments to the Master Senior Indenture will not become effective until the Department has received the consent of the owners of 100 percent in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Series 2002C-1 and C-2 Subordinate Bonds and the Series 2003A Bonds (100 Percent Senior Indenture Amendments). R&A has assumed that the 51 Percent Senior Indenture Amendments and the 100 Percent Senior Indenture Amendments will not become effective at the time of issuance of the Series 2008A Senior Bonds. Certain of the 51 Percent Senior Indenture Amendments are discussed below. The Department does not expect the 51 Percent Senior Indenture Amendments to become effective until 2012. This report does not discuss any of the 100 Percent Senior Indenture Amendments. Neither the 51 Percent Senior Indenture Amendments nor the 100 Percent Senior Indenture Amendments, when effective, will materially change the financial forecasts in this report or the Department's ability to meet the Senior Rate Covenant included in the Senior Indenture.

4.2.1 Key Senior Indenture Definitions

"LAX Revenues" means, except to the extent specifically excluded, all income, receipts, earnings, and revenues, 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 thereon received by the Department
- Any gifts and grants, including the interest 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)
- LAX Special Facilities Revenue, including interest thereon

The following amounts are also excluded from Pledged Revenues unless otherwise pledged under the terms of a Supplemental Senior Indenture:

- Swap Termination Payments, including the interest thereon
- Facilities Construction Credits
- LAX Passenger Facility Charge (PFC) collections, including the interest thereon
- LAX rental car customer facility charge (CFC) collections, including the interest thereon
- All revenues of the Airport System that are not LAX Revenues

- Released LAX Revenues
- Interest earnings on any Construction Fund (unless provided for in a Supplemental Senior Indenture).

“**LAX Maintenance and Operation Expenses**” means for any given period, the total operation and maintenance expenses of the Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of the Airport payable from moneys other than Pledged Revenues.

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

Senior “Aggregate Annual Debt Service” generally means the aggregate debt service due on the Senior Bonds in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Senior Bonds (e.g. variable rate obligations). For purposes of meeting the Senior Rate Covenant, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service. On the effective date of the 51 Percent Senior Indenture Amendments, for purposes of meeting the Senior Additional Bonds test described below, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Senior Trustee and are set aside exclusively to be used to pay such debt service. The Department has irrevocably committed to use a certain amount of PFCs between FY 2011 and FY 2014 to pay debt service on its bonds.

“**Transfer**” means for any fiscal year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such fiscal year in the LAX Revenue Account (after all required deposits and payments under the Senior Indenture have been made as of the last day of the immediately preceding fiscal year).

4.2.2 Additional Senior Bonds

As of the date of this report, Section 2.11 of the Senior Indenture provides that as a condition to the issuance of any additional Series of Senior Bonds, there shall first be delivered to the Senior Trustee either:

- a) a certificate prepared by an Authorized Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Maximum Senior Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or
- b) a certificate, dated as of a date between the date of pricing of the Senior Bonds being issued and the date of delivery of such Senior Bonds, prepared by a Consultant showing that:
 - (1) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or the establishment of a Senior Program were at least equal to 125% of Maximum Senior Aggregate Annual Debt Service;

- (2) for each fiscal year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of the Senior Indenture; and
- (3) the estimated Net Pledged Revenues for each of the first three complete fiscal years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 125% of Maximum Senior Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding.

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

At the time of issuance of the Series 2008A Senior Bonds, if necessary, R&A expects to deliver a certificate as described in (b) above.

The 51 Percent Senior Indenture Amendments include certain amendments to Section 2.11 of the Senior Indenture (which amendments will probably not become effective until 2012). On the effective date of the 51 Percent Senior Indenture Amendments, subparagraphs (a) and (b) of Section 2.11 of the Senior Indenture will be amended, such that as a condition to the issuance of any Series of Senior Bonds, there shall first be delivered to the Senior Trustee either:

(a) a certificate, 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 (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 Maximum Senior Aggregate Annual Debt Service 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; 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 (both dates inclusive), 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 (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.

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.

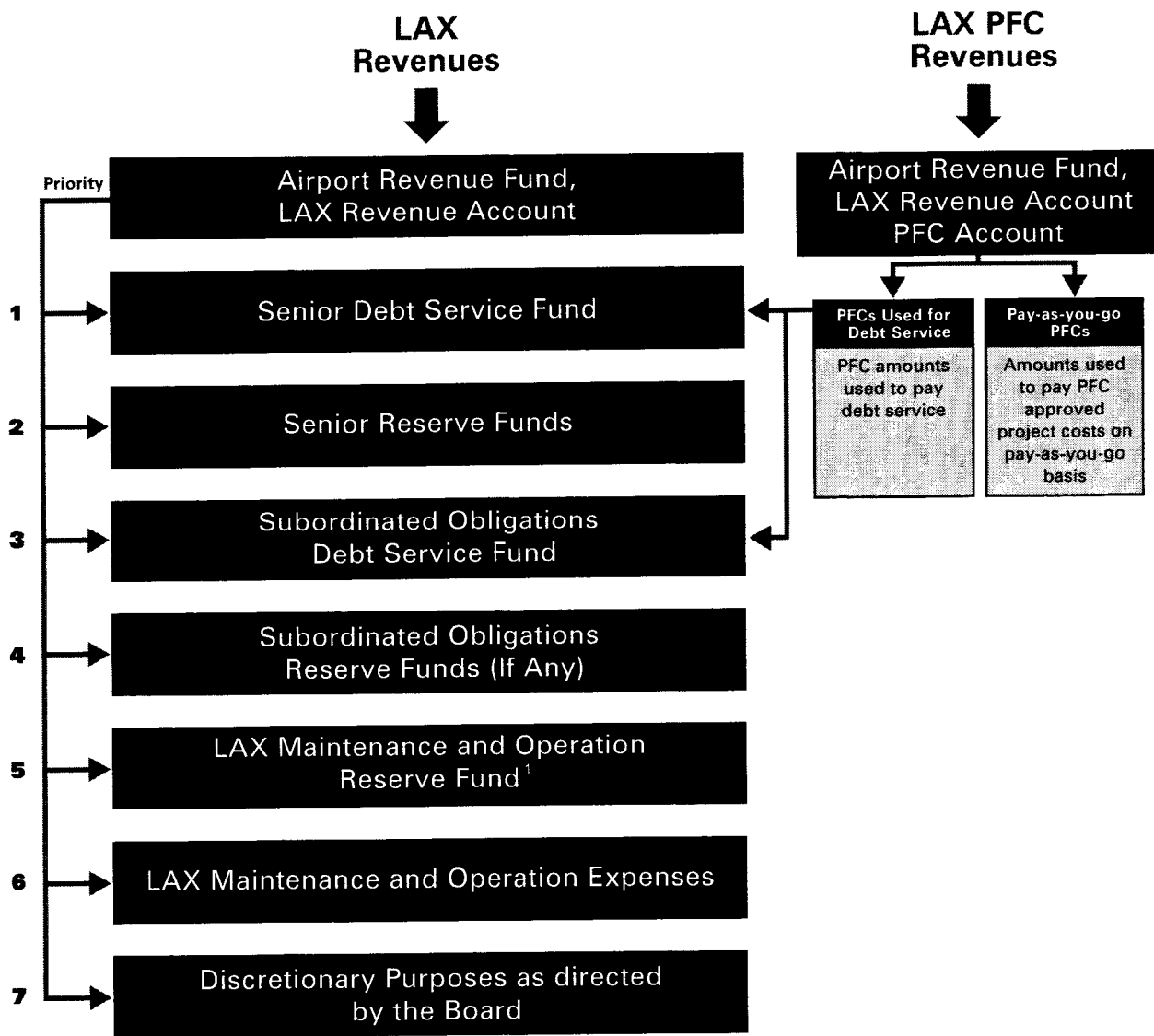
4.2.4 Application of Revenues

The Department covenants that it shall cause the City Treasurer to deposit the revenues for each individual airport within the Airport System to its respective account within the Airport Revenue Fund. The Department covenants and agrees that all LAX Revenues, when and as received, will be deposited by the Department pursuant to the Charter into the LAX Revenue Account of the Airport Revenue Fund in the City Treasury. The application of revenue to the various funds and accounts is governed by the Senior Indenture in compliance with the City Charter. **Exhibit IV-1** illustrates how moneys in the LAX Revenue Account are applied using the order of priority defined in Section 4.04 of the Senior Indenture.

4.2.5 PFC Revenues Used to Pay Debt Service

Pursuant to the Senior Indenture, the Department may, for any period, elect to use PFC Revenues to pay the principal of and interest on Senior Bonds issued to finance approved PFC projects. Pursuant to the Senior Indenture, the definition of Senior Aggregate Annual Debt Service excludes debt service on Senior Bonds paid with PFC revenues for purposes of meeting the Senior Rate Covenant.

The Department has irrevocably committed to use a certain amount of PFCs each fiscal year through FY 2014 to pay debt service on its bonds or commercial paper. The Department expects to use the irrevocably committed PFC revenues and other available PFC revenues to pay for a portion of the



¹ The Senior Indenture will be amended to provide for Third Lien Obligations which shall be payable from Pledged Revenues after funding the Subordinate Obligations Reserve Funds and before funding the LAX Maintenance and Operation Reserve Fund. Such amendment does not require the consent of any bondholders but does require the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Series 2002C-1 and C-2 Subordinate Bonds and the Series 2003A Subordinate Bonds. The Department does not expect to receive the consent from all of the letter of credit banks until 2012.

Application of LAX Revenues and PFC Revenues

principal of and interest on the Series 2008A Senior Bonds and future Senior Bonds assumed to fund a portion of the costs associated with the Other Incorporated Projects. See Section 4.7.3 below for more detailed information.

4.3 Subordinate Indenture

Pursuant to the terms of the Master Subordinate Trust Indenture, dated as of December 1, 2002, as subsequently amended and supplemented (and referred to in this report as the Subordinate Indenture), the Department may issue Los Angeles International Airport Subordinate Revenue Bonds (referred to in this report as Subordinate Bonds) secured by Subordinate Pledged Revenues and by certain other security interests as specified therein.

Articles II, IV and V of the Subordinate Indenture establish the requirements for the Department to issue Subordinate Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Subordinate Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key aspects of the Subordinate Indenture as they pertain to this report are summarized below. The capitalized terms used in this Section 4.3 are defined in the Subordinate Indenture.

As summarized in the Official Statement for the Series 2008C Subordinate Bonds (in “Appendix D-2 - Proposed Amendments to the Master Subordinate Indenture”), certain amendments are proposed to the Subordinate Indenture that require the consent of the holders of Subordinate Bonds. Some of these amendments will not become effective until the Department has received the consent of the owners of at least 51 percent in aggregate principal amount of all of the Subordinate Bonds Outstanding and the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Series 2002C-1 and C-2 Subordinate Bonds and the Series 2003A Subordinate Bonds (51 Percent Subordinate Indenture Amendments). Certain other amendments to the Master Subordinate Indenture will not become effective until the Department has received the consent of the owners of 100 percent in aggregate principal amount of all of the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Series 2002C-1 and C-2 Subordinate Bonds and the Series 2003A Subordinate Bonds (100 Percent Subordinate Indenture Amendments). R&A has assumed that the 51 Percent Subordinate Indenture Amendments and the 100 Percent Subordinate Indenture Amendments will not become effective at the time of issuance of the Series 2008C Subordinate Bonds (referred to hereafter as the Series 2008 Subordinate Bonds). Certain of the 51 Percent Subordinate Indenture Amendments are discussed below. The Department does not expect the 51 Percent Subordinate Indenture Amendments to become effective until 2012. This report does not discuss any of the 100 Percent Subordinate Indenture Amendments. Neither the 51 Percent Subordinate Indenture Amendments nor the 100 Percent Subordinate Indenture Amendments, when effective, will materially change the financial forecasts in this report or the Department’s ability to meet the Subordinate Rate Covenant included in the Subordinate Indenture.

4.3.1 Key Subordinate Indenture Definitions

“**Subordinate Pledged Revenues**” means Pledged Revenues less Senior Aggregate Annual Debt Service on the Senior Bonds, less any required deposits to the Senior Reserve Fund(s).

“Net Subordinate Pledged Revenues” means, for any given period, Pledged Revenues, less LAX Maintenance and Operation Expenses, less Senior Aggregate Annual Debt Service (defined previously in Section 4.2.1) on the Senior Bonds, less any required deposits to the Senior Reserve Fund(s).

Subordinate “Aggregate Annual Debt Service” generally means the aggregate debt service due on the Subordinate Bonds and the Subordinate Commercial Paper Notes in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Subordinate Bonds and the Subordinate Commercial Paper Notes (e.g. variable rate obligations). For purposes of meeting the Subordinate Rate Covenant, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service. For purposes of meeting the Subordinate Additional Bonds test described below, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Subordinate Trustee and are set aside exclusively to be used to pay such debt service. The Department has irrevocably committed to use a certain amount of PFCs between FY 2011 and FY 2014 to pay debt service on its bonds, however, the Department does not expect to use any PFCs to pay debt service on the Series 2008 Subordinate Bonds, the Series 2002C-1 and C-2 Subordinate Bonds, Series 2003A Subordinate Bonds or any additional Subordinate Bonds expected to be issued through 2014.

4.3.2 Additional Subordinate Bonds

As of the date of this report, Section 2.11 of the Subordinate Indenture provides that as a condition to the issuance of any Series of Subordinate Bonds, there shall first be delivered to the Subordinate Trustee either:

- (a) a certificate prepared by an Authorized Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds were at least equal to 110% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and the proposed Series of Subordinate Bonds calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding; or
- (b) a certificate, dated as of a date between the date of pricing of the Subordinate Bonds being issued and the date of delivery of such Subordinate Bonds (both dates inclusive), prepared by a Consultant showing that:
 - (i) the Net Subordinate Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the most recent 24 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Bonds or the establishment of a Subordinate Program were at least equal to 110% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds and Subordinate Commercial Paper Notes;

(ii) for each fiscal year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of the Subordinate Indenture; and

(iii) the estimated Net Subordinate Pledged Revenues for each of the first three complete fiscal years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 110% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding.

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

At the time of issuance of the Series 2008 Subordinate Bonds, R&A expects to deliver a certificate as described in (b) above.

At the time of issuance of the Series 2008 Subordinate Bonds, the coverage requirements set forth in Section 2.11 of the Subordinate Indenture will be increased from 110% to 115%. Such amendments will become effective upon issuance of the Series 2008 Subordinate Bonds. Additionally, the 51 Percent Subordinate Indenture Amendments include certain amendments to Section 2.11 of the Subordinate Indenture (which amendments will probably not become effective until 2012). On the effective date of the 51 Percent Subordinate Indenture Amendments, subparagraphs (a) and (b) of Section 2.11 of the Subordinate Indenture will be amended, such 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 Representative showing that the Net 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 Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and the proposed Series of Subordinate Bonds calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding; or

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

(i) the Net Subordinate Pledged Revenues, 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 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 Bonds) 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 Net 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, Unissued Subordinate Program Bonds, the proposed Series of Subordinate Bonds, and Subordinate Commercial Paper Notes and calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding.

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 15% of the Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds, Unissued Subordinate Program Obligations, Subordinate Commercial Paper Notes, 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 Net Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 110% 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 10% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes in such fiscal year. At the time of issuance of the Series 2008 Subordinate Bonds the coverage requirements set forth in Section 5.04 of the Subordinate Indenture will be increased from 110% to 115% and the percentage of Transfer allowed to be taken into account from 10% to 15%. Such amendments will become effective upon issuance of the Series 2008 Subordinate Bonds.

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 on any of its Subordinate Bonds (including the Series 2008 Subordinated Bonds) or Subordinate Commercial Paper Notes.

4.4 Parity Subordinate Indenture

Pursuant to the terms of the Subordinate Trust Indenture, dated as of April 1, 2002, as subsequently amended (and referred to in this report as the Parity Subordinate Indenture), the Department may issue its Los Angeles International Airport Commercial Paper Notes Series A (Tax-Exempt – Non-AMT), Series B (Tax-Exempt – AMT) and Series C (Federally Taxable) (referred to in this report as Subordinate Commercial Paper Notes) secured by Subordinate Pledged Revenues and by certain other security interests as specified therein. Pursuant to the Subordinate Indenture, the Department has covenanted to issue only Subordinate Commercial Paper Notes under the Parity Subordinate Indenture and to issue all other Subordinate Bonds secured by Subordinate Pledged Revenues pursuant to the Subordinate Indenture.

4.4.1 Additional Parity Subordinate Obligations

Section 2.11 of the Parity Subordinate Indenture currently provides that the Department will not issue obligations secured by a pledge of Subordinate Pledged Revenues in excess of \$300,000,000 unless the Rating Agencies then rating the Subordinate Commercial Paper Notes confirm their respective ratings and unless there is first delivered to the Subordinate Issuing and Paying Agent:

- (a) a certificate prepared by an Authorized Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed additional obligations to be secured by Subordinate Pledged Revenues were at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes calculated as if the proposed additional subordinate obligations were then outstanding; or
- (b) a certificate prepared by a Consultant showing that:
 - (1) the Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of the issuance of the proposed additional subordinate obligations to be secured by Subordinate Pledged Revenues were at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes; and
 - (2) the estimated Net Pledged Revenues (as calculated by such Consultant) for two fiscal years following the date of issuance of the proposed additional subordinate obligations to be secured by Subordinate Pledged Revenues will be at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds, the Subordinate Commercial Paper Notes and the proposed additional subordinate obligations, taking into account the rates, fees and charges in effect at the time of issuance of the proposed additional subordinate obligations.

At the time of issuance of the Series 2008 Subordinate Bonds, R&A expects to deliver a certificate as described in (b) above.

At the time the 51 Percent Subordinate Indenture Amendments become effective (currently projected to be in 2012) the Department expects to amend Section 2.11 of the Parity Subordinate Indenture so that such Section will be the same as Section 2.11 of the Subordinate Indenture.

4.4.2 Parity Subordinate Rate Covenant

Section 4.04 of the Parity Subordinate Indenture (the Parity Subordinate Rate Covenant) currently provides that the Department will establish, fix prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that during each fiscal year the Net Pledged Revenues will be equal to at least 110% of aggregate annual debt service on all Senior Bonds, Subordinate Bonds and Subordinate Commercial Paper Notes for that fiscal year. At the time the 51 Percent Subordinate Indenture Amendments become effective (currently projected to be in 2012) the Department expects to amend Section 4.04 of the Parity Subordinate Indenture which amendments will increase the coverage requirements set forth in Section 4.04 of the Parity Subordinate Indenture from 110% to 115%.

4.5 Air Carrier Operating Permit

Airlines at the Airport operate under a 5-year Air Carrier Operating Permit for the use of Landing Facilities at the Airport. The Air Carrier Operating Permit can be terminated with a 30-day notice from the airlines or the Department. The Operating Permit sets forth various terms and conditions related to the use of Landing Facilities, including, but not necessarily limited to, insurance requirements, indemnification provisions, and responsibility for the use and disposal of hazardous substances. Section 4.9.2 of this report describes how landing fees are calculated by the Department and discusses current and projected landing fees.

4.6 Terminal Building Leases and Tariff

As described in more detail below, certain airlines at the Airport lease terminal building space under existing long-term terminal building leases. Airlines occupying or otherwise using terminal space at the Airport without an existing lease pay for terminal space through fees and charges set forth in the LAX Passenger Terminal Tariff (the Tariff), as described in more detail below.

4.6.1 Long-Term Leases (Terminals 2, 4, 5, 7, 8, and a Portion of Terminal 6)

Terminal space in Terminals 2, 4, 5, 7, 8, and a portion of Terminal 6 are leased pursuant to existing Long-Term Leases. Significant construction of each of these terminals (including all of Terminal 6) was financed by third party debt payable solely from payments made by the airline tenants or their subtenants of these terminals. Terminal rents under the Long-Term Leases are charged beginning January 1 of each year, and have historically been calculated incorporating actual requirements from the prior fiscal year (e.g., calendar 2009 rents will be based on actual FY 2008 requirements), except as described under Section 4.6.3 below. The terms of the Long-Term Leases range from 15 to 40 years and generally expire between 2021 and 2025, and contain the following key provisions:

- The Long-Term Leases provide for certain preferential use rights, although the airlines also agree to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger

terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective pro rata direct costs plus a reasonable administrative fee.

- Rental rates on pre-existing terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. The airlines subject to Long-Term Leases are also required to pay Maintenance and Operations (M&O) Rent in order to compensate the Department for a portion of its costs of maintaining and operating the terminal and a portion of the costs of maintaining and operating the Airport. Historically, the airlines subject to Long-Term Leases have paid a charge equivalent to 15 percent of the direct terminal M&O costs as a proxy for certain maintenance and operations costs such as security costs, general administrative costs and access costs (costs associated with the roadways in and connecting to the Airport).
- In December 2006, the Department approved M&O Rates that included increased M&O expenses, including all direct and indirect costs allocated to the Terminal Cost Center (which are higher than the 15 percent proxy discussed above), retroactive to January 1, 2006. Certain of these direct and indirect costs allocated to the Terminal Cost Center, such as security costs and full indirect costs had not previously been included by the Department in Terminal rents and charges. The airline tenants disputed the right of the Department to make these changes. Settlement Agreements concerning, among other things, M&O Rates were reached for calendar years 2006, 2007 and 2008 (see Section 4.6.3 below).
- The Long-Term Leases also provide the Department the right to defease third party debt that financed terminal improvements under certain circumstances.
- In the event that the leased premises are damaged or destroyed such that the Department can not repair, replace or reconstruct such premises within a reasonable time, the Long-Term Lease may be terminated at the Airline's option. If the Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from the Airport, by any final action, order or ruling of any federal or state governmental authority, the airlines may, at their option, terminate their respective Leases by 30 days written notice.
- In connection with the financing of certain public areas at various terminals, the Department entered into capital lease agreements with the respective airlines. The agreements generally provided for the payment of amounts by the Department to such airlines in the form of rent credits over various terms between 27 and 35 years. In 2002 and 2003, the Department used its cash reserves to pre-pay all of its obligations under these Long-Term Leases, with the exception of obligations under the Long-Term Lease for Terminal 2 (the LAX Two Corporation). The Department continues to use rental credits to pay for its obligations on the capital lease with the LAX Two Corporation. These rental credits are applied as an offset of amounts owed to the Department by the LAX Two Corporation for terminal rentals and landing fees because they are netted out of amounts received by the Department. Rental credits are not included as Pledged Revenues under the Senior Indenture.

4.6.2 LAX Passenger Terminal Tariff (Terminals 1, 3, TBIT, and a Portion of Terminal 6)

The Tariff applies to all airlines occupying or otherwise using terminal space at the Airport without an existing lease. The Tariff is similar to rate ordinances used by other airports in that it is used when there is no existing airline agreement or lease, and the Tariff has no term or expiration date but is subject to change from time to time by the Board. Currently, the Tariff applies to airlines occupying space in Terminal 1, Terminal 3, the Tom Bradley International Terminal (TBIT), and certain airlines occupying space in Terminal 6. The Tariff went into effect on February 1, 2007 and was immediately applied to the airlines operating in Terminals 1 and 3 and to certain airlines occupying space in Terminal 6. On April 1, 2007, the Tariff was applied to airlines operating at TBIT.

For terminal space subject to the Tariff, certain critical areas (including ticket counter space, gate areas, and other facilities from time to time) are occupied or used by airlines on a joint use basis, to be available to airlines that make the most productive use of such areas. The Department has the right to schedule specific areas for the use by particular airlines for specific periods and may, from time to time, establish preferences in the use of joint use space in favor of an airline or airlines when the arrivals and departures of flights operated by such airline or airlines can be scheduled in a manner that will substantially exceed specified utilization standards. If the Department determines that any terminal space occupied or used by any airline under the Tariff is underutilized, the Department may accommodate other airlines in such space.

Terminal rates under the Tariff are calculated based on a compensatory rate-making methodology, where all related costs in the Terminal Cost Center are allocated to all entities using or occupying terminal space. Under the Tariff, the Terminal Expenses include the following components:

- **Base Charge:** Generally equal to the greater of (1) the appraised value of the Space Use Factor, as annually adjusted to reflect increases in the Consumer Price Index, and as subject to five-year reappraisals or (2) Terminal Capital Charges. Terminal Capital Charges are composed of direct terminal debt service, coverage on direct terminal debt service, and direct terminal amortization. It should be noted that for Terminal 3, the Base Charge is equal to Terminal Capital Charges, without regard for annualized appraised value, although under the DOT Final Decision, the Department can re-assess the Base Charge on the basis of a new appraisal (see Section 4.6.4 below).
- **Terminal Regular Expenses:** Equal to direct and indirect terminal M&O Expenses and any required M&O Reserve deposit.
- **Terminal Special Expenses:** Equal to debt service, debt service coverage, and/or amortization related to Airline Equipment.
- **Airport Infrastructure Charges:** Equal to indirect terminal debt service, coverage on indirect terminal debt service, and indirect terminal amortization.

When the Tariff was implemented, the portion of Terminal costs allocated to the airlines was, in general, based on each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common use areas). For each airline, its Space Use Factor includes the measured area of its Occupied Terminal Area (its exclusive use areas), its Joint Use Areas and its International Joint Use Areas (if applicable).

For the space each Complainant Airline in Terminal 1 and 3 occupied at the time the DOT Final Decision was issued, the Base Charge, Terminal Regular Expenses, and Airport Infrastructure Charges are now generally allocated based on each airline's Space Use Factor. For all other airlines subject to the Tariff and for any additional space requested by the Complainant Airlines in Terminals 1 and 3, the Base Charge, Terminal Regular Expenses and Airport Infrastructure Charges are now generally allocated according to each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common use areas). Because the Terminal Special Expenses relate solely to airline equipment, they are paid entirely by airlines based on each airline's Space Use Factor.

Spirit Air, Virgin America, and Express Jet Inc., have each executed a 5-year terminal lease agreement, and JetBlue Airways has executed a 1-year terminal lease agreement, with the Department with provisions similar to the Tariff.

4.6.3 Long-Term Lease Litigation and Interim Settlement Agreements

In January 2007, three of the Long-Term Lease Airlines (American Airlines, United Air Lines and Continental Airlines) operating out of Terminals 4, 6, 7 & 8 under Long-Term Leases, filed a case against the Department in U.S. District Court for the Central District of California claiming that their Long-Term Leases with the Department do not permit the Department to increase their M&O charges, including direct and indirect costs allocated to the Terminal Cost Center. These three airlines claimed that their Long-Term Leases limited indirect Terminal M&O Expenses to 15% of direct Terminal M&O Expenses. This case was dismissed in February 2008, pursuant to Settlement Agreements between the three airlines and the Department.

Similarly, in March 2007 LAX Two Corporation and Northwest Airlines (Terminal 2) and Delta Airlines (Terminal 5) filed adversary proceedings in Bankruptcy Court for the Southern District of New York seeking relief to prevent the Department from charging increased M&O Expenses (including direct and indirect costs allocated to the Terminal Cost Center). Delta's case was dismissed in February 2008 pursuant to a Settlement Agreement with the Department. The Department has also executed a Settlement Agreement with LAX Two Corporation/Northwest and anticipates that the case will be dismissed as it relates to the M&O Expense claims. The LAX Two Corporation/Northwest and Delta Airlines adversary proceedings also raised issues concerning the Department's right to defease third party bonds that financed terminal improvements and re-let Terminals 2 and 5. This aspect of the Delta litigation was dismissed without prejudice. The defeasance claim in the LAX Two Corporation/Northwest case was transferred to the U.S. District Court for the Central District of California and stayed by stipulation of the parties until September 2008.

The Settlement Agreements between the Department and American Airlines, United Air Lines, Continental Airlines, Delta Airlines, and LAX Two Corporation/Northwest are referred to collectively hereafter as the Settlement Agreements. The Settlement Agreements permit the Long-Term Lease Airlines to bring new actions against the Department for disputes concerning M&O charges for calendar years subsequent to 2008 if an agreement on future M&O charges is not reached by December 31, 2008. Presently, the Department is not able to predict whether such future agreements with the Long-Term Lease Airlines will be reached by December 31, 2008.

Pursuant to these Settlement Agreements, the Department and the Long-Term Lease Airlines agreed to the following provisions (in general terms) for terminal rents and charges for Calendar Years (CY)

2006, 2007, & 2008. For CY2006, CY2007 and CY2008, the Department and the Long-Term Lease Airlines agreed that the Long-Term Lease Airlines' M&O charges would be calculated in the same manner as CY2005, with an additional charge for the Direct Terminal Security Costs incurred by the Department at the Long-Term Lease Airlines' terminals. The parties also agreed on the following fiscal year costs to calculate the M&O charges for CY2006, CY2007 and CY2008:

- For CY2006, the Long-Term Lease Airlines' M&O charges, including Direct Terminal Security Costs, were calculated based on FY2005 actual costs
- For CY2007, the Long-Term Lease Airlines' M&O charges, including Direct Terminal Security Costs, were calculated based on FY2005 actual costs
- For CY2008, the Long-Term Lease Airlines' M&O charges, including Direct Terminal Security Costs, were calculated based on FY2006 actual costs

To the extent the Long-Term Lease Airlines have previously made payments to the Department for M&O Expenses in CY 2006, 2007 or 2008 in excess of the amounts payable by the respective airlines pursuant to the Settlement Agreements, the Department issued a credit (M&O Credit) to such airline for the excess amount. Beginning on January 1, 2008, each Long-Term Lease Airline may apply its M&O Credit against Airport terminal rental charges and M&O Expenses, landing fees or other charges owed by such Airline to the Department until the balance of such M&O Credit is reduced to \$0.00. The Department will not seek to recover any portion of the M&O Credit from such airline through other rents, fees or other charges.

As a condition of the Settlement Agreements, the Long-Term Lease Airlines agreed to pay a portion of the costs associated with the rehabilitation or replacement of the LAX Central Utility Plant (CUP). The total amount collected from the Long-Term Lease Airlines for CY2006, CY2007 and CY2008 for Direct Terminal Security Costs is estimated to be approximately \$34.9 million. The Department deposited an equivalent amount of money in a Major Maintenance Account (MMA), which will be used to fund the costs associated with the CUP rehabilitation or replacement. The Long-Term Lease Airlines further agreed that they would pay an allocable portion of CUP Costs provided that the total CUP Costs do not exceed \$218.75 million (or a greater amount if the Department funds any excess amount from its cash reserves or other sources that do not affect the terminal base rates paid by the Long Term Lease Airlines under their respective leases). The Settlement Agreements specify that CUP Costs are to be allocated to all Cost Centers on "a fair and equitable basis" and that any CUP Costs allocated through the Terminal Cost Center to individual terminals will be allocated to the Airlines based on each Airline's Usable Terminal Space area. In accordance with the Settlement Agreement, the Department expects to finance the costs of the CUP with additional bonds and/or commercial paper notes, amounts on deposit in the MMA, grants, if any, and any other funds available to the Department. The debt service and issuance costs associated with the issuance of bonds and/or commercial paper notes to finance the CUP will be amortized in accordance with the Settlement Agreement.

4.6.4 Complaint Regarding the Tariff and Subsequent DOT Decision

As described above in Section 4.6.2, the Tariff is applicable to airlines occupying or otherwise using terminal space at the Airport without an existing lease. In February 2007, seven domestic airlines operating at the Airport from Terminal 1 (Southwest Airlines and US Airways) and Terminal 3 (Alaska Airlines, AirTran Airways, ATA Airlines, Frontier Airlines, Midwest Airlines) (collectively the Terminal 1 and 3 Complainants), filed a complaint with the U.S. DOT alleging that new terminal

rates and charges imposed pursuant to the Tariff were unreasonable and discriminatory. The Terminal 1 and 3 Complainants generally alleged that the new terminal charges under the Tariff are significantly higher and therefore unreasonable, unjustly discriminatory, and employ a new methodology including the allocation of costs to airlines based on each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally public use or common use areas) that is both unreasonable and unjustly discriminatory in its application relative to terminal charges under the Long-Term Leases, which generally incorporate lower terminal fees and charges, are allocated to airlines based on each airline's Demised Premises (which does not include a pro-rata portion of the terminal's public use or common use areas), and do not expire, in some cases, until 2025.

The Terminal 3 Complainants filed an additional claim concerning the Department's imposition of the market value method to determine the Base Charge portion of terminal charges. The Terminal 3 Complainants claimed the method was unreasonable because it was not cost-based. The Terminal 3 Complainants also argued that it was imposed based on the Department's subjective opinion of what constitutes "market value" rather than pursuant to an agreed-to or independent assessment of market value.

In February 2007, twenty-two international airlines operating at TBIT (the TBIT Complainants) also filed a complaint with U.S. DOT; one complainant subsequently withdrew its complaint. The TBIT Complainants challenged the imposition of the full or enhanced M&O recovery that had been imposed on all airlines retroactively to January 2006. In June 2007, the U.S. DOT issued its Final Decision regarding the complaints.

The most significant conclusions reached by U.S. DOT in its decision are described below:

- An airport does not violate requirements that its rates be reasonable if it uses a "commercial compensatory" method that allocates the costs of public terminal space on the basis of "rentable" space;
- Commercial compensatory methods are not unreasonable when used to recover fully-allocated terminal M&O costs, including the increasing costs for general administration, ground transportation and airport security;
- Fair market value is not inherently unreasonable and can be used in setting terminal rental rates, provided that fair market value is determined either by agreement or by an independent objective appraisal of what other aeronautical users would pay;
- Commercial compensatory methods can be used to recover the fair market value of terminal space;
- The Department's use of fair market value was found to be unreasonable as applied in setting the tariff for Terminal 3, because, according to the U.S. DOT, the determination of fair market value was not based upon an independent objective appraisal;
- The Department's use of the commercial compensatory method was found to be unjustly discriminatory as applied in setting the tariffs for Terminals 1 and 3, but only because the Department is bound by long-term leases to use a "useable" space method in calculating rental rates for other terminals at the Airport and the Department did not show, according to the U.S. DOT, that it was justified in treating the Terminal 1/Terminal 3 airlines differently than the long-term carriers;

- The U.S. DOT found that all the claims by the TBIT Complainants were barred because the retroactive fees they challenged were imposed under written agreements with the Department and, further, that the U.S. DOT lacked statutory jurisdiction to hear their claims.

The Terminal 1 and 3 Complainants, TBIT Complainants and the Department subsequently filed a petition for review of the U.S. DOT's Final Decision in the U.S. Court of Appeals for the District of Columbia Circuit. The court has provided for a briefing schedule with final briefs due November 30, 2008. The Department is unable to predict how the Court of Appeals will rule and whether any further review of such ruling will be sought in the U.S. Supreme Court. In addition, the TBIT Complainants filed a second complaint with the U.S. DOT challenging the imposition of the rentable space methodology and the increased M&O charges as unreasonable and unjustly discriminatory. The Department has challenged the TBIT Complainants' second complaint.

4.6.5 2008 Airline Negotiations

In connection with the Settlement Agreements negotiated with the Long-Term Lease Airlines (see Section 4.6.3), the Department and the Long-Term Lease Airlines are obligated to work diligently, along with the other airlines serving the Airport, to attempt by December 31, 2008 to reach an agreement regarding the LAX rates and charges structure, the future capital needs of the Airport, and the manner by which such capital needs will be met. Such negotiations will include, without limitation, the following: (1) a reasonable financing plan for necessary capital improvements at the Airport, including improvements in the terminal areas, and the manner by which the capital costs for such improvements can be recovered from all Airport users over the life of the improvements; (2) ways in which the leasing arrangements at the Airport can be structured to create incentives for the Department to improve operating efficiencies, limit costs, and increase non-airline revenues. The Department is also engaged in similar discussions with other airlines operating at the Airport that do not have long term leases.

In the event that no agreement is reached on M&O Charges by December 31, 2008, and new litigation over M&O Charges is filed, such litigation will not affect any M&O amounts payable by the Long Term Lease Airlines for CY2006, CY2007 and CY2008 pursuant to the Settlement Agreements with the Long Term Lease Airlines.

4.6.6 Assumptions for Projected Terminal Rents and Charges

For purposes of the base financial projections incorporated in this report (and reflected in the financial tables accompanying this chapter), the following assumptions regarding Terminal rents and charges were incorporated:

- Long-Term Leases (Terminals 2, 4, 5, 7, 8 and a portion of Terminal 6) — Provisions incorporated in the Settlement Agreements (which specify terminal rents and fees for CY 2006, CY 2007, and CY 2008 and allow the Department to recover a portion of terminal security costs) are assumed, for purposes of the base financial analysis, to extend through FY 2014. For purposes of the analysis, it is assumed that 83.8 percent of Terminal 6 is leased under the Long-Term Leases, for the entire projection period.
- The Tariff (Terminals 1 and 3, TBIT and a portion of Terminal 6) — Terminal rents and fees specified under the Tariff (as applied pursuant to the U.S. DOT's Final Decision) are assumed to extend through FY 2014. Base Rent, Terminal Regular Expenses, and Airport Infrastructure Charges, as described in Section 4.6.2 of this Chapter, are assumed to be

allocated to airlines (in each of the Terminals under the Tariff) based on each Airline's Space Use Factor, which does not include a pro-rata portion of the terminal's public use or common use areas. Terminal Special Expenses are paid entirely by the specific airline(s) to which such expenses relate. For purposes of the analysis, it is assumed that 16.2 percent of Terminal 6 is subject to the LAX Passenger Terminal Tariff, for the entire projection period.

- It should be noted that ongoing legal matters related to terminal rentals at the Airport (as discussed above in Sections 4.6.3, 4.6.4, and 4.6.5) could result in terminal rental revenues different than as reflected in the financial tables accompanying this chapter for FY 2009 to FY 2014 (based on the assumptions above). However, the assumptions above provide a reasonable basis for purposes of projecting Terminal rents and charges during the projection period.

4.7 Financing Plan

As discussed in Chapter 3, the Department's capital planning efforts are organized for the purposes of this report into the Series 2008 Projects, Other Incorporated Projects and Future Projects. Projects are categorized based on a range of considerations including timing, demand levels, and certainty and stage in the project approval process. The Series 2008 Projects reflect those projects to be funded, in part, with Series 2008 Bond proceeds. The Other Incorporated Projects include projects other than the Series 2008 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in this report, and are expected by the Department to be completed during the projection period (through FY 2014). The financial impacts of the Other Incorporated Projects have been analyzed and incorporated in this report and the accompanying financial tables. The Future Projects include a range of Master Plan and other projects that have a high degree of strategic, business or facility maintenance justification but are not yet well enough developed in terms of scope, size, underlying business agreements, activity demand levels, etc., to incorporate the impact of such projects into the analysis.

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 a balance of senior and subordinated debt; 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, Customer Facility Charges (CFCs), and other sources of funds in a manner that optimizes a balance of leverage and pay-as-you-go approaches;
- considering alternative funding approaches such as off balance sheet financings; and
- funding individual projects with a mix of funding sources based on market conditions, airport objectives and the facts and circumstances at the time funding is required.

Given the financial strength of the Department and the wide range of funding sources available, the Department has a great deal of flexibility in developing specific funding approaches that will both accommodate project needs and preserve the Department's ability to meet its debt service obligations. The balance of this Section 4.7 discusses funding available to the Department and how

these sources are incorporated into the financial analysis of the impacts of the Series 2008 Bond Projects and the Other Incorporated Projects.

- The Department intends to finance the Series 2008 Projects with TSA grants, FAA Airport Improvement Program (AIP) grants, internal Department funds, the net proceeds of the Series 2008 Bonds, and the net proceeds of future senior revenue bonds (assumed to be issued in 2009 for purposes of this analysis).
- The Department expects to finance Other Incorporated Projects with TSA grants, FAA AIP grants, internal Department funds, PFC funding (pay-as-you-go basis), and the net proceeds of additional future senior and subordinate revenue bonds (assumed to be issued in 2010 for purposes of this analysis). Commercial paper may be used and refunded in the future with additional future bonds, however, the use of commercial paper is not assumed in these analyses.

Table IV-1 presents the estimated funding sources for the Series 2008 Projects and the Other Incorporated Projects discussed previously in Chapter 3. As shown on Table IV-1, the Series 2008 Projects are estimated to cost approximately \$1.1 billion and the Other Incorporated Projects are estimated to cost approximately \$3.0 billion. The financial impacts of both the Series 2008 Projects and the Other Incorporated Projects are reflected in the accompanying tables in this chapter.

4.7.1 Sources of Funding

A description of estimated funding sources for the Series 2008 Projects and the Other Incorporated Projects is presented in greater detail in the following paragraphs.

4.7.1.1 TSA Grants

The Department has received a \$256 million letter-of-intent (LOI) from the TSA to be used at several passenger terminals at the Airport and LA/Ontario Airport. Of this amount, approximately \$235 million is for the Airport. As reflected on Table IV-1, the Department expects to use approximately \$46.0 million of the TSA grant funds in connection with the in-line explosives detection system (EDS) baggage system to be installed in TBIT as part of the Series 2008 Projects. This project includes replacement of the existing airline baggage handling spaces, construction of new baggage screening rooms, replacement of the outbound baggage conveyor systems, and installation/integration of TSA-provided EDS machines. In addition, the Department estimates that approximately \$35 million of the TSA LOI grant will be used to fund the in-line EDS system for Terminal 3 (also reflected on Table IV-1). The remaining \$154 million of TSA LOI grant amounts for the Airport will be used to fund the installation of EDS and other security projects at other terminals in the future, which have yet to be determined and are not included in Table IV-1.

In addition to the existing \$256 million TSA LOI, the Airport is in the process of preparing an amendment to the existing TSA LOI for an additional \$225 million to pay for additional baggage screening project costs in the other terminals. The Department is currently in discussions with the airlines serving Terminals 1 through 8, and is in the process of defining the future EDS and security needs for those terminals.

Table IV-1

Summary of the Series 2008 Projects and Other Incorporated Projects – Costs and Funding

	Estimated Project Costs ^{1/}	Sources of Funds					Series 2008 Bond Proceeds ^{2/ 3/ 4/}
		TSA Funds	AIP Discretionary Grants	Department Funds	PFC Funds	Future Bond Proceeds ^{2/ 3/}	
The Series 2008 Projects							
Tom Bradley International Terminal (TBIT) Interior Improvements							
Interior Improvements	\$ 567,507,000	\$ -	\$ -	\$ 21,992,000	\$ -	\$ 155,508,000	\$ 390,007,000
In-Line Explosive Detection Bag Screening System	140,000,000	46,000,000	-	-	-	-	94,000,000
Terminal Operations Relocation	8,465,000	-	-	-	-	-	8,465,000
New Large Aircraft Project	7,528,000	-	-	-	-	-	7,528,000
	\$ 723,500,000	\$ 46,000,000	\$ -	\$ 21,992,000	\$ -	\$ 155,508,000	\$ 500,000,000
South Airfield Improvement Program (SAIP)							
Runway 25L Relocation	\$ 222,000,000	\$ -	\$ 73,367,000	\$ -	\$ -	\$ -	\$ 148,633,000
Construction of Center Taxiway	111,000,000	-	33,038,000	1,595,000	-	-	76,367,000
	\$ 333,000,000	\$ -	\$ 106,405,000	\$ 1,595,000	\$ -	\$ -	\$ 225,000,000
Total Series 2008 Projects	\$ 1,056,500,000	\$ 46,000,000	\$ 106,405,000	\$ 23,587,000	\$ -	\$ 155,508,000	\$ 725,000,000
Other Incorporated Projects ^{5/}							
Terminal Projects							
TBIT Expansion—Terminal Addition ("Bump-out")	\$ 1,161,000,000	\$ -	\$ -	\$ 563,085,000	\$ -	\$ 597,915,000	\$ -
TBIT Expansion—South 4 Gates	214,100,000	-	-	-	-	214,100,000	-
TBIT Expansion—Ancillary Facilities Demolish & Construct - Enabling Projects	158,000,000	-	-	-	-	158,000,000	-
TBIT Expansion—North 4 Gates	146,600,000	-	-	-	-	146,600,000	-
TBIT Expansion—Pedestrian Tunnel Structure	75,500,000	-	-	-	-	75,500,000	-
In-Line EDS Bag System—Terminal 3	65,000,000	35,000,000	-	-	-	30,000,000	-
	\$ 1,820,200,000	\$ 35,000,000	\$ -	\$ 563,085,000	\$ -	\$ 1,222,115,000	\$ -
Airfield and Apron Projects							
Noise mitigation and soundproofing	\$ 475,000,000	\$ -	\$ -	\$ -	\$ 475,000,000	\$ -	\$ -
Residential land acquisition	100,000,000	-	-	-	100,000,000	-	-
Taxiway C-13 Construction w/ Bridge	51,000,000	-	10,200,000	-	-	40,800,000	-
Ancillary Facilities Demolish & Construct - Enabling Projects	51,000,000	-	10,200,000	-	-	40,800,000	-
Northside Airfield Improvement Program—Airfield Intersection Improvements	47,971,000	-	9,594,000	-	-	38,377,000	-
Taxiway S Relocation	35,000,000	-	7,000,000	-	-	28,000,000	-
Taxiway C-12 North w/ Bridge	34,000,000	-	6,800,000	-	-	27,200,000	-
Taxiway Q Relocation	32,000,000	-	6,400,000	-	-	25,600,000	-
Remain Over Night (RON) Apron	28,000,000	-	5,600,000	-	-	22,400,000	-
TBIT Apron South 4 Gates	19,900,000	-	3,980,000	-	-	15,920,000	-
TBIT Apron North 4 Gates	19,400,000	-	3,880,000	-	-	15,520,000	-
Taxiway C-12 South	15,000,000	-	3,000,000	-	-	12,000,000	-
Taxiway "D" Extension West to Taxiway C13	14,000,000	-	2,800,000	-	-	11,200,000	-
ADA Perimeter Fence Enhancement - World Way West	10,000,000	-	-	-	-	10,000,000	-
ASDE-X Pilot Project	6,000,000	-	-	-	-	6,000,000	-
	\$ 938,271,000	\$ -	\$ 69,454,000	\$ -	\$ 575,000,000	\$ 293,817,000	\$ -
Infrastructure and Other Projects							
Central Utility Plant	\$ 269,000,000	\$ -	\$ -	\$ 67,250,000	\$ -	\$ 201,750,000	\$ -
Theme Building Restoration	11,000,000	-	-	11,000,000	-	-	-
	\$ 280,000,000	\$ -	\$ -	\$ 78,250,000	\$ -	\$ 201,750,000	\$ -
Total Other Incorporated Projects	\$ 3,038,471,000	\$ 35,000,000	\$ 69,454,000	\$ 641,335,000	\$ 575,000,000	\$ 1,717,682,000	\$ -
Total Series 2008 Projects and Other Incorporated Projects	\$ 4,094,971,000	\$ 81,000,000	\$ 175,859,000	\$ 664,922,000	\$ 575,000,000	\$ 1,873,190,000	\$ 725,000,000

Notes:

^{1/} Estimated costs shown include design, engineering, escalation for inflation, and contingency amounts.

^{2/} A portion of the debt service associated with the Series 2008A Senior Bonds and additional Senior Bonds to be issued in the future are expected to be paid with PFC revenues.

^{3/} Includes bond proceeds from future bond issued assumed in 2009 and 2010. Bond proceeds used for Terminal Projects and Infrastructure and Other Projects are assumed to be from Senior Bonds and bond proceeds used for Airfield and Apron Projects are assumed to be from Subordinate Bonds.

^{4/} Series 2008 Bond proceeds for TBIT Project are from Series 2008 A Senior Bonds and Series 2008 Bond proceeds for South Airfield Improvement Program are from Series 2008 C Subordinate Bonds.

^{5/} The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the financial tables included in Chapter 4 of this report.

Source: City of Los Angeles, Department of Airports.
Prepared by: Ricardo & Associates, Inc.

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4.7.1.2 FAA Airport Improvement Program (AIP) Grants

The FAA Airport Improvement Program (AIP) provides Federal discretionary and entitlement grants for eligible airport projects. The entitlement funds are based upon annual Congressional appropriations levels. AIP grants are distributed to airport operators on a reimbursement basis.

As shown on Table IV-1, the Department expects to use \$106.4 million of AIP discretionary grants for the South Airfield Improvement Program. The Department has received approximately \$73.4 million of AIP discretionary grants for the relocation of Runway 25L. The Department also anticipates receiving AIP funding totaling approximately \$33.0 million in 2008 and 2009 for construction of the new center taxiway.

In connection with the Other Incorporated Projects, the Department expects to receive approximately \$69.5 million of future AIP grant funding for various apron and taxiway projects.

4.7.1.3 Passenger Facility Charges

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% reduction in AIP passenger entitlement grants.

The Department is currently authorized by the FAA, pursuant to six PFC application approvals, to impose and use approximately \$1.6 billion of PFC revenues (at the \$4.50 PFC level) for various projects. Through March 31, 2008, the Department had collected approximately \$1.0 billion of its total approved collection authority and had spent approximately \$740 million on approved projects.

As shown on Table IV-1, the Department expects to use \$575 million of PFC revenues for noise mitigation, soundproofing, and residential land acquisition. In addition, as discussed in more detail below, the Department plans to use PFC revenues to pay for a portion of the debt service on the Senior Bonds (including the Series 2008A Senior Bonds) to be issued to finance the Series 2008 Projects and the Other Incorporated Projects.

The Department expects to use PFC revenues to pay for approximately 45 percent of the debt service on the Series 2008A Senior Bonds (and future bonds discussed in Section 4.7.2 below) issued to finance the TBIT Interior Improvements Project (as 45 percent is roughly equivalent to the share of public space within TBIT). On March 24, 2008, the Department submitted an amendment to its fifth PFC application in connection with such use of PFC revenues to pay a portion of the Series 2008 debt service. The amendment was approved by the FAA on April 25, 2008.

In connection with the future terminal-related TBIT Expansion project elements included in the Other Incorporated Projects, the Department expects that approximately 45 percent of the project costs will be funded with future revenue bond proceeds with associated debt service expected to be paid entirely with PFC revenues. The remaining 55 percent of terminal-related TBIT Expansion project costs will be funded with either Department Funds and/or future revenue bond proceeds with associated debt service that will not be paid with PFC revenues. Future collection and use of PFC revenues to pay for the debt service associated with the TBIT expansion projects will require a new application and approval for use from the FAA.

Airport industry groups have requested that federal PFC regulations be changed to increase the PFC program's maximum PFC level from its current level of \$4.50. As part of its reauthorization proposal for 2008-2010, the FAA proposed that the maximum PFC level be increased to \$6.00. The House of Representatives Bill proposed an increase in the maximum PFC level to \$7.00. The Senate's Bill for Reauthorization did not include an increase for the maximum PFC level. On June 30, 2008, the FAA Extension Act of 2008 (H.R. 6327) was signed into law, extending FAA programs through September 30, 2008, although it did not change the maximum PFC level. As of the date of this report, a Reauthorization Bill that could potentially increase the maximum PFC level has not been adopted by the House and the Senate. The financial projections and the financing plan reflected in this report and in the accompanying tables assume the Department's current \$4.50 PFC level is in place for the entire projection period. If federal PFC regulations are changed and the maximum PFC level is increased, the Department plans to apply to the FAA for authorization to collect the higher PFC level at the Airport.

4.7.1.4 Department Funds

As reflected on Table IV-1, the Department expects to use approximately \$23.6 million of Department funds for the Series 2008 Projects—including approximately \$22.0 million for the TBIT Interior Improvements Project and approximately \$1.6 million for the South Airfield Improvement Program.

The Department expects to use approximately \$641.3 million of Department funds for Other Incorporated Projects, including the future expansion of TBIT, the new Central Utility Plant, and the Theme Building Restoration.

4.7.2 Series 2008 and Future Bond Proceeds

Bond proceeds are assumed to be the remaining source of funding for the Series 2008 Projects. As reflected on Table IV-1, approximately \$725.0 million of Series 2008 Bond proceeds are expected to be used to fund costs of the Series 2008 Projects.

Table IV-2 presents a listing of estimated sources and uses of funds for the proposed Series 2008 Bonds, broken out into the Series 2008A Senior Bonds (AMT) and the Series 2008 Subordinate Bonds (Non-AMT).

The assumptions, estimated sources and uses of funds, and debt service for the proposed Series 2008 Bonds were provided by the Department, using information regarding the estimated cost and timing of the Series 2008 Projects and the estimated receipt of federal grants and other funds reflected on Table IV-1.

Debt service estimates for the proposed Series 2008 Bonds are based on the following assumptions:

- Approximately \$867.4 million of Series 2008 Bonds will be issued to fund a portion of the costs of the Series 2008 Projects.
- The Series 2008A Senior Bonds will be issued to fund a portion of the costs of the TBIT Interior Improvements. The Series 2008 Subordinate Bonds will be issued to fund a portion of the costs of the South Airfield Improvement Program.
- The Series 2008A Senior Bonds are issued with a 30-year term and an overall interest rate of 5.90 percent.

Table IV-2

Estimated Sources and Uses of Funds – Series 2008 Bonds

	Senior Series 2008 A (AMT)	Subordinate Series 2008 C (Non-AMT)	Total Series 2008 Bonds
Sources			
Par Amount of Bonds	\$ 617,900,000	\$ 249,535,000	\$ 867,435,000
Interest Earnings			
Debt Service Reserve Fund	\$ 1,373,000	\$ -	\$ 1,373,000
Capitalized Interest Fund	1,393,000	-	1,393,000
	\$ 2,766,000	\$ -	\$ 2,766,000
Total Sources	\$ 620,666,000	\$ 249,535,000	\$ 870,201,000
Uses			
Project costs funded with Series 2008 Bond proceeds ^{1/}	\$ 500,000,000	\$ 225,000,000	\$ 725,000,000
Capitalized interest—Series 2008 Bonds ^{2/}	64,710,000	-	64,710,000
Debt Service Reserve Fund	38,678,000	17,223,000	55,901,000
Costs of issuance	16,909,000	6,533,000	23,442,000
Interest on Commercial Paper Notes	369,000	779,000	1,148,000
Total Uses	\$ 620,666,000	\$ 249,535,000	\$ 870,201,000

Notes:

^{1/} Includes \$266.6 million of funds to reimburse the Department for project costs to date paid for with Department funds and \$233.4 million of funds to refund outstanding commercial paper notes.

^{2/} Interest capitalized on Series 2008A Bonds through May 15, 2010.

Source: City of Los Angeles, Department of Airports, May 27, 2008.

Prepared by: Ricondo & Associates, Inc.

- The Series 2008 Subordinate Bonds are issued with a 30-year term and an overall interest rate of 5.50 percent.
- Interest on the Series 2008A Senior Bonds is capitalized through May 15, 2010.
- A portion of the proceeds of the Series 2008A Bonds will fund a deposit to the Senior Reserve Fund, which is a common reserve fund and is required to be funded at an amount equal to the least of (a) 10 percent of the principal amount of all Senior Bonds, (b) Maximum Annual Debt Service for all Senior Bonds, or (c) 125 percent of Average Annual Debt Service for all Senior Bonds.
- A portion of the proceeds of the Series 2008 Subordinate Bonds will fund a deposit to the Subordinate Reserve in an amount equal to the least of (a) 10 percent of the principal amount of the Series 2008 Subordinate Bonds, (b) Maximum Annual Debt Service for the Series 2008 Subordinate Bonds, or (c) 125 percent of Average Annual Debt Service for the Series 2008 Subordinate Bonds.
- Approximately \$233.4 million of the proceeds of the Series 2008 Bonds will refund outstanding commercial paper notes.

As shown on Table IV-1, approximately \$1.873 billion of future bond proceeds are expected to be used to pay for approximately \$155.5 million of the costs of the completion of the TBIT Interior Improvements and approximately \$1.72 billion of the Other Incorporated Projects. For purposes of this report, future bonds expected to be issued to pay for a portion of the costs of the completion of the TBIT Interior Improvements were assumed to be issued in 2009. Future bonds expected to be issued to pay for a portion of the Other Incorporated Projects were assumed to be issued in 2010.

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

- Future bonds issued to pay for a portion of future Terminal Projects and Infrastructure and Other Projects were assumed to be Senior Bonds, with a 30-year term, level debt service, and overall interest rate of 6.00 percent.
- Future bonds issued to pay for a portion of future Airfield and Apron Projects were assumed to be Subordinate Bonds, with a 30-year term, level debt service, and overall interest rate of 6.00 percent.
- A debt service reserve equal to maximum annual debt service (assumed to be level) is funded with bond proceeds.
- Bond interest is capitalized through construction periods.
- Costs of issuance are assumed to equal 1.75 percent of future bond par (including bond insurance premium).

Table IV-3 presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2008A Senior Bonds, and future additional Senior Bonds (assumed to be issued in 2009 and 2010) for FY 2007 through FY 2014. As discussed in earlier sections of this chapter, pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant, principal of and/or interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service.

Table IV-3
Debt Service
Fiscal Years Ending June 30

	Actual		Projected					
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Existing Senior Bond Debt Service								
Series 1995-A	\$ 1,385,681	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 1995-C	317,169	298,588	-	-	-	-	-	-
Series 1995-D	1,495,140	1,494,540	1,496,190	1,494,815	1,495,415	1,496,575	1,498,793	1,497,075
Series 2002-A	1,624,633	1,624,632	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633
Series 2003-B	14,483,100	15,882,100	15,917,850	15,943,850	16,184,100	16,181,350	16,185,600	16,184,850
Subtotal - Existing Senior Lien Debt Service	\$ 19,305,723	\$ 19,299,860	\$ 19,038,673	\$ 19,063,298	\$ 19,304,148	\$ 19,302,558	\$ 19,309,026	\$ 19,306,558
Future Senior Bond Debt Service								
Proposed Series 2008 A Bonds -- Paid with Pledged Revenues (TBIT)	\$ -	\$ -	\$ -	\$ -	\$25,091,000	\$25,091,000	\$25,091,000	\$25,091,000
Proposed Series 2008 A Bonds -- Paid with PFC Revenues (TBIT)	-	-	-	-	20,529,000	20,529,000	20,529,000	20,529,000
Future Series 2009 A Bonds -- Paid with Pledged Revenues (Complete TBIT)	-	-	-	-	7,374,000	7,374,000	7,374,000	7,374,000
Future Series 2009 A Bonds -- Paid with PFC Revenues (Complete TBIT)	-	-	-	-	5,974,000	5,974,000	5,974,000	5,974,000
Future Series 2010 A Bonds -- Paid with Pledged Revenues (Future TBIT/CUP/Other)	-	-	-	-	2,736,000	57,819,000	57,819,000	57,819,000
Future Series 2010 A Bonds -- Paid with PFC Revenues (Future TBIT)	-	-	-	-	-	63,213,000	63,213,000	63,213,000
PFC Revenues Used to Pay Debt Service	-	-	-	-	(26,503,000)	(89,716,000)	(89,716,000)	(89,716,000)
Subtotal - Future Annual Senior Lien Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 35,201,000	\$ 90,284,000	\$ 90,284,000	\$ 90,284,000
Aggregate Annual Debt Service (Senior)^{1/}	\$ 19,305,723	\$ 19,299,860	\$ 19,038,673	\$ 19,063,298	\$ 54,505,148	\$ 109,586,558	\$ 109,593,026	\$ 109,590,558
Subordinate Bond Debt Service								
Series 2002-C1 ^{2/}	\$ 1,316,746	\$ 1,870,000	\$ 1,307,197	\$ 1,309,000	\$ 1,309,000	\$ 1,310,803	\$ 1,307,197	\$ 1,309,000
Series 2002-C2 ^{2/}	700,301	1,000,000	699,036	700,000	700,000	700,964	699,036	700,000
Series 2003-A ^{3/}	847,772	1,185,000	852,025	853,200	853,200	854,375	852,025	853,200
Commercial Paper ^{4/}	3,937,000	-	-	-	-	-	-	-
Proposed Series 2008 C Bonds (SAIP Project)	-	-	13,346,000	17,220,000	17,220,000	17,223,000	17,220,000	17,220,000
Future Series 2010 B Bonds (Future Airfield/Apron Projects)	-	-	-	547,000	11,965,000	26,794,000	26,794,000	26,794,000
Aggregate Annual Debt Service (Subordinate)	\$ 6,801,819	\$ 4,055,000	\$ 16,204,258	\$ 20,629,200	\$ 32,047,200	\$ 46,883,142	\$ 46,872,258	\$ 46,876,200
Total Debt Service	\$ 26,107,542	\$ 23,354,860	\$ 35,242,930	\$ 39,692,498	\$ 86,552,348	\$ 156,469,700	\$ 156,465,283	\$ 156,466,758

Note:

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

^{2/} Variable rate debt service, with an assumed 5.00 percent interest rate for FY 2008 and 3.50 percent thereafter. Debt service reflected does not include associated letter of credit or remarketing agent fees.

^{3/} Variable rate debt service, with an assumed 5.00 percent interest rate for FY 2008 and 3.60 percent thereafter. Debt service reflected does not include associated letter of credit or remarketing agent fees.

^{4/} Commercial paper outstanding as of June 1, 2008 is approximately \$330 million. The Department's current commercial paper authorization is \$500 million. Approximately \$233 million of the Department's \$330 million of outstanding commercial paper is expected to be repaid with the proceeds of the Series 2008 Bonds. Debt service associated with the remaining commercial paper is not reflected in this table for FY 2009 through FY 2014.

Sources: City of Los Angeles, Department of Airports (existing and Series 2008 Debt Service) and Ricondo & Associates, Inc. (Future Debt Service).
Prepared by: Ricondo & Associates, Inc.

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Table IV-3 reflects PFC revenues expected to be used by the Department each year to pay a portion of the debt service on the Series 2008A Senior Bonds and the future Senior Bonds.

As shown in Table IV-3, Aggregate Annual Debt Service for Senior Bonds is estimated to increase from approximately \$19.3 million in FY 2008 to approximately \$109.6 million in FY 2014. As also shown, the Senior Aggregate Annual Debt Service for Senior Bonds reflects the use of between approximately \$26.5 million and \$89.7 million of PFC revenues to pay Senior Bond debt service each year.

Table IV-3 also presents estimates of Subordinate Aggregate Annual Debt Service for outstanding Subordinate Bonds, proposed Series 2008 Subordinate Bonds, future additional Subordinate Bonds, and commercial paper payments. Subordinate Aggregate Annual Debt Service is estimated to increase from \$4.1 million in FY 2008 to approximately \$46.9 million in FY 2014. The Department does not expect to use PFC revenues to pay for debt service on the Series 2008 Subordinate Bonds or the future Subordinate Bonds.

4.8 Maintenance & Operation Expenses

M&O Expenses at the Airport are captured within the SAP accounting system used by the Department. SAP provides the M&O Expense data that is used in the preparation of the annual financial statements and the tracking of budgeted expenses to actual expenses by division. As such, M&O Expenses are tracked within the SAP system in a number of classifications, including by cost center, cost element, and business area.

M&O Expenses are budgeted for each of the Department's 20 Direct Divisions and 14 Administrative Divisions. For rate-setting purposes, M&O Expenses by division are allocated to the various Airport cost centers described previously in Section 4.1.2. Within each division, M&O Expenses are also further categorized by detailed cost elements, including:

- Salaries and benefits
- Contractual services
- Administrative Services
- Materials and Supplies
- Utilities
- Advertising and Public Relations
- Other Operating Expenses

M&O Expenses for the Airport, as defined in the Senior Indenture, increased from \$416.4 million in FY 2005 to \$477.3 million in FY 2007, representing a compounded annual growth rate of 7.1 percent. It should be noted that M&O Expenses as defined in the Senior Indenture differ from Airport operating expenses reflected in the Department's audited financial statements. M&O Expense growth in FY 2007 (4.3 percent) was lower than in recent years as a result of a specific management focus on meeting M&O Expense and performance goals. The Department's new senior management has stated that the Department's goal for base Airport M&O Expense growth (excluding growth associated with new facilities) is 5.0 percent.

Table IV-4 presents actual M&O Expenses at the Airport for FY 2007, estimated FY 2008 and projected FY 2009 through FY 2014. M&O Expenses are budgeted to be \$530.3 million in FY 2008 (an 11.1 percent increase from actual FY 2007 M&O Expenses). Based on FY 2008 data through

Table IV-4

Summary of LAX Maintenance and Operation Expenses
Fiscal Years Ending June 30

	Actual		Budget		Projected			
	FY 2007 ^{1/}	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
By Type of Expense								
Salaries and Benefits	\$ 250,641,069	\$ 273,397,435	\$ 289,801,281	\$ 305,740,352	\$ 321,027,369	\$ 356,324,738	\$ 374,141,674	\$ 392,848,308
Contractual Services	139,335,231	149,625,037	158,602,539	167,325,679	175,691,963	195,009,561	204,760,389	214,998,408
Administrative Services	712,440	3,108,800	3,295,328	3,476,571	3,650,400	4,051,920	4,254,566	4,466,794
Materials and Supplies	43,238,205	44,753,200	47,438,392	50,047,504	52,549,879	58,327,373	61,244,241	64,306,053
Utilities	20,303,114	27,273,500	28,909,910	30,499,955	32,024,953	35,546,200	37,323,510	39,189,886
Advertising and Public Relations	9,994,370	10,742,000	11,386,520	12,012,779	12,613,418	14,000,088	14,700,293	15,435,607
Other Operating Expenses	13,026,035	21,395,700	22,679,442	23,926,811	25,123,152	27,885,309	29,280,275	30,744,189
Subtotal - LAX M&O Expenses	\$ 477,250,463	\$ 530,295,672	\$ 562,113,412	\$ 593,029,650	\$ 622,681,132	\$ 691,146,189	\$ 725,703,948	\$ 761,988,246
Annual % change	4.3%	11.1%	6.0%	5.5%	5.0%	11.0%	5.0%	5.0%
Compound annual growth rate FY 2008 to FY 2014								6.2%
Equipment and Vehicles	5,756,513	7,454,870	7,902,162	8,336,781	8,753,620	9,716,301	10,201,866	10,712,410
Total LAX M&O Expenses plus Vehicles and Equipment Expenses	\$ 483,006,976	\$ 537,750,542	\$ 570,015,574	\$ 601,366,431	\$ 631,434,752	\$ 700,862,490	\$ 735,905,814	\$ 772,700,655
Summary by Cost Center								
Terminal	\$ 215,480,289	\$ 258,067,537	\$ 273,551,589	\$ 288,596,927	\$ 303,026,773	\$ 356,034,112	\$ 373,836,017	\$ 392,527,368
Apron	19,910,084	24,760,943	26,246,599	27,690,162	29,074,670	30,528,404	32,054,824	33,657,565
Airfield	108,591,899	108,512,972	115,023,751	121,350,057	127,417,560	133,788,438	140,477,860	147,501,753
Aviation	38,761,834	46,638,512	49,436,823	52,155,848	54,763,640	57,501,822	60,376,913	63,395,759
Commercial	73,272,269	74,758,853	79,244,385	83,602,826	87,782,967	92,172,115	96,780,721	101,619,757
Exclusions / Other	13,339,291	9,475,000	10,043,500	10,595,893	11,125,687	11,681,971	12,266,070	12,879,374
Other Airports	13,651,311	15,536,724	16,468,927	17,374,718	18,243,454	19,155,627	20,113,408	21,119,079
Total LAX M&O Expenses plus Vehicles and Equipment Expenses	\$ 483,006,976	\$ 537,750,542	\$ 570,015,574	\$ 601,366,431	\$ 631,434,752	\$ 700,862,490	\$ 735,905,814	\$ 772,700,655

Note:

^{1/} M&O Expenses reflected on this table are as defined in the Senior Indenture, and will differ somewhat from expenses reflected in audited financial statements.

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

Prepared by: Ricondo & Associates, Inc.

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March 2008, LAX M&O Expenses for FY 2008 to date are approximately \$12.4 million less than budgeted. In FY 2007, actual M&O Expenses were \$10.6 million less than budgeted M&O Expenses.

As shown on Table IV-4, a portion of M&O Expenses at the Airport (approximately \$13.7 million from various Administrative Divisions in FY 2007) are allocated to other airports in the Airport System. Operating expenses from other airports in the Airport System are allocated to the Airport, however any revenue shortfalls associated with the operation of VNY are included in the landing fee for the Airport. Any potential shortfalls associated with the operation of Palmdale Regional Airport are funded with the Department's available discretionary funds (generated from Airport revenues after meeting obligations under the Department's governing bond documents).

Projections of future Airport M&O Expenses are based on an assumed 6.0 percent annual growth rate in FY 2009, an assumed 5.5 percent annual growth rate in FY 2010, and an assumed 5.0 percent annual growth rate in FY 2011 for all categories of M&O Expenses to account for the anticipated impacts of inflation, staffing and operational requirements, and activity increases (assuming the Department is able to reach its goal of base expense growth of 5.0 percent by FY 2011).

The Department expects that the Other Incorporated Projects, specifically the TBIT expansion project elements, will result in an approximate \$37.9 million increase in Terminal M&O Expenses in FY 2012. Estimated M&O Expenses associated with the TBIT expansion were developed based on preliminary estimates of increased total terminal square footage and current M&O Expenses associated with TBIT. The Department does not expect that the Series 2008 Projects will have a material impact on M&O Expenses.

As shown, total M&O Expenses are projected to increase from \$530.3 million in FY 2008 to \$762.0 million in FY 2014, representing a compounded annual growth rate of 6.2 percent.

Details of the M&O Expense projections by expense category are described below.

4.8.1 Salaries and Benefits

M&O Expenses for Salaries and Benefits include expenses associated with wages, salaries, and employee benefits, regular overtime, and health subsidies. As shown in Table IV-4, salaries and benefits represented the single largest expense category in FY 2007, accounting for 52.5 percent of total M&O Expenses. As a municipal organization, the Department's employee and labor relations are governed by Civil Service rules and regulations, the Charter and the City Administrative Code, as well as 22 separate labor agreements between management and unions. Most of these agreements expire between FY 2009 and FY 2013, however two labor agreements are currently being renegotiated.¹ As shown in Table IV-4, total salaries and benefit expenses are projected to increase from \$273.4 million in FY 2008 to \$392.8 million in FY 2014.

4.8.2 Contractual Services

Contractual services expenses include expenses associated with various contractual obligations such as parking lot operations, engineering and consulting contracts, security services, and other

¹ Labor agreements are currently being renegotiated between the City and each of the Municipal Construction Inspectors Association and the Airport Supervisory Police Officers' Association of Los Angeles.

miscellaneous contracts. Contractual services represented the second largest expense category in FY 2007, accounting for 29.2 percent of total M&O Expenses. As shown in Table IV-4, contractual expenses are projected to increase from \$149.6 million in FY 2008 to \$215.0 million in FY 2014.

4.8.3 Administrative Services

Administrative Services expenses includes expenses associated with training, travel, tuition reimbursement, memberships, and other miscellaneous administrative expenses. As shown in Table IV-4, administrative services expenses are projected to increase from \$3.1 million in FY 2008 to approximately \$4.5 million in FY 2014.

4.8.4 Materials and Supplies

Expenses associated with materials and supplies include various items such as custodial supplies, furniture and equipment, materials and parts for maintenance and repair of facilities, communication supplies, and other miscellaneous materials and supplies. Materials and supplies expenses accounted for 9.1 percent of total M&O Expenses in FY 2007. As shown in Table IV-4, expenses for materials and supplies are projected to increase from \$44.8 million in FY 2008 to \$64.3 million in FY 2014.

4.8.5 Utilities

Utility expenses include electrical, water, gas, and telephone expenses, and account for 4.3 percent of total M&O Expenses in FY 2007. As shown in Table IV-4, utility expenses are projected to increase from \$27.3 million in FY 2007 to \$39.2 million in FY 2014.

4.8.6 Advertising and Public Relations

Advertising and Public Relations expenses include expenses associated with media, public relations, marketing services, costumer services, and advertising. The Advertising and Public Relations budget is used to support plans to market the Airport System at local, U.S. and international trade shows and conferences, and to support marketing activities undertaken by the Los Angeles Convention and Visitors Bureau. Other campaigns include efforts to promote the Airport System as safe, secure, and user friendly. Advertising and Public Relations expenses accounted for 2.1 percent of total M&O Expenses in FY 2007. Advertising and public relations expenses are projected to increase from \$10.7 million in FY 2008 to \$15.4 million in FY 2014.

4.8.7 Other Operating Expenses

Other operating expenses include expenses not classified in the other expense categories, and include expenses such as insurance, litigation, lease expenses, and other miscellaneous expenses. Other operating expenses accounted for 2.7 percent of total M&O Expenses in FY 2007. As shown in Table IV-4, other operating expenses are projected to increase from \$21.4 million in FY 2008 to \$30.7 million in FY 2014.

4.9 Airport Revenues Other than Airline Terminal, Landing, and Apron Fees

Table IV-5 presents Airport revenues other than airline terminal, landing, and apron fees (hereinafter referred to as “nonairline revenues”) for actual FY 2007, budgeted/estimated FY 2008, and projected FY 2009 through FY 2014.

Table IV-5

Summary of Airport Revenues Other Than Airline Terminal Rentals and Signatory Airline Landing and Apron Fee:
Fiscal Years Ending June 30

	Actual		Budget/Est.		Projected			
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Aviation Revenues ^{1/}								
Building Rent - Other than Pass. Terminals	\$ 30,620,799	\$ 30,029,000	\$ 30,929,870	\$ 31,857,766	\$ 32,813,499	\$ 33,797,904	\$ 34,811,841	\$ 35,856,196
Land Rentals	48,054,087	48,031,000	49,471,930	50,956,088	52,484,771	54,059,314	55,681,093	57,351,526
Plane Parking	1,059,555	1,061,000	1,087,091	1,127,311	1,172,491	1,219,457	1,268,066	1,317,090
Fuel Fees	413,463	320,000	327,869	340,000	353,626	367,791	382,452	397,237
Non-Signatory Landing Fees	49,303	411,000	421,107	436,687	454,188	472,381	491,211	510,202
Other Aviation Revenue ^{2/}	12,162,493	697,000	703,586	718,835	736,595	754,779	773,266	791,292
Total Aviation Revenues^{3/}	\$ 92,359,700	\$ 80,549,000	\$ 82,941,454	\$ 85,436,687	\$ 88,015,171	\$ 90,671,625	\$ 93,407,930	\$ 96,223,543
Annual % change	8.4%	-12.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Concession Revenues								
Auto Parking	\$ 72,917,709	\$ 80,167,000	\$ 83,018,000	\$ 87,739,000	\$ 92,712,000	\$ 97,953,000	\$ 103,478,000	\$ 109,235,000
Duty Free	32,036,693	32,276,000	31,823,000	31,928,000	36,365,000	39,462,000	40,743,000	41,927,000
Car Rental	50,761,135	55,081,000	57,594,000	61,460,000	65,574,000	69,953,000	74,617,000	79,533,000
Food & Beverage	28,731,039	30,044,000	31,414,000	33,523,000	37,487,000	41,913,000	44,707,000	47,652,000
Gifts & News	16,558,524	17,588,000	17,683,000	18,144,000	19,545,000	21,051,000	21,590,000	22,128,000
Bus, Limo & Taxi	5,384,505	5,953,000	6,074,935	6,326,915	6,588,144	6,859,174	7,140,583	7,428,071
Foreign Exchange	6,784,508	6,835,000	6,500,000	6,736,263	6,979,839	7,231,186	7,490,774	7,753,975
Bus Service VNY to LAX	3,190,635	2,500,000	2,551,208	2,657,028	2,766,733	2,880,554	2,998,733	3,119,465
Hotel & Motel Listing	467,662	-	-	-	-	-	-	-
Telecommunications	1,765,601	391,000	399,009	415,559	432,717	450,519	469,002	487,884
Other Concession Revenue ^{3/}	4,278,747	3,485,000	3,556,383	3,703,897	3,856,825	4,015,492	4,180,234	4,348,535
Terminal Advertising	4,300,021	18,410,000	19,180,000	19,755,400	20,348,062	20,958,504	21,587,259	22,234,877
Total Concession Revenues	\$ 227,176,779	\$ 252,730,000	\$ 259,793,535	\$ 272,389,061	\$ 292,655,319	\$ 312,727,428	\$ 329,001,585	\$ 345,847,807
Annual % change	13.3%	11.2%	2.8%	4.8%	7.4%	6.9%	5.2%	5.1%
Airport Sales and Services								
Airfield Bus	\$ 1,809,355	\$ 1,646,000	\$ 1,679,715	\$ 1,749,387	\$ 1,821,617	\$ 1,896,557	\$ 1,974,366	\$ 2,053,856
Airport Sales - Utilities	45,995	-	-	-	-	-	-	-
Accommodations	249,417	-	-	-	-	-	-	-
Other Sales & Services	719,250	648,000	657,720	667,586	677,600	687,764	698,080	708,551
Total Airport Sales & Services	\$ 2,824,017	\$ 2,294,000	\$ 2,337,435	\$ 2,416,973	\$ 2,499,216	\$ 2,584,320	\$ 2,672,446	\$ 2,762,407
Annual % change	38.8%	-18.8%	1.9%	3.4%	3.4%	3.4%	3.4%	3.4%
Miscellaneous Revenues								
Miscellaneous Revenues	\$ 2,011,539	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000
Total Miscellaneous	\$ 2,011,539	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000	\$ 1,539,000
Annual % change	38.7%	-23.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Nonairline Revenues	\$ 324,372,035	\$ 337,112,000	\$ 346,611,424	\$ 361,781,722	\$ 384,708,706	\$ 407,522,374	\$ 426,620,862	\$ 446,372,757
Annual % change	12.1%	3.9%	2.8%	4.4%	6.3%	5.9%	4.7%	4.6%
Compound annual growth rate FY 2008 to FY 2014								4.8%

Notes:

^{1/} Other than airline terminal rentals and Signatory Airline Landing and Apron Fees.

^{2/} Includes terminal use fees, gate use fees, TSA revenue, federal grants—operating revenue, and other aviation fees. FY 2007 includes \$9.3 million of TSA revenues for utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing.

^{3/} Includes luggage carts and ATM revenue.

Sources: LAWA and Ricondo & Associates, Inc.
Prepared by: Ricondo & Associates, Inc.

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
- Miscellaneous Revenues

In FY 2007, nonairline revenues accounted for approximately \$324.4 million, or 56.8 percent, of total Pledged Revenues.

In general, projections of nonairline revenues were based on a review of historical trends, budgeted/estimated FY 2008 revenues, the anticipated impacts of inflation, impacts related to the Series 2008 Projects and Other Incorporated Projects, current and assumed future lease provisions (described herein), and projected growth in Airport activity. Specific points concerning these projections are discussed in the following sections.

Between FY 2005 and FY 2007, nonairline revenues grew from \$282.5 million to \$324.4 million, representing a compounded annual growth rate of 7.2 percent. As shown on Table IV-5, nonairline revenues are projected to increase from \$337.1 million in FY 2008 to \$446.4 million in FY 2014, a compounded annual growth rate of 4.8 percent.

4.9.1 Aviation Revenues

Aviation Revenues at the Airport (excluding airline terminal rentals, landing fees, and apron fees) consist primarily of building rentals, land rent, fuel fees, and other aviation revenues. In FY 2007, Aviation Revenues included \$9.3 million of TSA revenues in connection with utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing. Excluding these TSA revenues, Aviation Revenues have remained relatively flat in recent Fiscal Years. Aviation Revenues are estimated to decrease to \$80.5 million in FY 2008 (because no additional TSA revenues have been assumed for FY 2008) and are projected to increase to \$96.2 million in FY 2014, representing a compounded annual growth rate of 3.0 percent for FY 2008 to FY 2014—primarily from expected growth in building and land rentals discussed below.

Specific details regarding key Aviation Revenues are discussed below.

- Building rentals other than passenger terminals are generated from the air freight terminal, hangar rentals, maintenance facilities, as well as other miscellaneous shops and storage facilities—pursuant to agreements between tenants and the Department. Between FY 2005 and FY 2007, nonairline building rental revenue decreased by a compounded annual growth rate of approximately 6.1 percent. This overall decrease is primarily due to Delta Airlines returning an office building and hangar on Century Boulevard to the Department and decreasing the amount of space leased at their East Maintenance Site. Agreements in connection with two American Airlines maintenance buildings (each approximately 70 acres in size located to the west of TBIT) expire in FY 2010. In connection with future Airport development, the Department expects that these two properties may be moved to other locations at the Airport. For purposes of the analysis incorporated in this report, it was assumed that the Department would receive rental payments for these buildings similar to the current payments subsequent to expiration of the agreements for these two facilities in 2010.

Building rental revenues for the air freight terminal and other miscellaneous shops and storage facilities combined are projected to increase from approximately \$30.0 million in FY

2008 to approximately \$35.9 million in FY 2014, representing a compounded annual growth rate of 3.0 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 2005 and FY 2007, land rental revenue increased at a compounded annual growth rate of 1.7 percent. Land rental revenues decreased slightly in FY 2006 and increased 5.0 percent in FY 2007. For projection purposes, land rental revenues are assumed to increase at 3.0 percent per year (lower than the 5.0 percent increase in FY 2007)--increasing from approximately \$48.0 million in FY 2008 to approximately \$57.4 million in FY 2014
- Plane parking and fuel fees at the Airport are derived from aircraft parking fees and fueling fees assessed to the airlines operating at the Airport. Plane parking and fuel fees grew at a compounded annual growth rate of 24.3 percent between FY 2005 and FY 2007 primarily as a result of several carriers that allowed their permits to lapse during that period and were charged the non-permitted fee (\$0.01 per gallon). Projected revenues from plane parking and fuel fees were assumed to increase based on projected aircraft operational levels at the Airport. Plane parking and fuel fee revenues are projected to increase to approximately \$1.4 million in FY 2008 to approximately \$1.7 million by FY 2014, representing a compounded annual growth rate of 3.7 percent.
- The Department does not currently impose any ground handling fees on third party and airline ground handling services operating at the Airport, and no such ground handling fees are planned to be implemented (or were assumed) during the projection period.

4.9.2 Concession Revenue

Concession revenues at the Airport consist of a number of revenue sources, and are comprised primarily of auto parking, car rental, ground transportation fees (bus, limo, and taxi), food and beverage, gift and news, duty free, and other concession revenues. Generally, future concession revenues were projected based on historical trends, estimated FY 2008 revenues, future Airport passenger activity, assumed inflation, assumed impacts of the TBIT Interior Improvements project, and current and assumed future lease terms and provisions.

Between FY 2005 and FY 2007, concession revenues grew at a compounded annual growth rate of 8.1 percent—primarily as a result of substantial increases in parking, duty free, car rental, and food & beverage revenues in FY 2007 and the introduction of advertising revenues in FY 2007. Enplaned passengers between FY 2005 and FY 2007 grew at a compounded annual growth rate of 0.9 percent.

Based on FY 2008 data through March 2008, concession revenues at the Airport for FY 2008 to date are approximately \$19.0 million higher than budgeted for the same period, representing a 10.6 percent favorable variance. This increase in Concession revenues over FY 2008 is largely due to the new advertising program started in the third quarter of FY 2007.

As shown on Table IV-5, concession revenues are projected to increase from approximately \$252.7 million in FY 2008 to approximately \$345.8 million in FY 2014, representing a compounded annual growth rate of 5.4 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 June 2010, subject to renewal. Under the terms of the contract, New South Parking receives 105 percent of New South Parking's direct operating costs (excludes overhead or indirect costs), subject to specified minimum staffing requirements.

Parking rates at the Airport were last changed in 2002 and are currently \$30 maximum per day for Central Terminal Area garages (at \$3 for the first hour and \$2 for each additional 30 minutes), \$10 per day in Lot C and \$8 per day in Lot B. Parking rates include a 10.0 percent parking occupancy tax.

A number of off-Airport parking operators provide facilities that compete with parking services offered by the Department. Generally, these off-Airport parking operators raise or lower their parking rates in conjunction with rates charged by the Department for Airport parking facilities. For purposes of this report, it was assumed that the current effect of off-Airport competition on the demand for Airport parking facilities would not change materially during the projection period.

Auto parking revenues, the largest source of concession revenues at the Airport, were \$72.9 million in FY 2007, accounting for 32.1 percent of total concession revenues. Parking revenues grew at a compounded annual growth rate of 4.8% between FY 2005 and FY 2007 (with 7.6 percent growth in FY 2007).

Parking transactions remained relatively flat from FY 2006 to FY 2007 at approximately 7.4 million (or, approximately 0.34 per O&D passenger). Parking revenues per transaction grew from approximately \$9.10 in FY 2006 to \$9.95 in FY 2007 (a 9.2 percent increase), suggesting that parking durations increased in FY 2007. Parking revenues are estimated to increase to approximately \$80.2 million in FY 2008 (a 9.9 percent increase from FY 2007).

For purposes of projecting public parking revenues for FY 2009 to FY 2014, it was assumed that (1) the number of parking transactions per O&D passenger would remain constant at 0.34 through FY 2014 and (2) the amount of parking revenues per transaction would increase 3.0 percent per year between FY 2009 and FY 2014 to account for any future parking rate increases. Currently, the Department has no specific plans to increase parking rates in the near future.

As shown on Table IV-5, parking revenues are projected to increase from approximately \$80.2 million in FY 2008 to approximately \$109.2 million in FY 2014--this represents a compounded annual growth rate of 5.3 percent.

- Duty Free revenues at the Airport are generated from the sale of duty free merchandise at the Airport. The duty free operator at the Airport is DFS Group L.P, which has been the duty free concessionaire at the Airport since 1982. The current 5-year agreement with DFS Group L.P. expires on May 31, 2010. The agreement with DFS Group L.P. provides that DFS pay the Department \$30.0 million or 30 percent of gross receipts, whichever is greater.

Between FY 2005 and FY 2007, duty free revenues increased at a compounded annual growth rate of 1.5 percent. Duty free revenues were approximately \$32.0 million in FY 2007 and are estimated to remain essentially flat in FY 2008 at \$32.3 million as a result of the TBIT Interior Improvements Project.

Duty free revenues are assumed to remain constant from FY 2008 through FY 2010 (during construction of the TBIT Interior Improvements Project)—resulting in a decrease of estimated duty free spending per international enplaned passenger from \$3.80 in FY 2007 to \$3.50 in FY 2010. For purposes of this report, it was assumed that the business terms of the future duty free agreement (subsequent to May 2010) will be similar to the terms of the existing agreement. It was also assumed that following completion of the TBIT Interior Improvements project that duty free spending per international passenger would increase by 10.0 percent (to \$3.85 for FY 2011) based on (1) an expected increase in spending per passenger once the assumed disruption related to construction has ended and (2) the higher proportion of Duty Free revenues at the Airport generated from TBIT passengers. Duty free spending per international passenger was assumed to increase another 5.0 percent in FY 2012 following the future TBIT expansion (included in Other Incorporated Projects). After FY 2012, duty free spending per international passenger is assumed to remain constant for the remainder of the projection period. Duty free revenues are projected to increase from approximately \$32.3 million in FY 2008 to approximately \$41.9 million in FY 2014, representing a compounded annual growth rate of 4.4 percent.

- The Department has entered into agreements with 10 rental car companies that expired in January 2008 and were extended through January 2010. These agreements provide for a concession fee equal to the greater of a minimum annual guarantee, ranging from approximately \$1.0 million to \$13.8 million per year, or 10.0 percent of gross revenues. In total, the minimum annual guarantees with these agencies totals \$43.5 million. Historically, rental car companies have paid the Department 10.0 percent of gross revenues as these amounts have been higher than the minimum annual guarantee. Rental car revenues increased from approximately \$40.6 million in FY 2005 to approximately \$50.8 million in FY 2007, representing a compounded annual growth rate of 11.8 percent.

Rental car transactions remained nearly constant at 2.5 million and rental car transaction days also remained relatively flat from FY 2006 to FY 2007, while gross rental car receipts increased 10.1 percent in FY 2007. The increase in gross receipts in FY 2007 were a result higher rental rates and, to a lesser extent, the inclusion of additional revenues from the sale of insurance coverage. The rental car concession agreements required that the inclusion of such additional revenues in the definition of gross receipts be phased in, and by FY 2007 100 percent of the insurance sales were included in the definition of gross receipts. Insurance sales amount to approximately 10 to 15 percent of a company's total gross receipts.

Rental car revenues received by the Department on a per O&D enplaned passenger basis increased at a compounded annual growth rate of 11.0 percent between FY 2005 and FY 2007.

Rental car revenues are estimated to increase to approximately \$55.1 million in FY 2008, an 8.5 percent increase from FY 2007. Projections of rental car revenues were based on the assumption that the business terms of the future rental car agreements (subsequent to January 2010) will be similar to terms in the current agreements, and, more specifically, that rental car revenues per O&D enplaned passenger will increase 4.0 percent annually for FY 2009 to FY 2014. Rental car revenues are projected to increase from approximately \$55.1 million in

FY 2008 to approximately \$79.5 million in FY 2014, representing a compounded annual growth rate of 6.3 percent.

The Department currently collects a rental car customer facility charge (CFC) to help pay for the planning of, and ultimately the design and financing of, a remote consolidated rental car facility. CFC collections are excluded from the definition of Pledged Revenues and are not reflected in the financial analysis or tables in this report.

- Food and beverage agreements with 13 operators (with Host as the general operator) provide for food and beverage revenues at the Airport. The food and beverage agreements extend generally through December 2010 and provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. For Host, percentage rentals range from 14.0 percent of gross revenues for food and beverage to 20.0 percent for alcoholic beverages. In total, the minimum annual guarantees for the various agreements equal approximately \$19.7 million per year. In recent years, the Department has generally received percentage rents from food and beverage operators (as the percentage rents have been higher than minimum annual guarantees).

Between FY 2005 and FY 2007, food and beverage revenues grew at a compounded annual growth rate of 15.9 percent. Food and beverage revenues on a per O&D enplaned passenger basis, grew at compounded annual growth rate of 15.2 percent for the same period. Food and beverage revenues are estimated by the Department to increase from approximately \$28.7 million in FY 2007 to approximately \$30.0 million in FY 2008.

Projections of food and beverage revenues were based on the assumption that the business terms of the future food and beverage agreements (subsequent to December 2010) will be similar to terms of the current agreements. In addition, consistent with historical trends, food and beverage revenues per O&D enplaned passenger are assumed to increase 4.0 percent annually for FY 2009 to FY 2014. An additional 5.0 percent increase in per O&D enplaned passenger spending is assumed in FY 2011 following the completion of the TBIT Interior Improvements project and the expiration of the current agreements based on (1) an expected increase in spending per passenger once the assumed disruption related to construction has ended and (2) the higher proportion of food and beverage revenues at the Airport generated from TBIT passengers. Food and beverage revenues per O&D enplaned passenger are assumed to increase an additional 5.0 percent in FY 2012 following the future TBIT expansion (included in Other Incorporated Projects).

Food and beverage revenues are projected to increase from \$30.0 million in FY 2008 to approximately \$47.7 million in FY 2014, representing a compounded annual growth rate of 8.0 percent.

- Gift and news agreements with four operators (with AMS as the general operator) provide for gift and news revenues at the Airport. The gift and news agreements extend through December 2010 and provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. The percentage rent for AMS is 17.0 percent of gross sales. In total, the minimum annual guarantees for the various agreements equal approximately \$16.2 million per year.

Between FY 2005 and FY 2007, gift and news revenues were essentially flat, with a compounded annual growth rate of 0.2 percent. Gift and news revenues are estimated to increase from approximately \$16.6 million in FY 2007 to approximately \$17.6 million in FY 2008.

Projections of gift and news revenues were based on the assumption that the business terms of the future gift and news agreements (subsequent to December 2010) will be similar to terms of the current agreements, and, more specifically, that gift and news revenues per O&D enplaned passenger remain constant following FY 2008, with the exception of a 5.0 percent increase in per O&D enplaned passenger assumed in FY 2011 following the completion of the TBIT Interior Improvements project and the expiration of the current agreements based on (1) an expected increase in spending per passenger once the assumed disruption related to construction has ended and (2) the higher proportion of gift and news revenues at the Airport generated from TBIT passengers. Gift and news revenues per O&D enplaned passenger are assumed to increase an additional 5.0 percent in FY 2012 following the future TBIT expansion (included in Other Incorporated Projects).

Gift and news revenues are projected to increase from \$17.6 million in FY 2008 to \$22.1 million in FY 2014, representing a compounded annual growth rate of 3.9 percent.

- The Department began collecting advertising revenues in April 2007, under an agreement between the Department and JCDecaux Airport, Inc. executed in October 2006. Pursuant to this advertising agreement, which expires in April 2013, JCDecaux pays the Department the greater of a minimum annual guarantee or a specified percentage of gross sales (70.0 percent for the first year and generally 75.0 percent for subsequent years). The advertising agreement includes one optional four-year term extension if JCDecaux and the Department both agree to such an extension.

Advertising revenues were approximately \$4.3 million in FY 2007 and are estimated to increase to approximately \$18.4 million in FY 2008 (the first full Fiscal Year of revenues under the advertising agreement) and to approximately \$19.2 million in FY 2009. Estimates for FY 2008 and FY 2009 do not include revenues the Department expects to receive pursuant to the advertising agreement for sponsorships, naming rights, authorized branding, events, and product rights. For purposes of this report, advertising revenues were assumed to increase 3.0 percent annually for FY 2010 through FY 2014.

- Ground transportation at the Airport is currently provided by a number of operators including limousine, charter bus, taxi, and various commercial courtesy vehicle operators. In general, revenues generated from limousine, bus, and taxi operators is derived from per trip fees assessed to the operators, and vary based on the type of operator and vehicle. Trip fees at the Airport were last increased in September 2007. Between FY 2005 and FY 2007, bus, limo, and taxi revenues grew from approximately \$3.8 million to approximately \$5.4 million, at a compounded annual growth rate of 19.3 percent. Projections of bus, limo, and taxi revenues for the various operators at the Airport are based on the assumption that bus, limo, and taxi revenues per enplaned passenger increase 1.5 percent annually. As shown on Table IV-5, bus, limo, and taxi revenues are projected to increase from approximately \$6.0 million in FY 2008 to approximately \$7.4 in FY 2014, representing a compounded annual growth rate of 3.6 percent.
- Other concession revenues shown on Table IV-5 include revenues from luggage carts, ATMs, and telecommunications. These other concession revenues were approximately \$6.1 million in FY 2007 and are estimated to decrease to approximately \$3.9 million in FY 2008 as result of reduced telecommunication revenues. These other concession revenues are projected to increase to approximately \$4.8 million in FY 2014 (as a result of increased luggage cart and ATM revenues).

4.9.3 Airport Sales and Services Revenue

Airport sales and services revenues at the Airport include revenue derived from various sales and services provided by the Department to its tenants and users, including van pool fees, accommodations, utilities, airfield bus service, ID badges, and other sales and services. Between FY 2005 and FY 2007, Airport sales and services revenues grew at a compounded annual growth rate of 19.5 percent. In FY 2008, total airport sales and services revenue is estimated to be approximately \$2.3 million (lower than the FY 2007 sales and services revenue because amounts for utilities and accommodations were not included in the FY 2008 budget). Between FY 2008 and FY 2014, airport sales and services revenues are projected to increase to from approximately \$2.3 million to approximately \$2.8 million, representing a compounded annual growth rate of 3.1 percent.

4.9.4 Miscellaneous Revenue

Miscellaneous revenues at the Airport include revenue from refunds and reimbursements, litigation settlements, sale of property and equipment, tickets and impound fees, and other miscellaneous revenues. In FY 2007, miscellaneous revenues were approximately \$2.0 million, and are estimated to be approximately \$1.5 million in FY 2008. Due to the uncertain nature of these revenues, miscellaneous revenues were assumed to remain constant at approximately \$1.5 million through FY 2014.

4.10 Airline Revenues

As discussed previously, airline landing fees, apron fees, and terminal rental rates presented in these analyses are calculated pursuant to the methodologies contained in the Operating Permit, the Long-Term Leases and the Tariff for the various terminals.

The following sections present greater detail with regards to each specific rate calculation.

4.10.1 Airline Terminal Rentals

As described previously in Section 4.6, certain airlines at the Airport lease terminal building space under the existing Long-Term Leases. Airlines occupying or otherwise using terminal space at the Airport without an existing lease pay for terminal space through fees and charges set forth in the Tariff.

Table IV-6 presents current and projected terminal rentals associated with the Long-Term Leases. This applies to Terminals 2, 4, 5, 7, 8, and a portion of Terminal 6. As discussed in Section 4.6, provisions incorporated in the Interim Settlement Agreements (which specify terminal rents and fees for Long-Term Leases for CY 2006, CY 2007, and CY 2008 and allow the Department to recover a portion of terminal security costs) are assumed, for purposes of the base financial analysis, to extend through FY 2014. As noted on Table IV-6, for purposes of projections, the Long-Term Lease portion of Terminal 6 was assumed to be 83.8 percent for the entire projection period. Rental rates for these terminals are comprised of three components, including M&O Expenses, ground rent, and facilities rent. The ground and facilities components of the rental rates are subject to periodic readjustment by the Department based on periodic reappraisals of the facilities. New rental rates for each terminal are recalculated and assessed on a calendar year basis based on the previous year's fiscal year results.

As shown at the bottom of Table IV-6, terminal rentals associated with the Long-Term Lease carriers are projected to increase from approximately \$45.0 million in FY 2008 to approximately \$64.5 million in FY 2014, representing a compounded annual growth rate of 6.2 percent.

It should be noted that terminal rentals reflected for Long-Term Lease carriers for FY 2007 at the bottom of Table IV-6 (\$43.0 million) are lower than actual terminal rental payments the Department received from Long-Term Lease carriers in FY 2007. Actual payments received in FY 2007 were based on higher terminal requirements (specifically, higher M&O Expenses) relative to the requirements agreed to in the Settlement Agreements. Table IV-6 reflects Long-Term Lease carrier terminal rental payments for FY 2007 based on calculations pursuant to the provisions of the Settlement Agreements.

Table IV-7 presents current and projected terminal rentals associated with the Tariff—assuming the terminal rents and fees specified under the Tariff are collected from airlines in Terminal 1, Terminal 3, TBIT, and a portion of Terminal 6 through FY 2014. As noted on Table IV-7, for purposes of projections, the Tariff portion of Terminal 6 was assumed to be 16.2 percent for the entire projection period. Terminal rental rates under the Tariff are calculated based on a compensatory rate-making methodology--where all related terminal costs, including direct and indirect M&O Expenses, debt service, debt service coverage, and amortization, are included in the terminal charges allocated to all entities that use or occupy space in the terminals. As discussed in Section 4.6.4, under the Tariff calculations, the portion of the Terminal Charges allocated to the airlines is based, generally, on each Airline's Space Use Factor, which does not include a pro-rata portion of the terminal's public use or common use areas. Terminal Special Expenses (comprised of debt service, debt service coverage, and/or amortization related to tenant-specific equipment) are paid entirely by the specific airlines to which such expenses relate airline.

As shown on Table IV-7, terminal rentals associated with the Tariff are projected to increase from approximately \$89.7 million in FY 2008 to approximately \$201.2 million in FY 2014, representing a compounded annual growth rate of approximately 14.4 percent. This increase in Tariff terminal rents is primarily a result of increased debt service at TBIT associated with the TBIT Interior Improvements and the future TBIT expansion projects (included in Other Incorporated Projects).

For airlines that may move from one passenger terminal at the Airport to another (as a result of mergers or other reasons), it is not expected that such moves would result in materials differences in terminal rental revenues.

4.10.2 Airline Landing and Apron Fees

Table IV-8 presents the calculation of Landing Fee and Apron Fee rates based on actual FY 2007 requirements, budgeted FY 2008 requirements, and projected requirements for FY 2009 through FY 2014, under the Landing Fee and Apron Fee rate methodologies contained in the Operating Permit. Landing and Apron Fees at the Airport are established using a cost-based, or compensatory methodology, and are calculated for each fiscal year based upon budgeted costs. At the end of each fiscal year, Landing and Apron Fees are settled with the airlines for any variances between actual and budgeted costs.

The airline Landing Fee is calculated by dividing the total Airfield requirement by the estimated maximum gross landed weight of all airfield users. The total Airfield requirement is calculated based on the following cost components attributable to the Airfield cost center:

Table IV-7

Terminal Rental Revenues -- LAX Passenger Terminal Tariff Carriers Only (T1, T3, TBIT, and a Portion of T6)
Fiscal Years Ending June 30

		Budget		Projected ^{2/}					
		FY 2007 ^{1/}	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Terminal Capital Charges									
Debt Service		\$ 8,926,076	\$ 8,766,464	\$ 8,740,693	\$ 8,753,821	\$ 44,031,382	\$ 80,743,119	\$ 80,746,218	\$ 80,745,248
Debt Service Coverage		2,231,519	2,191,616	2,185,173	2,188,455	11,007,845	20,185,780	20,186,555	20,186,312
Amortization		2,553,761	3,117,572	3,257,145	3,537,956	4,807,640	10,212,309	10,203,423	10,188,096
Total Terminal Capital Charges	[A]	\$ 13,711,356	\$ 14,075,652	\$ 14,183,011	\$ 14,480,232	\$ 59,846,867	\$ 111,141,208	\$ 111,136,195	\$ 111,119,656
Market Rates									
Annualized Market Rent	[B]	\$ 30,932,262	\$ 31,663,540	\$ 38,815,387	\$ 40,756,013	\$ 42,708,066	\$ 66,428,358	\$ 69,496,678	\$ 72,577,484
Base Rent									
(On a Terminal by Terminal Basis, equal to Greater of Market Rent or Terminal Capital Charges) ^{3/}	[C]	\$ 26,566,586	\$ 27,282,743	\$ 34,199,952	\$ 36,017,946	\$ 65,850,923	\$ 114,461,928	\$ 114,805,808	\$ 115,149,242
Terminal Regular Expenses									
Direct M&O		\$ 69,787,388	\$ 77,300,343	\$ 87,407,584	\$ 92,215,001	\$ 96,825,751	\$ 139,523,039	\$ 146,499,303	\$ 153,824,016
Indirect M&O		35,645,160	39,900,460	42,298,565	44,624,986	46,856,235	49,199,047	51,858,999	54,241,949
M&O Reserve		913,240	2,387,815	1,867,865	1,814,943	1,740,695	4,940,580	2,493,760	2,618,349
Terminal Regular Expenses	[D]	\$ 106,345,788	\$ 119,588,617	\$ 131,574,015	\$ 138,654,930	\$ 145,422,682	\$ 193,662,667	\$ 200,852,062	\$ 210,684,315
Terminal Special Expenses									
Terminal Special Expenses	[E]	\$ 7,554,947	\$ 6,273,218	\$ 6,461,468	\$ 6,655,313	\$ 9,590,972	\$ 9,878,701	\$ 10,175,062	\$ 10,480,314
Airport Infrastructure Charges									
Debt Service		\$ 882,858	\$ 1,064,212	\$ 1,013,444	\$ 1,014,536	\$ 1,024,437	\$ 3,766,811	\$ 3,766,915	\$ 3,766,890
Debt Service Coverage		220,715	266,053	253,361	253,634	256,109	941,703	941,729	941,723
Amortization		1,409,838	1,809,990	1,582,278	1,533,824	1,467,730	2,209,916	2,170,479	1,759,720
Airport Infrastructure Charges	[F]	\$ 2,513,411	\$ 3,140,255	\$ 2,849,083	\$ 2,801,994	\$ 2,748,276	\$ 6,918,430	\$ 6,879,122	\$ 6,468,332
Total Terminal Requirement	[G]=[C]+[D]+[E]+[F]	\$ 142,980,732	\$ 156,284,834	\$ 175,084,519	\$ 184,130,182	\$ 223,812,853	\$ 324,921,725	\$ 332,512,055	\$ 342,782,203
Terminal Areas									
Airline Areas	[H]	876,338	896,297	897,151	897,151	897,151	1,294,651	1,294,651	1,294,651
Excluded Areas	[I]	159,648	168,617	167,893	167,893	167,893	235,393	235,393	235,393
Rentable Space	[J]=[H]+[I]	1,035,986	1,064,914	1,065,044	1,065,044	1,065,044	1,530,044	1,530,044	1,530,044
Common Areas	[K]	541,564	554,424	590,731	590,731	590,731	853,981	853,981	853,981
Usable Space	[L]=[J]+[K]	1,577,550	1,619,337	1,655,775	1,655,775	1,655,775	2,384,025	2,384,025	2,384,025
Airline space as % of Usable Space (AVG) ^{2/}	[M] = [H] / [L]	55.8%	55.3%	54.2%	54.2%	54.2%	54.3%	54.3%	54.3%
Recovery from Airlines ^{4/}									
Base Rent		\$ 15,056,498	\$ 15,412,377	\$ 18,801,201	\$ 19,793,589	\$ 47,440,318	\$ 72,044,150	\$ 72,232,665	\$ 72,424,011
Terminal Expenses Additional Rent		59,178,819	66,282,678	71,815,764	75,469,949	79,153,684	105,471,460	109,278,234	114,741,955
Terminal Special Expenses		7,554,947	6,273,218	6,461,468	6,655,313	9,590,972	9,878,701	10,175,062	10,480,314
Airport Infrastructure Charges		1,404,955	1,749,016	1,559,980	1,534,285	1,505,016	3,794,729	3,773,275	3,549,085
Total Annual Airline Rentals		\$ 83,195,219	\$ 89,717,289	\$ 98,438,414	\$ 103,453,136	\$ 137,689,990	\$ 191,189,040	\$ 195,459,237	\$ 201,195,345

Notes:

^{1/} It should be noted that actual terminal rental revenues received by the Department for FY 2007, as opposed to the budgeted terminal rental revenues for FY 2007 (shown on this table), are reflected in Tables IV-9 and IV-10.

^{2/} Assumes LAX Passenger Terminal Tariff is applied to current Tariff carriers during projection period. The Tariff portion of T6 is assumed to be 16.2 percent throughout the projection period.

^{3/} Base Rent, on a terminal by terminal basis, is equal to the greater of Capital Charges or Annualized Market Rent. On a combined basis, as reflected on this table, Base Rent will not necessarily equal Capital Charges or Annualized Market Rent shown on this page.

Sources: City of Los Angeles, Department of Airports and Ricordo & Associates, Inc.
Prepared by: Ricordo & Associates, Inc.

Table IV-8

Landing and Apron Fees
Fiscal Years Ending June 30

	Actual		Budget		Projected			
	FY 2007 ^{1/}	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Landing Fee								
Operating Expense	\$ 108,591,899	\$ 108,512,972	\$ 115,023,751	\$ 121,350,057	\$ 127,417,560	\$ 133,788,438	\$ 140,477,860	\$ 147,501,753
Amortization Expense	12,169,004	22,337,372	15,314,628	11,012,144	10,686,887	12,051,772	11,928,967	10,308,573
Senior Lien Debt Service	2,134,040	2,146,975	2,129,827	2,132,030	2,154,501	6,722,172	6,722,919	6,722,577
Subordinate Lien Debt Service	405,993	574,235	13,747,411	18,168,965	27,543,965	39,509,518	39,505,411	39,505,965
Debt Service Coverage ^{2/}	-	-	-	-	-	-	-	-
M&O Reserve	868,817	2,092,499	1,636,698	1,590,325	1,525,266	3,322,848	1,677,208	1,761,004
Van Nuys Reliever Net Costs	8,999,743	8,795,558	8,848,292	9,176,563	9,519,606	9,878,087	10,252,699	10,644,168
Total Airfield Requirement	\$ 133,169,496	\$ 144,459,612	\$ 156,700,606	\$ 163,430,084	\$ 178,847,786	\$ 205,272,835	\$ 210,565,063	\$ 216,444,040
Total Landed Weight (000's)	52,421,624	52,871,000	53,370,600	54,527,300	55,874,500	57,253,800	58,656,200	60,023,500
Landing Fee Rate	\$ 2.54	\$ 2.73	\$ 2.94	\$ 3.00	\$ 3.20	\$ 3.59	\$ 3.59	\$ 3.61
Apron Fee								
Operating Expense	\$ 19,910,084	\$ 24,760,943	\$ 26,246,599	\$ 27,690,162	\$ 29,074,670	\$ 30,528,404	\$ 32,054,824	\$ 33,657,565
Amortization Expense	2,071,130	2,474,427	2,370,634	2,361,320	2,351,507	2,785,286	2,761,208	2,465,445
Senior Lien Debt Service	427,052	427,900	426,231	426,689	431,094	1,708,310	1,708,416	1,708,381
Subordinate Lien Debt Service	19,847	29,159	20,383	20,411	2,063,411	4,930,439	4,930,383	4,930,411
Debt Service Coverage ^{2/}	-	-	-	-	-	-	-	-
M&O Reserve	172,506	477,475	373,469	362,887	348,042	758,221	382,712	401,833
Land Rental	-	-	-	-	-	-	-	-
Total Apron Requirement	\$ 22,600,620	\$ 28,169,904	\$ 29,437,315	\$ 30,861,469	\$ 34,268,724	\$ 40,710,660	\$ 41,837,544	\$ 43,163,635
Passenger Landed Weight (000's)	44,470,568	44,815,000	45,238,000	46,218,000	47,360,000	48,529,000	49,718,000	50,877,000
Apron Fee Rate	\$ 0.51	\$ 0.63	\$ 0.65	\$ 0.67	\$ 0.72	\$ 0.84	\$ 0.84	\$ 0.85
Combined Rate	\$ 3.05	\$ 3.36	\$ 3.59	\$ 3.66	\$ 3.92	\$ 4.42	\$ 4.43	\$ 4.45

Notes:

^{1/} It should be noted that actual Signatory Airline landing and apron fees received by the Department in FY 2007 (totaling \$148.9 million), as opposed to the actual FY 2007 Airfield and Apron requirements reflected on this table (totaling \$155.8 million), are incorporated in Tables IV-9 and IV-10.

^{2/} Debt service coverage is 0.25x for Senior Lien Debt Service and 0.10x for Subordinate Lien Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculation.

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

- 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)
- The M&O Reserve requirement attributable to the Airfield
- The net costs attributable to operating Van Nuys Airport

As a result of the fact that the Department establishes the Landing Fee based on a compensatory methodology using total airline landed weight as a divisor, the Airport does not expose itself to any risk of reduced landing fee revenues that might result from loss of airline service or other such disruptions.

Similarly, the Apron Fee is calculated by dividing the Apron requirement (comprised of the same cost items described above but allocable to the Apron cost center) by the total estimated maximum gross landed weight of the passenger airlines.

As shown in Table IV-8, the Landing Fee is projected to increase from \$2.73 per thousand pound unit in FY 2008 to \$3.61 per thousand pound unit in FY 2014. Overall, Landing Fees are projected to increase from approximately \$144.5 million in FY 2008 to approximately \$216.4 million in FY 2014, representing a compounded annual growth rate of 7.0 percent.

The Apron Fee is projected to increase from \$0.63 per thousand pound unit in FY 2008 to \$0.85 per thousand pound unit in FY 2014. Overall, Apron Fees are projected to increase from approximately \$28.2 million in FY 2008 to approximately \$43.2 million in FY 2014, representing a compounded annual growth rate of 7.4 percent.

The combined Landing and Apron Fee is projected to increase from \$3.36 per thousand pound unit in FY 2008 to \$4.45 per thousand pound unit in FY 2014.

4.10.3 Passenger Airline Cost per Enplanement

Table IV-9 presents passenger airline cost per enplanement for actual FY 2007, estimated FY 2008, and projected FY 2009 through FY 2014. Passenger airline cost per enplanement was \$6.69 in FY 2007 and is estimated to increase to \$9.23 in FY 2008.

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplanement (in future dollars) is estimated to increase from \$9.23 in FY 2008 to \$13.96 in FY 2014.

Table IV-9

Passenger Airline Cost per Enplaned Passenger
Fiscal Years Ending June 30

	Actual	Budget/ Estimated	Projected					
	FY 2007 ^{1/}	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Airline Revenues								
Airline Terminal Rentals (all terminals combined)	\$ 76,716,901	\$ 134,710,289	\$ 147,831,414	\$ 156,549,136	\$ 193,440,990	\$ 249,727,040	\$ 256,924,237	\$ 265,733,345
Signatory Airline Landing and Apron Fees	148,887,602	172,629,516	186,137,922	194,291,554	213,116,510	245,983,495	252,402,607	259,607,675
Total Airline Revenues	\$225,604,503	\$307,339,805	\$333,969,335	\$350,840,689	\$406,557,500	\$495,710,535	\$509,326,844	\$525,341,020
Less Landing Fees - Cargo Airline	(19,781,724)	(21,557,874)	(23,385,915)	(24,391,342)	(26,692,171)	(30,636,506)	(31,425,264)	(32,302,443)
Total Passenger Airline Revenues	\$205,822,779	\$285,781,931	\$310,583,420	\$326,449,347	\$379,865,329	\$465,074,029	\$477,901,580	\$493,038,577
Enplanements	30,783,009	30,951,500	31,118,700	31,930,500	32,757,500	33,601,100	34,462,700	35,320,400
Passenger Airline Cost Per Enplanement	\$6.69	\$9.23	\$9.98	\$10.22	\$11.60	\$13.84	\$13.87	\$13.96

Note:

^{1/} It should be noted that airline terminal rental revenues reflected on this page are based on terminal rental revenues recorded by the Department for FY 2007 (as reflected in audited financial statements for FY 2007), as opposed to total terminal rental revenues received by the Department in FY 2007--of which a portion was disputed and not recorded by the Department.

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

Prepared by: Ricondo & Associates, Inc.

It should be noted that FY 2007 terminal rental payments reflected on Table IV-9 are based on terminal rental revenues recorded by the Department for FY 2007 (as reflected in audited financial statements for FY 2007), as opposed to total terminal rental revenues received by the Department in FY 2007—of which a portion was disputed and not recorded by the Department.

4.11 Application of Pledged Revenues and Debt Service Coverage

Table IV-10 presents projected cash flow and debt service coverage ratios, respectively, for the Airport for FY 2008 through FY 2014. Included in this cash flow are Airline Revenues, other aviation revenues, various nonairline revenues, Investment Earnings, M&O Expenses, Debt Service, M&O Reserve deposits, and capital lease payments. Assumptions included in this table include the following:

- Total Pledged Revenues include investment earnings which include earnings available from balances in the Airport Revenue Fund and various bond service funds. The interest income from available balances in the PFC Fund and various construction funds is restricted and unavailable for Pledged Revenues.
- Debt Service Coverage ratios as required by the Indentures are also presented in Table IV-10. Net Pledged Revenues together with any Transfer which shall not exceed 25% of Aggregate Annual Debt Service on the Senior Bonds are required to be at least 1.25 times the annual debt service requirement for Senior Bonds and 1.10 times (which at the time of issuance of the Series 2008 Bonds will be increased to 1.15 times) for Subordinate Bonds. As presented, the Senior Bond debt service coverage ratio exceeds the 1.25 coverage requirement in each year of the projection period. In addition, the Subordinate Bond debt service coverage ratio is projected to also exceed the 1.10 coverage ratio requirements (and the 1.15 coverage ratio requirements) in each year of the projection period.² No Transfers were assumed for purposes of the analysis reflected in this report.

² In Table IV-10, annual debt service presented represents estimated “actual” debt service payments required (rather than Maximum Annual Debt Service associated with certain additional bonds tests) so that cash flow for the Airport can be projected. For actual compliance with tests for the issuance of Bonds, see the separate Consultant Certifications.

Table IV-10

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

		Budget/Est.		Projected				
		FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Airline Terminal Rentals and Signatory Airline								
Landing and Apron Fees	Table 9	\$ 307,339,805	\$ 333,969,335	\$ 350,840,689	\$ 406,557,500	\$ 495,710,535	\$ 509,326,844	\$ 525,341,020
Aviation Revenues	Table 5	80,549,000	82,941,454	85,436,687	88,015,171	90,671,625	93,407,930	96,223,543
Concession Revenues	Table 5	252,730,000	259,793,535	272,389,061	292,655,319	312,727,428	329,001,585	345,847,807
Airport Sales & Services	Table 5	2,294,000	2,337,435	2,416,973	2,499,216	2,584,320	2,672,446	2,762,407
Miscellaneous Revenues	Table 5	1,539,000	1,539,000	1,539,000	1,539,000	1,539,000	1,539,000	1,539,000
Investment Earnings		32,025,908	43,029,225	40,786,003	35,474,207	35,877,700	39,439,965	43,099,501
Total Pledged Revenues	[A]	\$ 676,477,713	\$ 723,609,984	\$ 753,408,414	\$ 826,740,413	\$ 939,110,608	\$ 975,387,771	\$ 1,014,813,279
LAX M&O Expenses	[B]	\$ 530,295,672	\$ 562,113,412	\$ 593,029,650	\$ 622,681,132	\$ 691,146,189	\$ 725,703,948	\$ 761,988,246
Net Revenues	[C]=[A]-[B]	\$ 146,182,041	\$ 161,496,572	\$ 160,378,764	\$ 204,059,281	\$ 247,964,420	\$ 249,683,823	\$ 252,825,033
Senior Aggregate Annual Debt Service ^{1/}	[D]	\$ 19,299,860	\$ 19,038,673	\$ 19,063,298	\$ 54,505,148	\$ 109,586,558	\$ 109,593,026	\$ 109,590,558
Subordinate Aggregate Annual Debt Service	[E]	4,055,000	16,204,258	20,629,200	32,047,200	46,883,142	46,872,258	46,876,200
M&O Reserve		12,167,782	9,533,472	9,263,357	8,884,402	20,514,019	10,354,458	10,871,776
Capital Leases		3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
Total - Other Requirements	[F]	\$ 38,822,642	\$ 48,076,403	\$ 52,255,855	\$ 98,736,749	\$ 180,283,719	\$ 170,119,741	\$ 170,638,534
Net Funds Remaining	[G]=[C]-[F]	107,359,399	113,420,169	108,122,909	105,322,532	67,680,701	79,564,082	82,186,500
Senior Bond Debt Service Coverage								
Pledged Revenues	=[A]	\$ 676,477,713	\$ 723,609,984	\$ 753,408,414	\$ 826,740,413	\$ 939,110,608	\$ 975,387,771	\$ 1,014,813,279
LESS: Capital Lease Rental Credits	[H]	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000	3,300,000
Pledged Revenues	[I]=[A]-[H]	\$ 673,177,713	\$ 720,309,984	\$ 750,108,414	\$ 823,440,413	\$ 935,810,608	\$ 972,087,771	\$ 1,011,513,279
LAX M&O Expenses	=[B]	\$ 530,295,672	\$ 562,113,412	\$ 593,029,650	\$ 622,681,132	\$ 691,146,189	\$ 725,703,948	\$ 761,988,246
Net Pledged Revenues	[J]=[I]-[B]	\$ 142,882,041	\$ 158,196,572	\$ 157,078,764	\$ 200,759,281	\$ 244,664,420	\$ 246,383,823	\$ 249,525,033
Senior Aggregate Annual Debt Service	=[D]	\$ 19,299,860	\$ 19,038,673	\$ 19,063,298	\$ 54,505,148	\$ 109,586,558	\$ 109,593,026	\$ 109,590,558
Senior Bond Debt Service Coverage^{2/}	[J] / [D]	7.40	8.31	8.24	3.68	2.23	2.25	2.28
Subordinate Bond Debt Service Coverage								
Net Pledged Revenues	=[J]	\$ 142,882,041	\$ 158,196,572	\$ 157,078,764	\$ 200,759,281	\$ 244,664,420	\$ 246,383,823	\$ 249,525,033
LESS: Senior Aggregate Annual Debt Service	=[D]	19,299,860	19,038,673	19,063,298	54,505,148	109,586,558	109,593,026	109,590,558
Net Subordinate Pledged Revenues	[K]=[J]-[D]	\$ 123,582,181	\$ 139,157,900	\$ 138,015,467	\$ 146,254,134	\$ 135,077,862	\$ 136,790,797	\$ 139,934,476
Subordinate Aggregate Annual Debt Service	=[E]	\$ 4,055,000	\$ 16,204,258	\$ 20,629,200	\$ 32,047,200	\$ 46,883,142	\$ 46,872,258	\$ 46,876,200
Subordinate Bond Debt Service Coverage^{2/ 3/}	[K] / [E]	30.48	8.59	6.69	4.56	2.88	2.92	2.99
Total Debt Service Coverage								
Net Pledged Revenues	=[J]	\$ 142,882,041	\$ 158,196,572	\$ 157,078,764	\$ 200,759,281	\$ 244,664,420	\$ 246,383,823	\$ 249,525,033
Senior and Subordinate Bond Debt Service	[L]=[D]+[E]	\$ 23,354,860	\$ 35,242,930	\$ 39,692,498	\$ 86,552,348	\$ 156,469,700	\$ 156,465,283	\$ 156,466,758
Total Debt Service Coverage^{2/ 3/}	[J] / [L]	6.12	4.49	3.96	2.32	1.56	1.57	1.59

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.

^{3/} As noted in more detail on Table IV-3, debt service associated with outstanding commercial paper amounts are not reflected for FY 2009 through FY 2014.

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

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APPENDIX B
AUDITED FINANCIAL STATEMENTS OF
LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF
THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2007 AND 2006

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LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles,
California)
**LOS ANGELES INTERNATIONAL
AIRPORT**

Annual Financial Report

For the Years Ended June 30, 2007 and 2006

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Annual Financial Report
 For the Years Ended June 30, 2007 and 2006

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The Members of the Board of Airport Commissioners
of the City of Los Angeles, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a departmental component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 2007 and 2006, as listed in the accompanying table of contents. These financial statements are the responsibility of LAWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of LAX's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 1, the financial statements presents only LAX and do not purport to, and do not, present fairly the financial position, of LAWA or the City as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, LAX adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statement No. 25 and 27*, for the year ended June 30, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2007 on our consideration of Los Angeles International Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The pension and postemployment healthcare plans schedules of funding progress, on page 30 and 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maclar Jimi & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 14, 2007

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Net Assets
 June 30, 2007 and 2006
 (Dollars in thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 383,911	\$ 501,393
Investments with fiscal agents (Note 3)	153,452	-
Accounts receivable, net of allowance for uncollectible accounts of \$1,629 and \$3,504 in 2007 and 2006, respectively	15,024	19,139
Unbilled receivables	33,323	27,227
Accrued interest receivable	5,635	6,384
Due from other agencies	32,000	119,890
Prepaid expenses and inventories	3,641	2,973
Total current assets	<u>626,986</u>	<u>677,006</u>
Noncurrent assets:		
Restricted assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	713,691	531,535
Investments with fiscal agents (Note 3)	27,528	27,374
Accrued interest receivable	4,842	3,894
Passenger facility charges receivable (Note 13)	18,298	19,387
Total restricted assets	<u>764,359</u>	<u>582,190</u>
Capital assets (Note 4):		
Land, land clearance, and air easements	619,766	600,417
Buildings, improvements, and equipment	1,665,780	1,383,920
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(959,812)	(894,564)
Construction work in process	355,555	221,758
Net capital assets	<u>1,865,712</u>	<u>1,495,954</u>
Deferred bond issuance expenses	2,504	2,774
Total noncurrent assets	<u>2,632,575</u>	<u>2,080,918</u>
Total assets	<u>\$ 3,259,561</u>	<u>\$ 2,757,924</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
Statements of Net Assets (Continued)
June 30, 2007 and 2006
(Dollars in thousands)

	2007	2006
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	\$ 69,134	\$ 45,003
Employee benefits and insurance claims payable (Notes 6)	6,365	5,761
Salaries payable	4,218	3,624
Commercial paper notes payable (Note 5)	178,745	-
Current obligations under capital leases (Notes 6 and 12)	1,140	1,026
Accrued interest payable	1,959	-
Other liabilities (Notes 6 and 15)	4,065	4,436
	<u>265,626</u>	<u>59,850</u>
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions	186,333	154,013
Bonds payable, plus net deferred credits of \$919 and \$763 in 2007 and 2006, respectively (Note 5)	13,334	12,583
Contracts and accounts payable	23,975	32,259
Accrued bond interest payable	955	1,030
	<u>224,597</u>	<u>199,885</u>
Current liabilities payable from restricted assets	<u>224,597</u>	<u>199,885</u>
Total current liabilities	<u>490,223</u>	<u>259,735</u>
Long-term liabilities:		
Bonds payable, plus net deferred charges and credits of \$6,580 and \$7,498 in 2007 and 2006, respectively (Note 5)	212,215	225,548
Obligations under capital leases (Notes 6 and 12)	50,715	51,855
Employee benefits and insurance claims payable (Notes 6)	26,070	24,870
Other liabilities (Note 6 and 15)	111,458	18,833
	<u>400,458</u>	<u>321,106</u>
Total long-term liabilities	<u>400,458</u>	<u>321,106</u>
Total liabilities	<u>890,681</u>	<u>580,841</u>
Net assets:		
Invested in capital assets, net of related debt	1,563,016	1,204,942
Restricted:		
Capital projects	164	158
Debt service	26,667	26,438
Special purpose	526,265	368,292
Unrestricted	252,768	577,253
	<u>252,768</u>	<u>577,253</u>
Total net assets	<u>\$ 2,368,880</u>	<u>\$ 2,177,083</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Revenues, Expenses, and Changes in Net Assets
 For the years ended June 30, 2007 and 2006
 (Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 148,937	\$ 146,019
Building rentals	107,338	119,271
Other aviation revenue	61,689	51,428
Concession revenue	227,177	200,564
Airports sales and services	2,824	2,034
Miscellaneous revenue	2,012	1,451
Total operating revenue	<u>549,977</u>	<u>520,767</u>
Operating expenses:		
Salaries and benefits	255,536	231,313
Contractual services	141,306	148,606
Materials and supplies	43,313	34,043
Administrative expenses	725	1,787
Utilities	20,101	23,633
Advertising and public relations	10,015	9,843
Other operating expenses	(2,472)	2,099
Total operating expenses before depreciation and amortization	<u>468,524</u>	<u>451,324</u>
Income from operations before depreciation and amortization	81,453	69,443
Depreciation and amortization	(72,438)	(64,571)
Operating income	<u>9,015</u>	<u>4,872</u>
Nonoperating revenue (expenses):		
Passenger facility charges (Note 13)	116,083	114,694
Interest income	39,502	33,902
Change in fair value of investments	10,386	(15,292)
Interest expense	(15,266)	(12,155)
Bond expense	(345)	(364)
Gain on sale of securities	1,082	217
Other nonoperating expenses	-	(6,600)
Other nonoperating revenue	810	1,209
Total nonoperating revenue, net	<u>152,252</u>	<u>115,611</u>
Income before capital grants	161,267	120,483
Capital grant contributions (Note 14)	62,947	32,064
TSA contributions (Note 14)	11,094	-
Inter-agency transfers	(43,511)	-
Change in net assets	191,797	152,547
Net assets, beginning of fiscal year	<u>2,177,083</u>	<u>2,024,536</u>
Net assets, end of fiscal year	<u>\$ 2,368,880</u>	<u>\$ 2,177,083</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Cash Flows
 For the years ended June 30, 2007 and 2006
 (Dollars in thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers	\$ 544,730	\$ 521,721
Cash received in protest from customers	91,680	-
Payments for goods and services	(240,434)	(222,148)
Payments to employees	(253,138)	(225,807)
Other payments, net	(6,057)	(13,803)
Net cash provided by operating activities	<u>136,781</u>	<u>59,963</u>
Cash flows from noncapital financing activities:		
Inter-agency transfer in	<u>43,511</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>43,511</u>	<u>-</u>
Cash flow from capital and related financing activities:		
Acquisition and construction of capital assets	(388,641)	(156,614)
Receipts from passenger facility charges	117,172	110,037
Principal paid on bonds	(11,820)	(21,240)
Interest paid on bonds and commercial paper	(12,181)	(11,976)
Bond issuance cost paid	(75)	-
Bond payment liability returned as escheated funds	-	467
Principal paid on capital leases	(1,026)	(912)
Interest paid on capital leases	(2,263)	(1,802)
Cash transferred (to) from fiscal agent	(154)	774
Receipts (payments) for commercial paper	178,745	(15,500)
Federal grants and TSA receipts	74,041	32,064
Net cash used in capital and related financing activities	<u>(46,202)</u>	<u>(64,702)</u>
Cash flow from investing activities:		
Increase (decrease) in fair value of investments	10,386	(14,948)
Interest received	41,330	32,426
Securities lending cash collateral received	<u>32,320</u>	<u>10,364</u>
Net cash provided by investing activities	<u>84,036</u>	<u>27,842</u>
Net increase cash and cash equivalents	218,126	23,103
Cash and cash equivalents, beginning of year	<u>1,032,928</u>	<u>1,009,825</u>
Cash and cash equivalents, ending of year	<u>\$ 1,251,054</u>	<u>\$ 1,032,928</u>
The following is a reconciliation of cash and cash equivalents to the statement of net assets:		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 383,911	\$ 501,393
Unrestricted cash held with fiscal agent	153,452	-
Cash and pooled investments held by the City Treasurer - restricted	713,691	531,535
	<u>\$ 1,251,054</u>	<u>\$ 1,032,928</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Cash Flows (Continued)
 For the years ended June 30, 2007 and 2006
 (Dollars in thousands)

	2007	2006
Reconciliation of operating income to net cash provided by operating activities:		
Operating Income	\$ 9,015	\$ 4,872
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	72,438	64,571
Change in provision for uncollectible accounts	(1,875)	(275)
Other nonoperating expenses	(506)	(5,462)
Changes in assets and liabilities:		
Accounts receivable	11,131	4,918
Unbilled receivable	(6,096)	(3,964)
Cash received in protest from customers	91,680	-
Due from other agencies	(9,847)	(9,430)
Prepaid expenses and inventories	(668)	(596)
Contracts and accounts payable	(30,518)	3,351
Employee benefits and insurance claims payable	1,804	4,149
Salaries payable	594	1,357
Other liabilities	(371)	(3,528)
Total adjustments	127,766	55,091
Net cash provided by operating activities	\$ 136,781	\$ 59,963
Noncash capital, and financing activities:		
Acquisition of capital assets included in accounts payable	\$ 46,365	\$ 20,272

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements

June 30, 2007 and 2006

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The financial statements of the Los Angeles International Airport (LAX) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) operates LAX. LAWA is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY) and LA/Palmdale Regional Airport (PMD) and collectively, the Airport System.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated or controlled by the City; and (c) fix, regulate and collect rates and charges for use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position and changes in financial position and cash flows of LAX only and are not intended to present fairly the financial position, changes in financial position, or cash flows of LAWA or the City in conformity with GAAP.

(b) Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each airport in the Airport System. Only the funds of LAX are included in the reporting entity. Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City. LAX applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(c) *Cash and Pooled Investments*

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAX's outstanding bonds. In order to maximize investment return, LAX pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAX's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost.

Interest income arising from such cash and pooled investments is apportioned to LAX based on the relationship of LAX's respective daily cash balances to aggregate cash and pooled investments.

(d) *Accounts Receivable and Unbilled Receivables*

LAX recognizes revenue in the period earned. Receivables aged beyond 90 days are put into the collection process and then referred after 120 days to LAX's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set as a reserve by LAX policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense. Unbilled receivable balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal period might not get processed through the billing system for up to sixty days into the next fiscal year.

(e) *Contracts Payable, Accounts Payable and Other Liabilities*

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, and then an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities. Reserves for claims and litigation are recorded as other long-term liabilities.

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(f) *Securities Lending*

The City Treasurer engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

(g) *Investments with Fiscal Agents*

LAX has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 2002, and 2003 bonds (see Note 3).

(h) *Federal Grants*

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as capital grant contributions in the statements of revenues, expenses and changes in net assets.

(i) *Capital Assets*

All capital assets are carried at cost, or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Such cost includes, where appropriate, interest capitalized as part of the cost of construction of capital assets. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of \$5,000 for all capital assets.

(j) *Landing Fees*

Landing fee rates are used to determine what fees are to be charged to the airlines each time that a qualified aircraft lands at LAX. The type of landing fee method applied by LAX is compensatory. Under this fee methodology, the fees charged by LAX for a facility or service are based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAX's actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each fiscal year.

(k) *Concession Revenue*

Concession revenue is generated through LAX concessionaires or tenants, who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAX are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAX in the month following the activity.

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(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(k) Concession Revenue (continued)

The timing of concessionaire reporting determines when accruals are required for each tenant.

(l) Depreciation and Amortization

Depreciation expense includes amortization of assets under capital leases. Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; landplane ports, 10 to 35 years; and equipment, 5 to 20 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

(m) Preliminary Costs of Capital Projects

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

(n) Operating and Nonoperating Revenue and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as maintenance, insurance, and utilities.

(o) Interest Expense

LAX capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest expense was \$15,266,000 for the year ended June 30, 2007 and \$12,155,000 for the year ended June 30, 2006. There was no capitalized interest in 2007 and 2006.

(p) Employee Benefits

LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(q) *Statements of Cash Flows*

Cash and cash equivalents as reported in the statements of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are, therefore, considered to be cash equivalents.

(r) *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

(s) *Reclassifications*

Certain reclassifications have been made to fiscal year 2006 amounts in order to conform to the fiscal year 2007 presentation.

(t) *Inventory*

LAX's inventory consists primarily of general office supplies and is recorded at cost on a first-in, first-out basis.

(u) *Bond Premiums, Discounts, and Issuance Costs*

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

(v) *Net Assets*

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2007 and 2006, net assets of \$355.9 million and \$304.5 million, respectively, are restricted by enabling legislation.

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(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(v) Net Assets (continued)

- *Unrestricted Net Assets* – This category represents net assets of LAX, not restricted for any project or other purpose.

(2) Accounting Changes and Recent Accounting Pronouncements

(a) Accounting Changes

The City of Los Angeles early implemented GASB Statements No. 45 and No. 50, accordingly, LAX also implemented the provisions of these statements to the extent they relate to the department's financial statements:

GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" Issued in June 2004, this statement addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits, collectively referred to as other postemployment benefits (OPEB). The statement generally requires that state and local governmental employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions.

GASB Statement No. 50, "*Pension Disclosures- An amendment of GASB Statements No. 25 and No. 27.*" Issued in May 2007, the objective of this statement is to amend note disclosure and required supplementary information standards of Statement No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,*" and Statement No. 27, "*Accounting for Pensions by State and Local Government Employers,*" to conform with applicable changes adopted in GASB Statement Nos. 43 and 45. GASB 50 is intended to improve transparency and decision usefulness of reported information about pensions by state and local government plans and employers.

(b) Recent Accounting Pronouncements

In December 2006, GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements.

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(2) Accounting Changes and Recent Accounting Pronouncements (continued)

(b) Recent Accounting Pronouncements (continued)

GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. LAX is required to implement the statement for the fiscal year 2008-09 financial statements.

GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets.*" Issued in June 2007, this statement establishes standards for accounting and financial reporting for intangible assets, for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. GASB 51 will be effective for LAX beginning in fiscal year 2010. Retroactive reporting is required.

(3) Cash and Investments

(a) Cash and Pooled Investments

Cash is deposited with the City Treasurer and generally invested in short-term investments under the City Treasurer's pooled investment program. The Los Angeles City Treasury Investment Procedures and Guidelines, established pursuant to the California Government Code and Los Angeles City Council action, govern the City's investment practices. The primary objectives of the City's investment policy are the safety of capital, the liquidity of the portfolio and the yield on the investments. Investments permitted by the City's investment policy include obligations of the U.S. Government and agencies, certain commercial paper, bankers' acceptances, medium-term corporate notes, negotiable certificates of deposit, repurchase agreements and state and local government pools (e.g., Local Agency Investment Fund) up to certain specified allowable percentages.

The City Treasurer manages the General Pool and Special Investment Pools. The investment disclosure information by pool is not available; accordingly, disclosures provided herein represent the combined General and Special Investment Pools. LAX is invested only in the General Pool.

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June 30, 2007 and 2006

(3) Cash and Investments (continued)

(a) Cash and Pooled Investments (continued)

LAX's equity in the City Treasurer's pooled investment and securities lending programs consists of the following cash and investments, based on the relative percentages of such equity to the General Investment Pool of the City Treasurer's pooled funds and is not necessarily indicative of LAX's actual investments in the pooled funds (in thousands):

Description	2007	2006
Deposits	\$ 41,709	\$ 5,165
U.S. Treasury securities	318,305	144,610
Federal agency securities	390,746	491,674
Commercial paper	128,419	185,927
Medium-term corporate notes	218,423	205,552
Total	1,097,602	1,032,928
Less restricted portion	(713,691)	(531,535)
Unrestricted portion	<u>\$ 383,911</u>	<u>\$ 501,393</u>

The restricted portion represents cash and investments that are restricted as to use either by bond indenture requirements or the Federal Aviation Administration.

(b) Investments Authorized by the City's Investment Policy

The table below identifies the investment types that are authorized for LAX by the City's investment policy for the General Pool. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

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(3) Cash and Investments (continued)

(b) Investments Authorized by the City's Investment Policy (continued)

Bonds issued by local agencies	5 years	100
Registered state warrants and municipal notes	5 years	100
Bankers' acceptances	180 days	40
Commercial paper	270 days	40
Negotiable certificates of deposit or time deposits	180 days	30
Yankee certificates of deposit	180 days	30
CRA certificates of deposit or time deposits	180 days	30
Repurchase agreements	1 year	100
Reverse repurchase agreements	92 days	5*
Medium-term corporate notes	5 years	30
Shares of a money market mutual fund	N/A	20
Securities lending program	N/A	20
Asset-backed securities	5 years	20**
Collateralized mortgage obligations	5 years	20**
Local agency investment fund (LAIF)	(per state limit)***	

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

** Combined total for mortgage-backed and asset-backed securities.

*** Current account limit is \$40 million.

At June 30, 2007 and 2006, LAX had \$1,097,602,000 and \$1,032,928,000, respectively, invested with the City Pool, which represents approximately 19.07% and 18.63%, respectively, of the City Treasury's General Investment Pool.

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(3) Cash and Investments (continued)

(c) City of Los Angeles Investment Pool

At June 30, 2007, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities</u>			
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>61 to 365 Days</u>	<u>366 Days To 5 Years</u>
U.S. Treasury Notes	\$ 1,651,432	\$ -	\$ -	\$ 100,394	\$ 1,551,038
U.S. Government Agencies	2,588,342	270,397	63,258	267,283	1,987,404
Medium Term Notes	1,135,468	-	-	364,595	770,873
Commercial Paper	900,606	811,138	54,758	34,710	-
Guaranteed Investment Contract	314,860	314,860	-	-	-
State of California LAIF	2,664	2,664	-	-	-
Short Term Investment Funds	7	7	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	898,087	-	-	5,386	892,701
U.S. Agencies	217,385	-	-	-	217,385
Total General and Special Pools	\$ 7,708,851	\$ 1,399,066	\$ 118,016	\$ 772,368	\$ 5,419,401

At June 30, 2006, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities</u>			
		<u>1 to 30 Days</u>	<u>31 to 60 Days</u>	<u>61 to 365 Days</u>	<u>366 Days To 5 Years</u>
U.S. Treasury Notes	\$ 750,633	\$ -	\$ -	\$ -	\$ 750,633
U.S. Treasury Bills	7,193	7,193	-	-	-
U.S. Government Agencies	3,483,994	229,854	259,964	519,398	2,474,778
Medium Term Notes	1,077,004	-	-	125,689	951,315
Commercial Paper	1,298,356	1,173,459	52,464	72,433	-
State of California LAIF	2,204	2,204	-	-	-
Short Term Investment Funds	13	13	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	607,597	-	-	-	607,597
U.S. Agencies	344,340	-	-	-	344,340
Total General and Special Pools	\$ 7,571,334	\$ 1,412,723	\$ 312,428	\$ 717,520	\$ 5,128,663

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments as set forth in 3 (b) above.

Credit Risk. The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers must have minimum credit

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June 30, 2007 and 2006

(3) Cash and Investments (continued)

(c) *City of Los Angeles Investment Pool (continued)*

ratings as follows: Standard and Poor's Corporation (S&P) A-1/A; Moody's Investor Services (Moody's) P-1/A2; Fitch Ratings (Fitch), if available, F-1/A. The City's investments in Federal Agency securities were rated AAA by S&P and Aaa by Moody's. In addition medium term notes were rated A+ or better by S&P and A1 or better by Moody's, while investments in commercial paper were rated A-1+/A-1 by S&P, and P-1 by Moody's. As further required by the City's investment policy, issuers of medium-term notes are corporations that have total assets in excess of \$500 million and are operating within the United States. In addition, issuers of commercial paper notes are corporations organized in the United States as special purpose corporations, trust or limited liability companies having program-wide credit enhancements. The State of California Local Agency Investment Fund is not rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and federal agencies, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments, the City does not have such investment.

(d) *City of Los Angeles Securities Lending Program*

The Securities Lending Program (the SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted 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 General Investment Pool (the Pool) shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy.

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(3) Cash and Investments (continued)

(d) City of Los Angeles Securities Lending Program (continued)

In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

LAX's share of cash collateral received and corresponding liability aggregated approximately \$186,333,000 and \$154,013,000 at June 30, 2007 and 2006, respectively. During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

(e) Investments with Fiscal Agents

LAX also maintains investments with fiscal agents that are pledged to the payment or security of LAX's 1995, 2002, and 2003 bonds. In addition to these funds, on February 1, 2007, LAWA deposited approximately \$148.7 million into revocable escrow accounts with a fiscal agent as a result of issuing commercial paper that will be used to finance terminal improvements as LAX. These funds remain in escrow at LAWA's discretion and can be withdrawn in accordance with the escrow agreements. These investments are also generally invested in short-term investments under the control of the fiscal agents.

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

These investments are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name.

LAX's investments with fiscal agents were as follows (in thousands):

<u>Description</u>	<u>2007</u>	<u>2006</u>
Money Market Funds	\$ 161,425	\$ 7,059
U.S. Treasury Securities	19,555	20,315
Total	<u>\$ 180,980</u>	<u>\$ 27,374</u>

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(4) Changes in Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2007</u>
Capital assets, not depreciated:				
Land	\$ 556,072	\$ 23,594	\$ (4,245)	\$ 575,421
Air easements	44,345	-	-	44,345
Construction work in process	221,758	407,594	(273,797)	355,555
Total capital assets, not depreciated	<u>822,175</u>	<u>431,188</u>	<u>(278,042)</u>	<u>975,321</u>
Capital assets, depreciated:				
Buildings	514,259	7,540	-	521,799
Improvements	739,173	259,024	-	998,197
Equipment and vehicles	130,488	21,172	(5,876)	145,784
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,568,343</u>	<u>287,736</u>	<u>(5,876)</u>	<u>1,850,203</u>
Less accumulated depreciation and amortization:				
Buildings	(275,134)	(12,711)	-	(287,845)
Improvements	(422,761)	(48,734)	1,345	(470,150)
Equipment and vehicles	(105,855)	(6,202)	5,845	(106,212)
Leased property	(90,814)	(4,791)	-	(95,605)
Total accumulated depreciation and amortization	<u>(894,564)</u>	<u>(72,438)</u>	<u>7,190</u>	<u>(959,812)</u>
Total capital assets depreciated, net	<u>673,779</u>	<u>215,298</u>	<u>1,314</u>	<u>890,391</u>
Total capital assets, net	<u>\$ 1,495,954</u>	<u>\$ 646,486</u>	<u>\$ (276,728)</u>	<u>\$ 1,865,712</u>

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(4) Changes in Capital Assets (continued)

Capital asset activity for the year ended June 30, 2006 was as follows (in thousands):

	Balance at July 1, 2005	Additions	Deductions	Balance at June 30, 2006
Capital assets, not depreciated:				
Land	\$ 553,410	\$ 4,929	\$ (2,267)	\$ 556,072
Air easements	44,345	-	-	44,345
Construction work in process	143,294	113,300	(34,836) *	221,758
Total capital assets, not depreciated	<u>741,049</u>	<u>118,229</u>	<u>(37,103)</u>	<u>822,175</u>
Capital assets, depreciated:				
Buildings	512,693	1,566	-	514,259
Improvements	672,680	66,493	-	739,173
Equipment and vehicles	123,059	7,429	-	130,488
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,492,855</u>	<u>75,488</u>	<u>-</u>	<u>1,568,343</u>
Less accumulated depreciation and amortization:				
Buildings	(262,260)	(12,874)	-	(275,134)
Improvements	(381,205)	(41,558)	2	(422,761)
Equipment and vehicles	(100,748)	(5,107)	-	(105,855)
Leased property	(85,782)	(5,032)	-	(90,814)
Total accumulated depreciation and amortization	<u>(829,995)</u>	<u>(64,571)</u>	<u>2</u>	<u>(894,564)</u>
Total capital assets depreciated, net	<u>662,860</u>	<u>10,917</u>	<u>2</u>	<u>673,779</u>
Total capital assets, net	<u>\$ 1,403,909</u>	<u>\$ 129,146</u>	<u>\$ (37,101)</u>	<u>\$ 1,495,954</u>

* Includes write-off of \$4,829 of costs incurred in prior periods for abandoned projects.

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(5) Bonds and Commercial Notes Payable

LAX issued revenue bonds in 1995, 2002, and 2003 for various airport improvement projects. LAX's revenues are pledged as security for the bonds. In fiscal year 2003, LAX issued \$217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds.

The 1995 Revenue Bonds were issued in the amount of \$365,855,000 to finance capital improvements and repay certain indebtedness. The bonds are limited obligations of the Department payable from and secured by a pledge of LAX revenues.

During the fiscal year, LAX issued \$178,745,000 in commercial paper for key purposes. A portion of these funds are being used to reimburse the airport for cash used in the construction of improvements on the south airfield. Additionally, these funds are being used to fund deposits that have been placed into revocable escrow accounts used as an interim step toward maintaining the required IRS non-taxable definition for long term financing of defeasing outstanding bonds issued to finance terminal improvements at LAX.

Outstanding revenue bonds at June 30, 2007 mature in varying amounts through 2020. Bond and commercial paper notes activity for the year ended June 30, 2007 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2007</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 12,695	\$ -	\$ (2,500)	\$ 10,195	\$ 1,230
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	3.52*	57,400	-	-	57,400	-
Issues of 2003 Series A	3.52*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	(9,320)	94,305	11,185
Subtotal		229,870	-	(11,820)	218,050	12,415
Commercial paper Series A	3.68*	-	30,000	-	30,000	30,000
Commercial paper Series B	5.26*	-	148,745	-	148,745	148,745
Deferred charges and credits, net	N/A	8,261	-	(762)	7,499	919
Total		<u>\$238,131</u>	<u>\$ 178,745</u>	<u>\$ (12,582)</u>	<u>\$ 404,294</u>	<u>\$ 192,079</u>

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(5) Bonds and Commercial Notes Payable (continued)

Bonds and commercial paper notes activity for the year ended June 30, 2006 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2006</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 33,935	\$ -	\$ (21,240)	\$ 12,695	\$ 2,500
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	2.93*	57,400	-	-	57,400	-
Issues of 2003 Series A	2.92*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	-	103,625	9,320
Subtotal		251,110	-	(21,240)	229,870	11,820
Commercial paper	2.65*	15,500	-	(15,500)	-	-
Deferred charges and credits, net	N/A	9,002	109	(850)	8,261	763
Total		<u>\$ 275,612</u>	<u>\$ 109</u>	<u>\$ (37,590)</u>	<u>\$ 238,131</u>	<u>\$ 12,583</u>

* Average variable rate.

Future annual debt service requirements as of June 30, 2007, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u> ⁽¹⁾	<u>Total</u>
Fiscal year ending June 30:			
2008	\$ 12,415	\$ 9,898	\$ 22,313
2009	13,050	9,261	22,311
2010	13,705	8,608	22,313
2011	14,395	7,917	22,312
2012	15,120	7,196	22,316
2013 – 2017	88,235	24,179	112,414
2018 – 2020	61,130	4,698	65,828
Total	<u>\$ 218,050</u>	<u>\$ 71,757</u>	<u>\$ 289,807</u>

⁽¹⁾Interest requirements for variable-rate bonds were determined using 3.65%, 3.65%, and 3.85% for 2002 C1, 2002 C2, and 2003 A, respectively, the rates in effect at June 30, 2007.

(6) Other Long-Term Liabilities

Other long-term liabilities' activity for the year ended June 30, 2007 was as follows (in thousands):

	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2007</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 30,631	\$ 9,432	\$ (7,628)	\$ 32,435	\$ 6,365
Obligations under capital leases	52,881	-	(1,026)	51,855	1,140
Other liabilities	23,269	106,758	(14,504)	115,523	4,065
Total	<u>\$ 106,781</u>	<u>\$ 116,190</u>	<u>\$ (23,158)</u>	<u>\$ 199,813</u>	<u>\$ 11,570</u>

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(6) Other Long-Term Liabilities (continued)

Other long-term liabilities' activity for the year ended June 30, 2006 was as follows (in thousands):

	<u>Balance at July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2006</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 26,482	\$ 13,266	\$ (9,117)	\$ 30,631	\$ 5,761
Obligations under capital leases	53,793	-	(912)	52,881	1,026
Other liabilities	26,797	4,903	(8,431)	23,269	4,436
Total	<u>\$ 107,072</u>	<u>\$ 18,169</u>	<u>\$ (18,460)</u>	<u>\$ 106,781</u>	<u>\$ 11,223</u>

(7) Related Party Transactions

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAX. The payments for these services, included in operating expenses for the years ended June 30, 2007 and 2006, were \$42,227,000 and \$48,250,000, respectively. In addition, LAX collects parking taxes on behalf of the City of Los Angeles. For the years ended June 30, 2007 and 2006, parking taxes collected and remitted to the City of Los Angeles were \$7,250,000 and \$6,913,000, respectively.

(8) Inter-Airport Funding Activity

LAX controls the expense disbursement process for each of LAWA's other airports: Ontario, Van Nuys and Palmdale. LAX supports the payment activities for these airports by first processing their approved budgeted expenditures and then transferring this impact to the airport that ordered the goods and services in the form of an inter-airport cash transfer. The requesting airport then records the expenditure to the appropriate classification on its books of account at the time it reimburses LAX for the activity. Whenever a specific airport is unable to make a cash transfer to LAX, due to a lack of funds, the amount is then recorded as a Due To Other Agency transaction. Conversely, LAX will record the same amount owed to it as a Due From Other Agency transaction. As a result of this process, Palmdale Airport has accumulated a total of \$32,000,000 in respective Due To Other Agency balance owed to LAX at June 30, 2007.

Upon combining the balance sheet of all four airports that comprise LAWA, the Due From Other Agency asset balance on LAX's statement of net assets fully offset against the Due To Other Agency liability on the respective statement of net assets of Palmdale Airport. The amount of elimination for this balance at June 30, 2007 is \$32,000,000. With Palmdale Airport being part of the LAWA airport system, there is no near-term expectation for repayment of the Due To Other Agency balances to LAX.

(9) Retirement System

(a) Retirement Plan Description

All full-time employees of LAX are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS) of the City of Los Angeles, California, a single employer defined benefit pension plan. LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS.

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(9) Retirement System (continued)

(a) Retirement Plan Description (continued)

LAX makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees.

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age and none of LAX's employees are required to contribute to LACERS.

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. LAX's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS, which are based on LAX's salaries relative to total salaries for LAWA as a whole, were approximately \$34,600,000 (100% of ARC), \$33,500,000 (100% of ARC) and \$22,400,000 (86.3% of ARC) for the years ended June 30, 2007, 2006, and 2005, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

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(9) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)

LACERS's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The current year contribution requirement was determined based on the June 30, 2005 actuarial valuation, using the following actuarial assumptions:

	LACERS
<u>Actuarial valuation date</u>	<u>June 30, 2005</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
<u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>4.75% - 10%</u>
<u>Inflation rate</u>	<u>3.75%</u>
Cost of living adjustments	3%

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(9) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)

The City's and member contribution rates for the year ended June 30, 2007 are as follows:

Contribution rates:	<u>LACERS</u>
City	14.6% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

The City's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for fiscal year 2006-07 and the two preceding years for each of the plans are as follows (in thousands):

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
LACERS	06/30/05	\$ 183,242	100%	\$ (83,784)
	06/30/06	227,006	100%	(83,049)
	06/30/07	276,191	86%	(81,723)

The City allocated a pro rata share of its net pension obligation to LAWA and the amounts recorded at June 30, 2007 and 2006 were \$8,298,000 and \$8,430,000, respectively.

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(9) Retirement System (continued)

(c) Funded Status of LACERS

Based upon available data, the following is funded status information for the plan as of June 30, 2007, separate information for LAWA or LAX is not available (in thousands):

		<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$	10,526,874
Actuarial Value of Assets		8,599,700
Underfunded AAL		1,927,174
Funded Ratio		81.7%
Covered Payroll	\$	1,896,609
Underfunded AAL as a percentage of covered payroll		101.6%

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June 30, 2007 and 2006

(9) Retirement System (continued)

(c) Funded Status of LACERS (continued)

The funded status of the plan as of June 30, 2007 was based on the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	4.75% - 10%
Inflation rate	3.75%
Cost of living adjustments	3%

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress, presented as Required Supplementary Information (RSI) in section (d) below, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability (AAL) for benefits.

Other contribution information and ten-year historical trend information can be found in LACERS's Comprehensive Annual Financial Report. Copies of LACERS's Comprehensive Annual Financial Report can be obtained from LACERS, 360 East Second Street, 2nd Floor, Los Angeles, California 90012.

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(9) Retirement System (continued)

(d) Required Supplemental Information (Unaudited)

Based upon available data, the following represents the LACERS Schedule of Funding Progress, separate information for LAWA or LAX is not available (in thousands):

**Schedule of Funding Progress
(in thousands)**

<u>Valuation date (June 30)</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Actuarial value of assets</u>	<u>Unfunded AAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded AAL as a % of covered payroll</u>
2005	\$ 9,321,525	\$ 7,193,142	\$(2,128,383)	77.2%	\$ 1,589,306	(133.9)%
2006	9,870,662	7,674,999	(2,195,663)	77.8%	1,733,340	(126.7)%
2007	10,526,874	8,599,700	(1,927,174)	81.7%	1,896,609	(101.6)%

(e) Other Post-employment Benefits (OPEB)

LAX, as a participant in LACERS, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. LACERS is advance funding the retiree health benefits on an actuarial-determined basis.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

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June 30, 2007 and 2006

(9) Retirement System (continued)

(e) Other Postemployment Benefits (OPEB) (continued)

The City's annual required contribution rate for OPEB was 6.1% of annual covered payroll and was determined based on the June 30, 2005 actuarial valuation. Significant methods and assumptions are as follows:

	<u>LACERS OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2005</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
<u>Actuarial assumptions:</u>	
<u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Healthcare cost trend rates:</u>	
<u>Medical</u>	<u>12% graded down over 7 years to ultimate rate of 5%</u>
<u>Dental</u>	<u>5%</u>

Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by LAX alone are not available.

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(9) Retirement System (continued)

(e) Other Postemployment Benefits (OPEB) (continued)

The City's annual pension cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2006-07 and the two preceding years for the plan are as follows (in thousands):

	Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset (Obligation)
LACERS	06/30/05	\$ 53,190	100%	-
	06/30/06	76,116	100%	-
	06/30/07	115,233	100%	-

From the most recent data made available by the City, as of June 30, 2007, LACERS membership consists of 30,175 active plan participants and 14,836 retired members. Also as of June 30, 2007, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total underfunded health benefit subsidy applicable to LACERS as a whole was approximately \$545,000,000 as follows (in thousands):

	<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$ 1,730,400
Actuarial Value of Assets	1,185,544
Underfunded AAL	544,856
Funded Ratio	68.5%
Covered Payroll	\$ 1,896,609
Underfunded AAL as a percentage of covered payroll	28.7%

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(9) Retirement System (continued)

(e) Other Postemployment Benefits (OPEB) (continued)

The funded status of the OPEB plan as of June 30, 2007 was based on the following actuarial assumptions:

	<u>LACERS OPEB</u>
Actuarial valuation date	June 30, 2007
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	8.75%, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%
Dental	5%

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The require schedule of funding progress, presented as RSI in section (f) below, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

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(9) Retirement System (continued)

(f) Required Supplementary Information (Unaudited)

Based upon available data, the following represents the LACERS Schedule of Funding Progress for the OPEB plan; separate information for LAX is not available (in thousands):

Other Postemployment Benefits Healthcare Plans
Schedule of Funding Progress
 (in thousands)

Valuation date (June 30)	Actuarial accrued liability (AAL)	Actuarial value of assets	Unfunded AAL	Funded ratio	Covered payroll	Unfunded AAL as a % of covered payroll
2005	\$ 1,718,899	\$ 893,378	\$ (825,521)	52.0%	\$ 1,589,306	(51.9)%
2006	1,730,799	990,270	(740,529)	57.2%	1,733,340	(42.7)%
2007	1,730,400	1,185,544	(544,856)	68.5%	1,896,609	(28.7)%

(10) Self-Insurance

LAX is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAX's accrued total liability for workers' compensation has been based on the results of an actuarial study and has been allocated to LAX based on a ratio of LAX salaries to total LAWA salaries. A reconciliation of the accrued workers' compensation liability (included in employee benefits and insurance claims payable) is as follows (in thousands):

Liability at June 30, 2005	\$23,651
Provisions for claims	11,218
Claim payments	(6,393)
Liability at June 30, 2006	<u>28,476</u>
Provisions for claims	9,432
Claim payments	(7,628)
Liability at June 30, 2007	<u>30,280</u>
Current portion	(4,210)
Long-term liability at June 30, 2007, net of current portion	<u><u>\$26,070</u></u>

The LAWA Risk Management Division oversees a sophisticated, self-administered Risk and Claims Management program. Claims are administered in-house by a dedicated team of Analysts who will manage and direct a claim/lawsuit until resolved. LAWA Risk Management (in cooperation with its contracted broker of record) is responsible for placing insurance policies up to

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(10) Self-Insurance (continued)

the policy limits of \$1.0 billion for General Liability coverage and \$1.25 billion for War and Terrorism coverage. Additional lines of insurance include General Property Insurance, with policy limits of \$1.5 billion, Boiler and Machinery coverage and Earthquake insurance. These insurance limits are in excess of LAWA's self-insured retention (deductible) which for general liability insurance is \$10,000/claim with a \$300,000 annual aggregate and \$125,000 per occurrence and annual aggregate on Property insurance. The self-insured retention for both Property and Liability insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management Division. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAWA also continues to maintain a catastrophic loss fund that is held in reserve to fund claims or losses that may conceivably breach insurance policy limits. The transference of risk exposure through the procurement of liability and property insurance has proven to be a very effective program for LAWA in its management of risk.

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Division estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2007, 2006, and 2005, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty and other insurance. LAWA also maintains an insurance trust fund to pay the deductible for property damage and any claims in excess of the insurance coverage.

(11) Commitments and Contingencies

As of June 30, 2007, a number of claims and lawsuits are pending against LAX that arose in the normal course of operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAX's operations.

(a) Environmental Issues

Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the environmental cleanup of any sites found to be contaminated. This evaluation has not been completed to date.

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(11) Commitments and Contingencies (continued)

(a) Environmental Issues (continued)

LAWA bears the financial responsibility for the cleanup of environmental contamination on property owned by it. However, LAWA believes that if the contamination originated based on contractual arrangements, the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. LAWA, as property owner, however, assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution. As a result of the hazardous materials management plan noted above, LAWA has already begun cleanup on several sites, is in the process of implementing additional safeguards to prevent additional hazardous substance contamination and is completing the environmental evaluation of LAWA's facilities. However, the extent of the cleanup and/or the ability of the original tenants to reimburse LAWA for such cleanup cannot be determined at the present time. Therefore, under the circumstances, it is reasonably possible that losses could be incurred; however, until such matters are resolved, the range of loss, if any, cannot be reasonably estimated.

(b) Other

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$45,800,000 and \$49,200,000 as of June 30, 2007 and 2006, respectively. The change in commitments is due to the following projects: \$18,400,000 for inspection testing, and surveying for the center taxiway and runway projects; and, \$14,000,000 for land acquisition.

(c) High-Security Environment

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues, and parking revenue. During fiscal year 2007, LAWA's passenger volume was 5.7%, or 4.1 million, below its pre-September 11th Events level.

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. LAWA's capital improvement program was also reevaluated and several planned expenditures were suspended, except where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service.

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LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(11) Commitments and Contingencies (continued)

(c) High-Security Environment (continued)

A number of airlines are recovering from the economic difficulties they experienced immediately following the September 11 Events.

LAX is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAX, (iii) the future financial condition of the airlines using LAX, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

(12) Capital Lease Agreements

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 at June 30, 2007 and 2006. Accumulated depreciation with respect to such property for the respective years was \$95.6 million and \$90.8 million, respectively.

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal year ending June 30,	
2008	\$ 3,061
2009	3,076
2010	3,146
2011	3,268
2012	3,327
2013 – 2017	18,248
2018 – 2022	22,029
2023 – 2026	19,376
Total minimum lease payments	<u>75,531</u>
Less interest portion	<u>(23,676)</u>
Present value of minimum lease payments	<u>\$ 51,855</u>

LAX currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAX by such airlines for terminal leases and landing fees.

LOS ANGELES WORLD AIRPORTS
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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(13) Passenger Facility Charges

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFC's. PFC's may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers.

Since 1990, the following activities have taken place:

- In April 1993, the FAA granted LAWA's authority to collect PFC's at LAX in the amount of \$360,000,000 for 5 years for specifically approved airport improvement projects. Effective July 1, 1993, LAWA began collecting PFC's in the amount of \$3 per passenger.
- In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at Ontario. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000.
- In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at ONT. Accordingly, PFC charges totaling \$126,100,000 collected at LAX were transferred.
- In November 1997, the FAA approved LAWA's application to impose \$3 per passenger PFC's at LAX, for noise mitigation projects. Approved collections of \$150,000,000 at LAX were to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences.
- On October 2, 1998, the FAA approved LAWA's application to amend PFC's at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000.
- Effective August 1, 2003, the FAA approved an increase to the PFC charge at LAX from \$3.00 to \$4.50.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFC's are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement. Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (in thousands):

LOS ANGELES WORLD AIRPORTS
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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(13) Passenger Facility Charges (continued)

	2007	2006
Amount collected	\$ 983,612	\$ 866,440
Interest received	89,001	75,367
Cumulative PFC collections	\$ 1,072,613	\$ 941,807

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

(14) Capital Grant Contributions

Contributed capital related to governmental grants and other aid increased by \$42.0 million to \$74.0 million during the year ended June 30, 2007. Capital grant funds were used for projects under the Airport Improvement Program and Transportation Security Administration security-related capital projects. During fiscal year 2006, capital grant contributions increased from fiscal year 2005 by \$31.3 million to \$32.1 million.

(15) Terminal Rents

LAX has lease arrangements at its passenger terminal facilities with American Airlines, Continental Airlines, Delta Air Lines, LAX TWO Corporation, and United Air Lines (collectively, the “Long-term Airlines”) that have various terms of up to 40 years. Under these leases, the Long-term Airlines pay various charges, including maintenance and operations rent (“M&O Rent”) that reflects the expenses that LAX incurs in maintaining and operating the terminals. The M&O Rent rates are set each calendar year based on the actual audited M&O expenses for the prior fiscal year ending June 30.

Historically, less than the full amount of M&O expenses attributable to the airlines has been charged to the terminal tenants as M&O Rent. On December 18, 2006, the Board of Airport Commissioners (“BOAC”) approved a resolution setting the M&O Rent rate for 2006, effective January 1, 2006, based upon the full amount of M&O expenses expended in the year ended June 30, 2005 attributable to the airlines for all LAX passenger terminals. These rates remain in effect until changed by board action.

The Long-term Airlines have objected to LAX’s calculation of the M&O Rents as approved by the BOAC for 2006. On January 18, 2007, American, Continental and United Airlines filed a complaint with the United States District Court objecting to the 2006 M&O Rents. Subsequently, Northwest Airlines, as the primary shareholder of LAX TWO, and Delta Air Lines also filed Objections.

Separately, the BOAC approved a new lease form on December 18, 2006 with a subsequent institution of a tariff on January 22, 2007. Certain carriers utilizing terminals 1 and 3 as well as carriers that operate from the Tom Bradley International Terminal objected to the tariff and filed a complaint with the Department of Transportation (“DOT”). The DOT issued its final decision on June 15, 2007. The decision resulted in a refund of a portion of the amounts assessed under the tariff to the complainants.

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Notes to Financial Statements (Continued)

June 30, 2007 and 2006

(15) Terminal Rents (continued)

A small number of tenants and sub-tenants were not party to the DOT action and continue to be assessed at the tariff rate. Subsequent to the DOT decision on July 19, 2007, the carriers' party to the DOT complaint filed a Petition to Review at the United States Court of Appeals regarding the DOT ruling.

Pending the resolution of these objections, LAX has classified the disputed cash portion of the M&O Rent and interest earned as "Cash under Protest" of \$92,625,214 and has not included these amounts as Revenue. The disputed portion of the M&O Rent is classified as "Customer Liability- Protested Revenue" and "Interest Earned under Protest;" both amounts are included as part of other long term liabilities reported in the Statement of Net Assets.

COMPLIANCE SECTION



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The Members of the Board of Airport Commissioners
of the City of Los Angeles, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Los Angeles International Airport, a departmental component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 14, 2007. Our report included an explanatory paragraph regarding LAX's adoption of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statement No. 25 and 27*, for the year ended June 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Los Angeles International Airport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Los Angeles International Airport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Los Angeles International Airport's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Los Angeles International Airport's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Los Angeles International Airport's financial statements that is more than inconsequential will not be prevented or detected by Los Angeles International Airport's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Los Angeles International Airport's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Los Angeles International Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Los Angeles International Airport's Board of Airport Commissioners, management, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Maia Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 14, 2007

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APPENDIX C-1

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Senior Indenture, the Ninth Supplemental Senior Indenture, the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture found in Appendices C-2 through C-5.

“Accreted Value” means (a) with respect to any Capital Appreciation Senior Bonds or Capital Appreciation Subordinate Bonds, as the case may be, as of any date of calculation, the sum of the amount set forth in a Supplemental Senior Indenture or a Supplemental Subordinate Indenture, as the case may be, as the amount representing the initial principal amount of such Capital Appreciation Senior Bonds or Capital Appreciation Subordinate Bonds, as the case may be, plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Senior Bonds or Original Issue Discount Subordinate Bonds, as the case may be, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Senior Bonds or Original Issue Discount Subordinate Bonds, as the case may be, plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be, authorizing the issuance of such Capital Appreciation Senior Bond or Original Issue Discount Senior Bond or Capital Appreciation Subordinate Bond or Original Issue Discount Subordinate Bond, as the case may be.

“Aggregate Required Deposits” means, for any month, the sum of the Required Deposits under all Supplemental Subordinate Indentures becoming due in such month.

“Airport Revenue Fund” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

“Airport System” means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, the Ontario International Airport, the Van Nuys Airport and Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

“Authorized Representative” means the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer or such other officer or employee of the Board or the Department or other person which other officer, employee or person has been designated by the Board or the Department as an Authorized Representative by written notice delivered by the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Senior Trustee or the Subordinate Trustee, as the case may be.

“Balloon Indebtedness” means, with respect to any Series of Senior Bonds or Subordinate Bonds, as the case may be, twenty five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Senior Bonds or Subordinate Bonds, as the case may be, of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any preceding Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Senior Bonds or Subordinate Bonds, as the case may be, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Senior Commercial Paper Program and the Commercial Paper constituting part of such Senior Program will not be Balloon Indebtedness. A Subordinate Commercial Paper Program and the Commercial Paper constituting part of such Subordinate Program will not be Balloon Indebtedness.

“*Board*” means the Board of Airport Commissioners of the City of Los Angeles, California, created under the provisions of the Charter, and any successor to its function.

“*Bond Counsel*” means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Senior Indenture and the Subordinate Indenture, as the case may be, and which are acceptable to the Department.

“*Bondholder*,” “*holder*,” “*owner*” or “*registered owner*” means (a) for purposes of the Senior Indenture, the person in whose name any Senior Bond or Senior Bonds are registered on the books maintained by the Senior Registrar and will include any Credit Provider or Liquidity Provider to which a Senior Repayment Obligation is then owed, to the extent that such Senior Repayment Obligation is deemed to be a Senior Bond under the provisions of the Senior Indenture; and (b) for purposes of the Subordinate Indenture, the person in whose name any Subordinate Bond or Subordinate Bonds are registered on the books maintained by the Subordinate Registrar and will include any Credit Provider or Liquidity Provider to which a Subordinate Repayment Obligation is then owed, to the extent that such Subordinate Repayment Obligation is deemed to be a Subordinate Bond under the provisions of the Subordinate Indenture.

“*Business Day*” means a day on which banks located in New York, New York, in Los Angeles, California and in the city in which the principal corporate trust office of the Senior Trustee or the Subordinate Trustee, as the case may be, is located are open, provided that such term may have a different meaning for any specified Series of Senior Bonds if so provided by Supplemental Senior Indenture or any specified Series of Subordinate Bonds if so provided by Supplemental Subordinate Indenture.

“*Capital Appreciation Senior Bonds*” means Senior Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Senior Indenture and is payable only upon redemption or on the maturity date of such Senior Bonds. Senior Bonds which are issued as Capital Appreciation Senior Bonds, but later convert to Senior Bonds on which interest is paid periodically will be Capital Appreciation Senior Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Senior Bonds, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Capital Appreciation Subordinate Bonds*” means Subordinate 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 Subordinate Indenture and is payable only upon redemption or on the maturity date of such Subordinate Bonds. Subordinate Bonds which are issued as Capital Appreciation Subordinate Bonds, but later convert to Subordinate Bonds on which interest is paid periodically will be Capital Appreciation Subordinate Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Subordinate 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 and the Subordinate Trustee by the Department.

“*Chief Operating Officer*” means the person at a given time who is the chief operating officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

“*City*” means The City of Los Angeles, California.

“*City Attorney*” means legal counsel to the Board and staff of the Department who otherwise acts as provided for in the Charter.

“*City Treasury*” means the official depository of the City established pursuant to the Charter which is under the control of the Treasurer.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

“*Commercial Paper*” means notes of the Department with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Senior Program or a Subordinate Program, as the case may be, adopted by the Board.

“*Consultant*” means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Department to perform acts and carry out the duties provided for such consultant in the Senior Indenture or the Subordinate Indenture, as the case may be.

“*Costs*” or “*Costs of a Project*” means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Senior Bonds and Subordinate Bonds, costs of Credit Facilities, Liquidity Facilities, Senior Capitalized Interest, Subordinate Capitalized Interest, the Senior Reserve Fund, any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund), any Subordinate Debt Service Reserve Fund, Senior Trustee’s fees and expenses, and Subordinate Trustee’s fees and expenses; (6) any Senior Swap Termination Payments due in connection with a Series of Senior Bonds or the failure to issue such Series of Senior Bonds, or any Subordinate Swap Termination Payments due in connection with a Series of Subordinate Bonds or the failure to issue such Series of Subordinate Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department.

“*Credit Facility*” means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Senior Reserve Fund Surety Policy, a Senior Debt Service Reserve Fund Surety Policy (other than a Senior Reserve Fund Surety Policy), a Subordinate Debt Service Reserve Fund Surety Policy, or other financial instrument which obligates a third party to make payment of or provide funds to the Senior Trustee or the Subordinate Trustee, as the case may be, for the payment of the principal of and/or interest on Senior Bonds or Subordinate Bonds, as the case may be, whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

“*Credit Provider*” means the party obligated to make payment of principal of and interest on the Senior Bonds or the Subordinate Bonds, as the case may be, under a Credit Facility.

“*Department*” means the Department of Airports of the City of Los Angeles, or any successor thereto performing the activities and functions of the department under the Charter.

“*Estimated Completion Date*” means the estimated date upon which a Specified LAX Project or a specified Project has been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified LAX Project or a Project is expected to have been acquired and payment therefor made, in each case, as that date will be set forth in a certificate of an Authorized Representative delivered to the Senior Trustee or the Subordinate Trustee, as the case may be, at or prior to the time of issuance of the Senior Bonds or the Subordinate Bonds, as the case may be, which are issued to finance such Project.

“*Executive Director*” means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

“*Facilities Construction Credit*” and “*Facilities Construction Credits*” means the amounts further described in the Master Senior Indenture and the Master Subordinate Indenture resulting from an arrangement embodied in a written agreement of the Department and another person or entity pursuant to which the Department permits such person or entity to make a payment or payments to the Department which is reduced by the amount owed by the Department to such person or entity under such agreement, resulting in a net payment to the Department by such person or entity. The “*Facilities Construction Credit*” will be deemed to be the amount owed by the Department under such agreement which is “netted” against the payment of such person or entity to the Department. “*Facilities Construction Credits*” will include any credits extended to airlines or other users of LAX Airport Facilities related to RAIC projects.

“*Fiscal Year*” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Department designates as its fiscal year.

“*Fitch*” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Fitch*” will be deemed to refer to any nationally recognized rating agency designated by the Department (other than Moody’s or S&P).

“*Fourth Supplemental Subordinate Indenture*” means the Fourth Supplemental Subordinate Trust Indenture, to be dated as of August 1, 2008, by and between the Department and the Subordinate Trustee.

“*Government Obligations*” means (A) with respect to the Senior Bonds and the Senior Indenture (1) United States Obligations (including obligations issued or held in book-entry form), (2) prerefunded municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated in their highest rating category by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds, and (3) any other type of security or obligation that Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and S&P if S&P then maintains a rating on any of the Senior Bonds have determined to be permitted defeasance securities; and (B) (A) with respect to the Subordinate Bonds and the Subordinate Indenture, (a) United States Obligations (including obligations issued or held in book-entry form); (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims,

including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Subordinate Bonds and such Rating Agencies are then maintaining a rating on any of the Subordinate Bonds; and (c) any other type of security or obligation which the Rating Agencies then maintaining ratings on the Subordinate Bonds to be defeased have determined to be permitted defeasance securities.

“Implemented” means, (a) when used with respect to a Senior Program, a Senior Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Senior Program, the provisions of the Master Senior Indenture have been complied with; and (b) when used with respect to a Subordinate Program, a Subordinate Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Subordinate Program, the provisions of the Master Subordinate Indenture have been complied with.

“Independent” means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Department or the City, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Department, the City or the Board as an official, officer or employee.

“Initial Senior Bonds” means the Series 1995 Senior Bonds.

“Initial Subordinate Bonds” means the Series 2002C Subordinate Bonds and the Series 2003A Subordinate Bonds.

“LAX Airport Facilities” or *“LAX Airport Facility”* means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

“LAX Maintenance and Operation Expenses” means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

“LAX Maintenance and Operation Reserve Account” means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173,232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

“LAX Revenue Account” means the account established pursuant to the Master Senior Indenture and Section 23.10(a) of the Los Angeles Administrative Code.

“LAX Revenues” means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Department from the Los Angeles International Airport, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (1) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at Los Angeles International Airport, (2) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at Los Angeles International Airport, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of Los Angeles International Airport (or any LAX Airport Facilities or activities and undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto, all of which is required to be deposited in the Airport Revenue Fund pursuant to the Charter and the LAX Revenue Account pursuant to the Master Senior Indenture. *“LAX Revenues”* include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Senior Construction Fund or Subordinate Construction Fund allowed to be pledged by the terms of a

Supplemental Senior Indenture, the Senior Reserve Fund, any Senior Debt Service Reserve Fund, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

“*LAX Special Facilities*” or “*LAX Special Facility*” means, with respect to Los Angeles International Airport, a facility or group of facilities or improvements or category of facilities or improvements which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Senior Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

“*LAX Special Facilities Revenue*” means the contractual payments and all other revenues derived by or available to or receivable by the Department from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

“*LAX Special Facility Obligations*” means bonds or other debt instruments issued pursuant to an indenture other than the Senior Indenture or the Subordinate Indenture to finance LAX Special Facilities and which are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

“*Liquidity Facility*” means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Senior Bonds or Subordinate Bonds, as the case may be.

“*Liquidity Provider*” means the entity, including the Credit Provider, which is obligated to provide funds to purchase Senior Bonds or Subordinate Bonds, as the case may be, under the terms of a Liquidity Facility.

“*Los Angeles International Airport*” and “*LAX*” means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Department at such location or in which the Department has other rights or from which the Department derives revenues at such location.

“*Mai!*” means by first-class United States mail, postage prepaid.

“*Maintenance and Operation Expenses of the Airport System*” means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

“*Maintenance and Operation Reserve Fund*” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and the provisions of the Master Senior Indenture.

“*Master Senior Indenture*” means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department and the Senior Trustee, as amended.

“*Master Subordinate Indenture*” means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Subordinate Trustee, as amended.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Moody’s*” will be deemed to refer to any other nationally recognized rating agency designated by the Department.

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

“*Net Proceeds*” means insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation less expenses (including attorneys’ fees and expenses and any fees and expenses of the Senior Trustee or the Subordinate Trustee, as the case may be) incurred in the collection of such proceeds or award.

“*Ninth Supplemental Senior Indenture*” means the Ninth Supplemental Trust Indenture, to be dated as of August 1, 2008, by and between the Department and the Senior Trustee.

“*Non-Qualified Swap*” means any Swap which is not a Senior Qualified Swap or a Subordinate Qualified Swap.

“*Ordinance No. 173,232*” means the City of Los Angeles Ordinance No. 173,232 which became effective on June 19, 2000.

“*Original Issue Discount Senior Bonds*” means Senior Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Senior Bonds by the Supplemental Senior Indenture under which such Senior Bonds are issued.

“*Original Issue Discount Subordinate Bonds*” means Subordinate Bonds which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Subordinate Bonds by the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued.

“*Outstanding*” means: (1) when used with respect to Senior Bonds means all Senior Bonds which have been authenticated and delivered under the Senior Indenture, except:

(a) Senior Bonds cancelled or purchased by the Senior Trustee for cancellation or delivered to or acquired by the Senior Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Senior Bonds deemed to be paid in accordance with the Master Senior Indenture;

(c) Senior Bonds in lieu of which other Senior Bonds have been authenticated under the provisions of the Senior Master Indenture;

(d) Senior Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Senior Trustee or a Senior Paying Agent;

(e) Senior Bonds which, under the terms of the Supplemental Senior Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Senior Repayment Obligations deemed to be Senior Bonds under the Master Senior Indenture to the extent such Senior Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Senior Bonds acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Senior Bonds under the Master Senior Indenture, Senior Bonds held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Senior Bonds are pledged to secure a debt to an unrelated party;

(2) when used with respect to Subordinate Bonds means all Subordinate Bonds which have been authenticated and delivered under the Subordinate Indenture, except:

(a) Subordinate Bonds cancelled or purchased by the Subordinate Trustee for cancellation or delivered to or acquired by the Subordinate Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Subordinate Bonds deemed to be paid in accordance with the Master Subordinate Indenture;

(c) Subordinate Bonds in lieu of which other Subordinate Bonds have been authenticated under the provisions of the Master Subordinate Indenture;

(d) Subordinate 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 Subordinate Trustee or a Subordinate Paying Agent;

(e) Subordinate Bonds which, under the terms of the Supplemental Subordinate Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Subordinate Repayment Obligations deemed to be Subordinate Bonds under the Master Subordinate Indenture to the extent such Subordinate Repayment Obligations arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Subordinate 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 Subordinate Bonds under the Master Subordinate Indenture, Subordinate 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 Subordinate Bonds are pledged to secure a debt to an unrelated party.

“Parity Subordinate Indenture” means the Subordinate Trust Indenture, dated as of April 1, 2002, by and between the Department and the Parity Subordinate Issuing and Paying Agent, as issuing and paying agent, together with all amendments and supplements thereto.

“Parity Subordinate Issuing and Paying Agent” means U.S. Bank Trust National Association, and any successor thereto.

“Passenger Facility Charges” or *“PFCs”* means all or a designated portion of charges collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) and 14 CFR Part 158, all as amended from time to time, or any other applicable federal law, in respect of any component of LAX and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

“Payment Date” means, with respect to any Senior Bonds or Subordinate Bonds, as the case may be, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“Pledged Revenues” means, except to the extent specifically excluded herein or under the terms of any Supplemental Senior Indenture (only with respect to the Series of Senior Bonds issued pursuant to such Supplemental Senior Indenture), LAX Revenues. *“Pledged Revenues”* will also include such additional revenues, if any, as are designated as *“Pledged Revenues”* under the terms of any Supplemental Senior Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Department from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of *“LAX Revenues”* which are

restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “Pledged Revenues,” unless designated as “Pledged Revenues” under the terms of a Supplemental Senior Indenture: (a) any Senior Swap Termination Payments paid to the Department pursuant to a Senior Qualified Swap or any Subordinate Swap Termination Payments paid to the Department pursuant to a Subordinate Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Passenger Facility Charges in respect of LAX may be so pledged), (d) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (e) Released LAX Revenues. Further, interest earnings or other investment earnings on any Senior or Subordinate Construction Fund established by any Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be, are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be.

“*President*” or “*President of the Board*” means the president of the Board or such other title as the Board may from time to time assign for such position.

“*Project*” means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Senior Bonds or Subordinate 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 or the Subordinate Bonds, as the case may be, and such Rating Agencies are then maintaining a rating on any of the Senior Bonds or the Subordinate Bonds, as the case may be.

“*Rating Category*” and “*Rating Categories*” means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“*Rebate Fund*” means any fund created by the Department pursuant to a Supplemental Senior Indenture or a Supplemental Subordinate Indenture, as the case may be, in connection with the issuance of the Senior Bonds or any Series of Senior Bonds or the Subordinate Bonds or any Series of Subordinate Bonds, as the case may be, for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means, with respect to any Series of Senior Bonds or Subordinate Bonds, as the case may be, the record date as specified in the Supplemental Senior Indenture which provides for the issuance of such Series of Senior Bonds or the Supplemental Subordinate Indenture which provides for the issuance of such Series of Subordinate Bonds, as the case may be. With respect to the Series 2008 Bonds, “*Record Date*” means for a May 15 Interest Payment Date the preceding May 1 and for a November 15 Interest Payment Date the preceding November 1.

“*Refunding Senior Bonds*” means any Senior Bonds issued pursuant to the Master Senior Indenture to refund or defease all or a portion of any series of Outstanding Senior Bonds or any Subordinated Obligation.

“*Refunding Subordinate Bonds*” means any Subordinate Bonds issued pursuant to the Master Subordinate Indenture to refund or defease all or a portion of any Series of Outstanding Subordinate Bonds, any Parity Subordinate Obligations or any Senior Bonds.

“*Regularly Scheduled Swap Payments*” means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

“*Released LAX Revenues*” means LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through FIFTH described under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account,” or (B) an amount not less than 150% of average Senior Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through FIFTH described under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account,” or (B) an amount not less than 150% of the average Senior Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of the Master Senior Indenture will not, in and of itself, cause the interest on any Outstanding Senior Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody’s (provided such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds and such Rating Agencies are then maintaining a rating on any of the Senior Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of the Master Senior Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Senior Bonds.

For purposes of subparagraph (b) above, no Transfer will be taken into account in the computation of Pledged Revenues.

Additionally, the Department will give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Senior Bonds and S&P is then maintaining a rating on any of the Senior Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of the Master Senior Indenture as proved in this definition of “*Released LAX Revenues*.”

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Senior Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Senior Indenture pursuant to a Supplemental Senior Indenture.

“*Required Deposits*” means, with respect to any Series of Subordinate Bonds, the amount determined in accordance with the terms of the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued and/or incurred, required to be deposited into funds and accounts created under such Supplemental

Subordinate Indenture for the purpose of paying principal and interest on Subordinate Bonds or accumulating funds from which to make such payments and to pay other obligations specifically secured by the Subordinate Pledged Revenues under such Supplemental Subordinate Indenture. On or before the Payment Date, if any, in each month, the Subordinate Trustee will determine the aggregate Required Deposits from the Required Deposits described under each Supplemental Subordinate Indenture.

“*Responsible Officer*” means an officer or assistant officer of the Senior Trustee assigned by the Senior Trustee to administer the Senior Indenture, or an officer or assistant officer of the Subordinate Trustee assigned by the Subordinate Trustee to administer the Subordinate Indenture.

“*S&P*” means Standard & Poor’s Ratings Group, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, “*S&P*” will be deemed to refer to any other nationally recognized securities rating agency designated by the Department.

“*Senior Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Senior Annual Debt Service on all Outstanding Senior Bonds and Unissued Senior Program Bonds. For purposes of calculating Senior Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(i) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Senior Bonds, and Unissued Senior Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Senior Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Senior Bonds or Original Issue Discount Senior Bonds maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (ii), (iii) or (iv) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Senior Bonds will be excluded to the extent such payments are to be paid from Senior Capitalized Interest for such Fiscal Year;

(ii) if all or any portion or portions of an Outstanding Series of Senior Bonds, or Unissued Senior Program Bonds constitute Balloon Indebtedness (excluding Senior Program Bonds or Unissued Senior Program Bonds to which subsection (vi) applies), then, for purposes of determining Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Senior Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (iii) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Senior Bonds, Unissued Senior Program Bonds or Senior Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (i) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Senior Program Bonds or Senior Program Bonds or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (i) above or such other provision of this definition as will be applicable;

(iii) any maturity of Senior Bonds which constitutes Balloon Indebtedness as described in provision (ii) of this definition and for which the stated maturity date occurs within 12 months from the

date such calculation is made, will be assumed to become due and payable on the stated maturity date and provision (ii) above will not apply thereto unless there is delivered to the entity making the calculation a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Senior Aggregate Annual Debt Service, provided that such assumption will not result in an amortization period longer than or an interest rate lower than that which would be assumed under provision (ii) above;

(iv) if any Outstanding Senior Bonds (including Senior Program Bonds then issued and Outstanding) or any Senior Bonds which are then proposed to be issued constitute Senior Tender Indebtedness (but excluding Senior Program Bonds or Senior Bonds as to which a Senior Qualified Swap is in effect and to which subsection (vi) or (viii) applies), then, for purposes of determining Senior Aggregate Annual Debt Service, Senior Tender Indebtedness will be treated as if the principal amount of such Senior Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Senior Annual Debt Service payments and extending not later than 30 years from the date such Senior Tender Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all principal and interest payments becoming due prior to the year in which such Senior Tender Indebtedness is first subject to tender, such payments will be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (v) or (vi) below, as appropriate;

(v) if any Outstanding Senior Bonds constitute Variable Rate Senior Indebtedness (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Senior Tender Indebtedness or subsection (vi) relating to Synthetic Fixed Rate Debt or (viii) relating to Senior Qualified Swaps applies), the interest rate on such Senior Bonds will be the average rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the 12 months preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for such Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vi) with respect to any Senior Program Bonds or Unissued Senior Program Bonds (other than a Senior Commercial Paper Program) (a) debt service on Senior Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (b) with respect to Unissued Senior Program Bonds, it will be assumed that the full principal amount of such Unissued Senior Program Bonds will be amortized over a term certified by an Authorized Representative at the time the initial Senior Program Bonds of such Senior Program are issued to be the expected duration of such Senior Program or, if such expectations have changed, over a term certified by an Authorized Representative to be the expected duration of such Senior Program at the time of such calculation, but not to exceed 30 years from the date the initial Senior Program Bonds of such Senior Program are issued and it will be assumed that debt service will be paid in substantially level Senior Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that

index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vii) debt service on Senior Repayment Obligations, to the extent such obligations constitute Senior Bonds under the Master Senior Indenture, will be calculated as provided in Master Senior Indenture;

(viii) (a) for purposes of computing the Senior Annual Debt Service of Senior Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate as implied by the terms of the swap agreement or the net interest rate payable pursuant to offsetting indices, as applicable;

(b) for purposes of computing Senior Annual Debt Service on all other Senior Bonds with respect to which a Senior Qualified Swap is in effect, such Senior Qualified Swap will be marked to market (that is, treated as if it were being closed-out with an at the market bid) at the time of such calculation and the putative gain or loss thereon under the terms and conditions of the agreement creating such Senior Qualified Swap will be treated as amortized over the remaining term of the Senior Qualified Swap and the annualized gain or loss payment thereunder will be added to or subtracted from Senior Annual Debt Service for such Senior Bonds;

(ix) if moneys or Senior Permitted Investments have been irrevocably deposited with and are held by the Senior Trustee or another fiduciary or Senior Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Senior Bonds, then the principal and/or interest to be paid from such moneys, Senior Permitted Investments, or Senior Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Senior Annual Debt Service; and

(x) with respect to any Senior Commercial Paper Program which has been Implemented and not then terminated or with respect to any Senior Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Senior Authorized Amount of such Senior Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Senior Commercial Paper Program is Implemented and with substantially level Senior Annual Debt Service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes.

“*Senior Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, in the then current or any future Fiscal Year with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a

Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Annual Debt Service*” means, with respect to any Senior Bond, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Senior Qualified Swap is in effect for such Senior Bond, plus the amount payable by the Department (or the Senior Trustee) under the Senior Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Senior Qualified Swap Provider pursuant to the Senior Qualified Swap, calculated using the principles and assumptions set forth in the definition of Senior Aggregate Annual Debt Service.

“*Senior Authorized Amount*” means, when used with respect to Senior Bonds, including Senior Program Bonds, the maximum Senior Principal Amount of Senior Bonds which is then authorized by a resolution or Supplemental Senior Indenture adopted by the Board pursuant to the Master Senior Indenture to be Outstanding at any one time under the terms of such Senior Program or Supplemental Senior Indenture. If the maximum Senior Principal Amount of Senior Bonds or Senior Program Bonds authorized by a preliminary resolution or form of Supplemental Senior Indenture approved by the Board pursuant to the Master Senior Indenture exceeds the maximum Senior Principal Amount of Senior Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Senior Indenture executed and delivered by the Board pursuant to which such Bonds are issued or such Senior Program is established, the Senior Principal Amount of such Senior Bonds or Senior Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Senior Indenture as executed and delivered by the Department will be deemed to be the “*Senior Authorized Amount*.”

“*Senior Bond*” or “*Senior Bonds*” means any debt obligation of the Department issued under and in accordance with the provisions of the Master Senior Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Senior Repayment Obligations to the extent provided in the Master Senior Indenture. The term “*Senior Bond*” or “*Senior Bonds*” does not include any Subordinated Obligation; provided, however, that the Board may provide in a Supplemental Senior Indenture that Subordinated Obligations may be thenceforth issued pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations will be junior and subordinate in payment of such Subordinated Obligations from the Pledged Revenues. The term “*Senior Bond*” and “*Senior Bonds*” includes Senior Program Bonds.

“*Senior Capitalized Interest*” means the amount of interest on Senior Bonds, if any, funded from the proceeds of the Senior Bonds or other monies that are deposited with the Senior Trustee upon issuance of Senior Bonds to be used to pay interest on the Senior Bonds.

“*Senior Commercial Paper Program*” means a Senior Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Senior Program.

“*Senior Construction Fund*” means any of the Senior Construction Funds authorized to be created pursuant to the Master Senior Indenture.

“*Senior Debt Service Fund*” or “*Senior Debt Service Funds*” means a Senior Debt Service Fund or any of the Senior Debt Service Funds required to be created by the Master Senior Indenture.

“*Senior Debt Service Reserve Fund*” means any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund) created by the Department pursuant to a Supplemental Senior Indenture in connection with the issuance of any Series of Senior Bonds and that is required to be funded for the purpose of providing additional security for such Series of Senior Bonds and under certain circumstances to provide additional security for such other designated Series of Senior Bonds issued pursuant to the terms of the Master Senior Indenture and as specified in any Supplemental Senior Indenture.

“Senior Debt Service Reserve Fund Surety Policy” means an insurance policy or surety bond, or a letter of credit (other than a Senior Reserve Fund Surety Policy) deposited with the Senior Trustee for the credit of a Senior Debt Service Reserve Fund created for one or more series of Outstanding Senior Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Senior Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term rating categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds at the time such instrument is provided.

“Senior Designated Debt” means a specific indebtedness designated by the Department with the intent that the risks associated with such debt be offset with a Swap, such specific indebtedness to include all or any part of a Series of Senior Bonds.

“Senior Event of Default” means any occurrence or event specified as a “Senior Event of Default” in the Senior Indenture.

“Senior Indenture” means the Master Senior Indenture, together with all Supplemental Senior Indentures.

“Senior Investment Agreement” means an investment agreement or guaranteed investment contract (i) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short term rating category (if the term of the Senior Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Senior Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the Senior Bonds and by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Senior Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (C) subject to a perfected first lien on behalf of the Senior Trustee, and (D) free and clear from all third-party liens.

“Senior Maximum Aggregate Annual Debt Service” means the maximum amount of Senior Aggregate Annual Debt Service with respect to all Senior Bonds, Unissued Senior Program Bonds, the Senior Authorized Amount of all Senior Bonds then proposed to be issued in the then current or any future Fiscal Year.

“Senior Maximum Aggregate Annual Debt Service For Reserve Requirement” means the computation of Senior Maximum Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, in the then current or any future Fiscal Year with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“Senior Notes” means Senior Bonds issued under the provisions of the Master Senior Indenture which have a maturity of one year or less from their date of original issuance and which are not part of a Senior Commercial Paper Program.

“Senior Paying Agent” or *“Senior Paying Agents”* means, with respect to the Senior Bonds or any Series of Senior Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Senior Indenture or a resolution of the Department as the place where such Senior Bonds will be payable.

“*Senior Permitted Investments*” means, to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

- (1) Government Obligations,
- (2) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;
- (3) Direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;
- (4) Direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;
- (5) Interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (“*FDIC*”) or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (a) continuously and fully insured by FDIC and with banks that are rated at least “P-1” or “Aa” by Moody’s if any of the Senior Bonds are then rated by Moody’s and at least “A-1” or “AA” by S&P if any of the Senior Bonds are then rated by S&P or (b) fully secured by obligations described in item (1) or (2) of this definition of Senior Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee, and (iv) free and clear from all third-party liens;
- (6) Long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody’s and S&P in either of their two highest rating categories;
- (7) Repurchase agreements which are (a) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and from S&P if S&P then maintains a rating on any of the Senior Bonds and (b) fully secured by investments specified in Section (1) or (2) of this definition of Senior Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee and (iv) free and clear from all third-party liens;
- (8) Prime commercial paper of a United States corporation, finance company or banking institution rated at least “P-1” by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and at least “A-1” by S&P if S&P then maintains a rating on any of the Senior Bonds;
- (9) Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in

Section 851(a) of the Code) that is (a) a money market fund that has been rated in one of the two highest rating categories by Moody's or S&P or (b) a money market fund or account of the Senior Trustee or any state or federal bank that is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or whose one bank holding company parent is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(10) Senior Investment Agreements; and

(11) Any other type of investment consistent with City policy in which the Department directs the Senior Trustee to invest provided that there is delivered to the Senior Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Senior Bonds has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Senior Bonds.

"Senior Principal Amount" or *"Senior principal amount"* means, as of any date of calculation, (i) with respect to any Capital Appreciation Senior Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (ii) with respect to any Original Issue Discount Senior Bond, the Accreted Value thereof, unless the Supplemental Senior Indenture under which such Senior Bond was issued will specify a different amount, in which case, the terms of the Supplemental Senior Indenture will control, and (iii) with respect to any other Senior Bonds, the principal amount of such Senior Bond payable at maturity.

"Senior Program" means a financing program, including but not limited to a Senior Commercial Paper Program, (i) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Senior Indenture have been filed with the Senior Trustee, (ii) wherein the Board has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Senior Authorized Amount, and (iii) the Senior Authorized Amount of which has met the additional bonds test set forth in Master Senior Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Senior Authorized Amount.

"Senior Program Bonds" means Senior Bonds issued and Outstanding pursuant to a Senior Program, other than Unissued Senior Program Bonds.

"Senior Qualified Swap" means any Swap (a) whose Senior Designated Debt is all or part of a particular Series of Senior Bonds; (b) which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series of Senior Bonds (including any bond insurer); (c) whose Swap Provider is a Senior Qualified Swap Provider or has been a Senior Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Senior Annual Debt Service or Senior Average Annual Debt Service is being made; (d) which has a term not greater than the term of the Senior Designated Debt or to a specified mandatory tender or redemption of such Senior Designated Debt; (e) which has been designated in writing to the Senior Trustee by the Department as a Senior Qualified Swap with respect to such Senior Bonds; and (f) which has been approved by S&P, if S&P has an outstanding rating on any Senior Bonds, and Moody's, if Moody's has an outstanding rating on the Senior Bonds.

"Senior Qualified Swap Provider" means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Senior Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least "Aa", in the case of Moody's and "AA", in the case of S&P, or the equivalent thereto in the case of any successor thereto, and (b) acceptable to the Credit Provider for the Senior Designated Debt.

"Senior Registrar" means, with respect to the Senior Bonds or any Series of Senior Bonds, the bank, trust company or other entity designated in a Supplemental Senior Indenture or a resolution of the Board to perform the

function of Senior Registrar under the Master Senior Indenture or any Supplemental Senior Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Senior Indenture. The Senior Trustee will act as Senior Registrar with respect to the Series 2008 Senior Bonds.

“Senior Repayment Obligations” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Senior Bonds or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Senior Bonds.

“Senior Reserve Fund” means the trust fund created pursuant to the Master Senior Indenture and that is required to be funded for the purpose of providing additional security for the Outstanding Senior Bonds issued pursuant to the terms of the Senior Indenture and as specified in any Supplemental Senior Indenture as participating in the Senior Reserve Fund. The Department will specify in the Ninth Supplemental Senior Indenture that the Series 2008 Senior Bonds will participate in the Senior Reserve Fund.

“Senior Reserve Fund Surety Policy” means an insurance policy or surety bond, or a letter of credit, deposited with the Senior Trustee for the credit of the Senior Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Senior Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest Rating Categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds.

“Senior Reserve Requirement” means, except as otherwise provided in a Supplemental Senior Indenture, an amount equal to the least of (i) Senior Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, (ii) ten percent of the principal amount of the Senior Bonds that have been issued and are participating in the Senior Reserve Fund or the Senior Bonds that have been issued and are participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, less the amount of original issue discount with respect to any Senior Bond if such original issue discount exceeded 2% on such Senior Bond at the time of its original sale and (iii) 125% of the average Senior Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be.

“Senior Swap Termination Payment” means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Senior Qualified Swap, to compensate the other party to the Senior Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Senior Qualified Swap.

“Senior Tender Indebtedness” means any Senior Bonds or portions of Senior Bonds a feature of which is an option and/or an obligation on the part of the Bondholders, under the terms of such Senior Bonds, to tender all or a portion of such Senior Bonds to the Department, the Senior Trustee, the Senior Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Senior Bonds or portions of Senior Bonds be purchased if properly presented.

“Senior Trustee” means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee until a successor replaces it and, thereafter, means such successor.

“Serial Senior Bonds” means Senior Bonds for which no sinking installment payments are provided.

“Serial Subordinate Bonds” means Subordinate Bonds for which no sinking installment payments are provided.

“*Series*” or “*series*” means (a) with respect to Senior Bonds, Senior Bonds designated as a separate Series by a Supplemental Senior Indenture and, with respect to Senior Program Bonds or a Senior Commercial Paper Program, means the full Senior Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Senior Indenture, designated as separate Series; and (b) with respect to Subordinate Bonds, Subordinate Bonds designated as a separate Series by a Supplemental Subordinate Indenture and, with respect to Subordinate Program Bonds or a Subordinate Commercial Paper Program, means the full Subordinate Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Subordinate Indenture, designated as a separate Series.

“*Series 1995A Senior Bonds*” means the \$125,740,000 original principal amount of Senior Bonds issued under the Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Refunding Revenue Bonds, 1995 Series A.”

“*Series 1995B Senior Bonds*” means the \$34,240,000 original principal amount of Senior Bonds issued under the Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Refunding Revenue Bonds, 1995 Series B.”

“*Series 1995C Senior Bonds*” means the \$30,275,000 original principal amount of Senior Bonds issued under the Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Refunding Revenue Bonds, 1995 Series C.”

“*Series 1995D Senior Bonds*” means the \$84,375,000 original principal amount of Senior Bonds issued under the Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Revenue Bonds, 1995 Series D.”

“*Series 1995E Senior Bonds*” means the \$91,225,000 original principal amount of Senior Bonds issued under the Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Refunding Revenue Bonds, 1995 Series E (Taxable).”

“*Series 1995 Senior Bonds*” means, collectively, the Series 1995A Senior Bonds, the Series 1995B Senior Bonds, the Series 1995C Senior Bonds, the Series 1995D Senior Bonds and the Series 1995E Senior Bonds.

“*Series 2002C Subordinate Bonds*” means, collectively, the Subseries 2002C1 Bonds and the Subseries 2002C2 Bonds.

“*Series 2003A Subordinate Bonds*” means the \$37,400,000 original principal amount of Subordinate Bonds issued under the Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2003 Series A.”

“*Series 2008A Senior Bonds*” means the \$602,075,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Ninth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2008 Series A.”

“*Series 2008 Bonds*” means, collectively, the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds.

“*Series 2008B Senior Bonds*” means the \$7,875,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Ninth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Refunding Revenue Bonds, 2008 Series B.”

“*Series 2008 Senior Bonds*” means, collectively, the Series 2008A Senior Bonds and the Series 2008B Senior Bonds.

“*Series 2008 Subordinate Bonds*” means the \$243,350,000 original principal amount of Subordinate Bonds issued under the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2008 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 certificates described in the additional bonds tests under the Master Senior Indenture and the Master Subordinate Indenture, as the case may be, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate described in the additional bonds tests under the Master Senior Indenture and the Master Subordinate Indenture, as the case may be.

“*State*” means the State of California.

“*Subordinate Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Subordinate Annual Debt Service on all Outstanding Subordinate Bonds and Unissued Subordinate Program Bonds. For purposes of calculating Subordinate Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(a) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Subordinate Bonds and Unissued Subordinate Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Subordinate Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Subordinate Bonds or Original Issue Discount Subordinate 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 (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Subordinate Bonds will be excluded to the extent such payments are to be paid from Subordinate Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Subordinate Bonds or Unissued Subordinate Program Bonds constitute Balloon Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not

excluded from gross income for federal income tax purposes; with respect to any Series of Subordinate Bonds, Unissued Subordinate Program Bonds or Subordinate Program Bonds, only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (a) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Subordinate Program Bonds or Subordinate 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 (a) above or such other provision of this definition as will be applicable;

(c) any maturity of Subordinate Bonds which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Subordinate Aggregate Annual Debt Service is made, will be assumed to become due and payable on the stated maturity date and provision (b) above will not apply thereto unless there is delivered to the entity making the calculation of Subordinate Aggregate Annual Debt Service a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Subordinate Aggregate Annual Debt Service, provided that such assumption will not result in an interest rate lower than that which would be assumed under provision (b) above and will be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Subordinate Bonds (including Subordinate Program Bonds) or any Subordinate Bonds which are then proposed to be issued constitute Subordinate Tender Indebtedness (but excluding Subordinate Program Bonds or Subordinate Bonds as to which a Subordinate Qualified Swap is in effect and to which subsection (g) or (h) applies), then, for purposes of determining Subordinate Aggregate Annual Debt Service, Subordinate Tender Indebtedness will be treated as if the principal amount of such Subordinate 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 Subordinate Annual Debt Service payments and extending not later than 30 years from the date such Subordinate Tender Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all principal and interest payments becoming due prior to the year in which such Subordinate Tender Indebtedness is first subject to tender, such payments will be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Subordinate Bonds constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Subordinate Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Subordinate Program Bonds or Unissued Subordinate Program Bonds (other than a Subordinate Commercial Paper Program) (i) debt service on such Subordinate Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (ii) with respect to Unissued Subordinate Program Bonds, it will be assumed that the full principal amount of such Unissued Subordinate Program Bonds will be amortized over a term certified by an Authorized Representative at the time the initial Subordinate Program Bonds of such Subordinate Program are issued to be the expected duration of such Subordinate Program or, if such expectations have changed, over a term certified by an Authorized Representative to the expected duration of such Subordinate Program at the time of such calculation, but not to exceed 30 years from the date of the initial issuance of such Subordinate Program Bonds and it will be assumed that debt service will be paid in substantially level Subordinate Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Subordinate Repayment Bonds, to the extent such obligations constitute Subordinate Bonds under the Master Subordinate Indenture, will be calculated as provided in the Master Subordinate Indenture;

(h) (i) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate 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 Subordinate Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Department fails to elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department;

(ii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Bonds with respect to which a Subordinate Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Bonds to which such Subordinate Swap pertains will be included in the calculation of Subordinate Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Bonds will, if the Department elects, be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Subordinate Swap Provider;

(i) with respect to any Subordinate Commercial Paper Program which has been Implemented and not then terminated or with respect to any Subordinate Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Subordinate Authorized Amount of such Implemented Subordinate Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Subordinate Commercial Paper Program is Implemented and with substantially level annual debt service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(j) if moneys or Subordinate Permitted Investments have been irrevocably deposited with and are held by the Subordinate Trustee or another fiduciary or Subordinate Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Bonds, then the principal and/or interest to be paid from such moneys, Subordinate Permitted Investments, or Subordinate Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Subordinate Annual Debt Service;

(k) if Passenger Facility Charges, state and/or federal grants or other moneys have been irrevocably committed or are held by the Subordinate Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Bonds, then the principal and/or interest to be paid from such Passenger Facility Charges, state and/or federal grants or other moneys or from earnings thereon will be disregarded (unless such Passenger Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Subordinate Aggregate Annual Debt Service; and

(l) for purposes of computing Subordinate Aggregate Annual Debt Service on the Parity Subordinate Bonds, the preceding subsections of this definition will apply, except that the term "Subordinate Bonds" will be read to mean the Parity Subordinate Bonds and the term "Subordinate Commercial Paper Program" will be read to mean the Parity Subordinate Bonds issued as commercial paper notes.

"Subordinate Aggregate Annual Debt Service For Reserve Requirement" means the computation of Subordinate Aggregate Annual Debt Service for a Subordinate Debt Service Reserve Fund with respect to all Outstanding Subordinate Bonds participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Bonds, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in a Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Bonds containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

"Subordinate Annual Debt Service" means, with respect to any Subordinate Bond or Parity Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Subordinate Qualified Swap is in effect for such Subordinate Bond or Parity Subordinate Obligation, plus the amount payable by the Department (or the Subordinate Trustee) under the Subordinate Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Subordinate Qualified Swap Provider pursuant to the Subordinate Qualified Swap, calculated using the principles and assumptions set forth in the definition of Subordinate Aggregate Annual Debt Service.

"Subordinate Authorized Amount" means, when used with respect to Subordinate Bonds, including Subordinate Program Bonds, the maximum Subordinate Principal Amount of Subordinate Bonds which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to the Master Subordinate Indenture to be Outstanding at any one time under the terms of such Subordinate Program or Supplemental Subordinate Indenture. If the maximum Subordinate Principal Amount of Subordinate Bonds or Subordinate Program Bonds authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to the Master Subordinate Indenture exceeds the maximum Subordinate Principal Amount of Subordinate Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such Subordinate Bonds are issued or such Subordinate Program is established, the Subordinate Principal Amount of such Subordinate Bonds or Subordinate Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department will be deemed to be the "Subordinate Authorized Amount." Notwithstanding the provisions of this definition of "Subordinate Authorized Amount," in

connection with the issuance of additional Subordinate Bonds and the calculation of Subordinate Maximum Annual Debt Service with respect to a Subordinate Commercial Paper Program, “Subordinate Authorized Amount” means the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Subordinate Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Subordinate Commercial Paper Program.

“*Subordinate Bond*” or “*Subordinate Bonds*” means any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Subordinate Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Subordinate Repayment Obligations to the extent provided in the Master Subordinate Indenture. The terms “Subordinate Bond” and “Subordinate Bonds” include Subordinate Program Bonds.

“*Subordinate Capitalized Interest*” means the amount of interest on Subordinate Bonds, if any, funded from the proceeds of the Subordinate Bonds or other moneys that are deposited with the Subordinate Trustee in the Subordinate Debt Service Fund as will be described in a Supplemental Subordinate Indenture upon issuance of Subordinate Bonds to be used to pay interest on the Subordinate Bonds.

“*Subordinate Commercial Paper Notes*” or “*Parity Subordinate Obligations*” means the commercial paper notes issued on parity with the Subordinate Bonds from time to time under the terms of the Parity Subordinate Indenture, designated the Department of Airports of the City of Los Angeles (Los Angeles International Airport) Commercial Paper Notes, Series A Notes (Tax-Exempt – Non-AMT), Series B Notes (Tax-Exempt – AMT) and Series C Notes (Federally Taxable) which may be issued from time to time pursuant to the Parity Subordinate Indenture in an aggregate principal amount not to exceed \$500,000,000 at any one time.

“*Subordinate Commercial Paper Program*” means a Subordinate Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Subordinate Program.

“*Subordinate Construction Fund*” means any of the Subordinate Construction Funds authorized to be created as provided by the Master Subordinate Indenture.

“*Subordinate Debt Service Fund*” or “*Subordinate Debt Service Funds*” means a Subordinate Debt Service Fund or any of the Subordinate Debt Service Funds required to be created as provided in the Master Subordinate Indenture.

“*Subordinate Debt Service Reserve Fund*” means any Subordinate Debt Service Reserve Fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of any Series of Subordinate Bonds and that is required to be funded for the purpose of providing additional security for such Series of Subordinate Bonds and under certain circumstances to provide additional security for such other designated Series of Subordinate Bonds issued pursuant to the terms of the Master Subordinate Indenture and as specified in any Supplemental Subordinate Indenture.

“*Subordinate Debt Service Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit, deposited with the Subordinate Trustee for the credit of the Subordinate Debt Service Reserve Fund created for one or more Series of Outstanding Subordinate Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Subordinate Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

“*Subordinate Designated Debt*” means a specific indebtedness designated by the Department in which such debt will be offset with a Swap, such specific indebtedness to include all or any part of a Series or multiple Series of Subordinate Bonds.

“Subordinated Obligation” means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Senior Bonds whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish the Senior Reserve Fund and any Senior Debt Service Reserve Fund. *“Subordinated Obligations”* are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Department may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations will be secured on a junior and subordinate basis to the Senior Bonds from the Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a *“Subordinated Obligation”* for purposes of the Master Senior Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Department as a *“Subordinated Obligation”* in a Supplemental Senior Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in, the term *“Subordinated Obligation”* includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Department under each such Swap, as the context requires. The term *“Subordinated Obligations”* also includes a Swap or the obligations of the Department under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term *“Subordinated Obligation”* includes any Senior Swap Termination Payment under a Senior Qualified Swap with respect to any Senior Bonds payable on parity with Subordinated Obligations.

“Subordinate Event of Default” means any occurrence or event specified as a “Subordinate Event of Default” in the Subordinate Indenture.

“Subordinate Indenture” means the Master Subordinate Indenture, together with all Supplemental Subordinate Indentures.

“Subordinate Investment Agreement” means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term Rating Category (if the term of the Subordinate Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Subordinate Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) and (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

“Subordinate Maximum Aggregate Annual Debt Service” means the maximum amount of Subordinate Aggregate Annual Debt Service with respect to all Subordinate Bonds, Unissued Subordinate Program Bonds, the Subordinate Authorized Amount of all Subordinate Bonds then proposed to be issued and Parity Subordinate Obligations in the then current or any future Fiscal Year.

“Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement” means the computation of Subordinate Maximum Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Subordinate Bonds participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Bonds the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in an identified Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Maximum Aggregate Annual Debt Service For

Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Bonds containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Subordinate Notes*” means Subordinate Bonds issued under the provisions of the Master Subordinate Indenture which have a maturity of one year or less from their original date of issue and which are not part of a Subordinate Commercial Paper Program.

“*Subordinate Paying Agent*” or “*Subordinate Paying Agents*” means, with respect to the Subordinate Bonds or any Series of Subordinate Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Subordinate Indenture or a resolution of the Department as the place where such Subordinate Bonds will be payable.

“*Subordinate Permitted Investments*” means to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

- (a) Government Obligations;
- (b) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;
- (c) direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and by S&P if S&P then maintains a rating on any of the Subordinate Bonds;
- (d) direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and by S&P if S&P then maintains a rating on any of the Subordinate Bonds;
- (e) interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (“FDIC”) or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (i) continuously and fully insured by FDIC and with banks that are rated at least “P-1” or “Aa” by Moody’s if any of the Subordinate Bonds are then rated by Moody’s and at least “A-1” or “AA” by S&P if any of the Subordinate Bonds are then rated by S&P; or (ii) fully secured by obligations described in item (a) or (b) of this definition of Subordinate Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment; (B) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;
- (f) long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody’s and S&P in either of their two highest rating categories;
- (g) repurchase agreements which are (i) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and from S&P if S&P then maintains a rating on any of the Subordinate Bonds; and

(ii) fully secured by investments specified in paragraph (a) or (b) of this definition of Subordinate Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements; (B) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;

(h) prime commercial paper of a United States corporation, finance company or banking institution rated at least “P-1” by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and at least “A-1” by S&P if S&P then maintains a rating on any of the Subordinate Bonds;

(i) shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (i) a money market fund that has been rated in one of the two highest rating categories by Moody’s or S&P, or (ii) a money market fund or account of the Subordinate Trustee or any state or federal bank that is rated at least “P-1” or “Aa” by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and at least “A-1” or “AA” by S&P if S&P then maintains a rating on any of the Subordinate 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 Subordinate Bonds and “A-1” or “AA” by S&P if S&P then maintains a rating on any of the Subordinate Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(j) Subordinate Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Subordinate Trustee to invest; provided that there is delivered to the Subordinate Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Subordinate 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 Subordinate Bonds.

“*Subordinate Principal Amount*” or “*Subordinate principal amount*” means, as of any date of calculation, (a) with respect to any Capital Appreciation Subordinate Bonds, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (b) with respect to any Original Issue Discount Subordinate Bonds, the Accreted Value thereof, unless the Supplemental Subordinate Indenture under which such Subordinate Bond was issued will specify a different amount, in which case, the terms of the Supplemental Subordinate Indenture will control, and (c) with respect to any other Subordinate Bonds, the principal amount of such Subordinate Bond payable at maturity.

“*Subordinate Program*” means a financing program identified in a Supplemental Subordinate Indenture, including but not limited to a Subordinate Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Subordinate Indenture have been filed with the Subordinate Trustee, (b) wherein the Board has authorized the issuance, from time to time, of notes, bonds, commercial paper or other indebtedness in a Subordinate Authorized Amount, and (c) the Subordinate Authorized Amount of which has met the additional bonds test set forth in the Master Subordinate Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Subordinate Authorized Amount.

“*Subordinate Qualified Swap*” means any Swap (a) whose Subordinate Designated Debt is all or part of a particular Series of Subordinate Bonds; (b) whose Swap Provider is a Subordinate Qualified Swap Provider or has been a Subordinate Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Subordinate Annual Debt Service or Subordinate Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Subordinate Designated Debt or to a specified mandatory tender or redemption of such Subordinate Designated Debt; (d) which has been designated in writing to the Subordinate Trustee by the Department as a Subordinate Qualified Swap with respect to such Subordinate Bonds; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Bonds, and Moody’s, if Moody’s has an outstanding rating on the Subordinate Bonds.

“Subordinate Qualified Swap Provider” means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Subordinate Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least “Aa,” in the case of Moody’s and “AA,” in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) whose obligations under a Subordinate Qualified Swap are fully secured by obligations described in items (a) or (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

“Subordinate Registrar” means, with respect to the Subordinate Bond or any Series of Subordinate Bonds, the bank, trust company or other entity designated in a Supplemental Subordinate Indenture or a resolution of the Board to perform the function of Subordinate Registrar under the Master Subordinate Indenture or any Supplemental Subordinate Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Subordinate Indenture. The Subordinate Trustee will act as the Subordinate Registrar with respect to the Series 2008 Subordinate Bonds.

“Subordinate Repayment Obligations” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Subordinate Bonds and all other amounts due and owing to a Credit Provider under a Credit Facility, or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Subordinate Bonds and all other amounts due and owing to a Liquidity Provider under a Liquidity Facility.

“Subordinate Reserve Fund” means the Subordinate Debt Service Reserve Fund of such designation created under the Fourth Supplemental Subordinate Indenture as security for the Series 2008 Subordinate Bonds and such other Series of Subordinate Bonds which may participate in the Subordinate Reserve Fund as provided in Fourth Supplemental Subordinate Indenture.

“Subordinate Reserve Requirement” means an amount equal to the least of (a) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Bonds participating in the Subordinate Reserve Fund, (b) 10% of the principal amount of the Subordinate Bonds that have been issued and are participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to such Subordinate Bonds if such original issue discount exceeded 2% on such Subordinate Bonds at the time of their original sale, and (c) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Bonds participating in the Subordinate Reserve Fund.

“Subordinate Pledged Revenues” means Pledged Revenues available to pay debt service on the Subordinate Bonds pursuant to THIRD described under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account.”

“Subordinate Program Bonds” means Subordinate Bonds issued and Outstanding pursuant to a Subordinate Program, other than Unissued Subordinate Program Bonds.

“Subordinate Swap Termination Payment” means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Subordinate Qualified Swap, to compensate the other party to the Subordinate Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Subordinate Qualified Swap.

“Subordinate Tender Indebtedness” means any Subordinate Bonds or portions of Subordinate Bonds a feature of which is an option and/or an obligation on the part of the holders, under the terms of such Subordinate Bonds, to tender all or a portion of such Subordinate Bonds to the Department, the Subordinate Trustee, the

Subordinate Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Subordinate Bonds or portions of Subordinate Bonds be purchased if properly presented.

“*Subordinate Trustee*” means U.S. Bank National Association, also known as U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor

“*Subseries 2002C1 Subordinate Bonds*” means the \$37,400,000 original principal amount of Subordinate Bonds issued under the Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Refunding Revenue Bonds, 2002 Subseries C1.”

“*Subseries 2002C2 Subordinate Bonds*” means the \$20,000,000 original principal amount of Subordinate Bonds issued under the Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Refunding Revenue Bonds, 2002 Subseries C2.”

“*Supplemental Senior Indenture*” means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior Indenture.

“*Supplemental Subordinate Indenture*” means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Subordinate Bonds and entered into as provided in the Master Subordinate Indenture.

“*Swap*” means any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Senior Designated Debt or a Designated Debt, as the case may be, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid *after* it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement.

“*Swap Provider*” means a party to a Swap with the Department.

“*Synthetic Fixed Rate Debt*” means indebtedness issued by the Department which: (a) is combined, as Senior Designated Debt or Subordinate Designated Debt, as the case may be, with a Senior Qualified Swap or a Subordinate Qualified Swap, respectively, and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

“*Tax Compliance Certificate*” means the certificate of the Department prepared by Bond Counsel and delivered by the Department at the time of issuance and delivery of any Series or Senior Bonds or Subordinate Bonds, as the case may be, the interest on which is excluded from gross income for federal income tax purposes pursuant to a favorable opinion of such Bond Counsel, making certifications and representations of the Department as to the status of such Senior Bonds or Subordinate Bonds, as the case may be, under the Code.

“*Term Senior Bonds*” means Senior Bonds of a series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Senior Indenture for such series for that purpose and calculated to retire the Senior Bonds on or before their specified maturity dates.

“*Term Subordinate Bonds*” means Subordinate Bonds of a Series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Subordinate Indenture for such Series for that purpose and calculated to retire the Subordinate Bonds on or before their specified maturity dates.

“*Transfer*” means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH described under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account” have been made as of the last day of the immediately preceding Fiscal Year).

“*Treasurer*” means the Treasurer of the City as set forth in the Charter.

“*Unenhanced Subordinate Commercial Paper Program*” will be a Subordinate Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Subordinate Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

“*Unissued Senior Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Senior Program and payable from Pledged Revenues, issuable in an amount up to the Senior Authorized Amount relating to such Senior Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Senior Program the items required pursuant to the Master Senior Indenture have been filed with the Senior Trustee but which have not yet been authenticated and delivered pursuant to the Senior Program documents.

“*Unissued Subordinate Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Subordinate Program and payable from Subordinate Pledged Revenues, issuable in an amount up to the Subordinate Authorized Amount relating to such Subordinate Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Subordinate Program the items required pursuant to the Master Subordinate Indenture have been filed with the Subordinate Trustee but which have not yet been authenticated and delivered pursuant to the Subordinate Program documents.

“*United States Bankruptcy Code*” means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

“*United States Obligations*” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the custodian’s general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. “*United States Obligations*” will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

“*Variable Rate Indebtedness*” means any Senior Bond, Senior Bonds, Subordinate Bond or Subordinate Bonds the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

APPENDIX C-2

SUMMARY OF THE MASTER SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2008 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Senior Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Senior Indenture.

Grant to Secure Senior Bonds; Pledge of Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Senior Bonds and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Senior Indenture or contained in the Senior Bonds, the Department has pledged and assigned to the Senior Trustee and granted to the Senior Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Senior Trustee under the Master Senior Indenture, moneys and securities held in the Senior Reserve Fund or any Senior Debt Service Reserve Fund and any Senior Reserve Fund Surety Policy or Senior Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Senior Reserve Requirement, and to the extent provided in any Supplemental Senior Indenture moneys and securities held in any Senior Construction Fund whether or not held by the Senior Trustee, (c) earnings on amounts included in provisions (a) and (b) above (except to the extent excluded from the definition of “Pledged Revenues”), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Senior Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Senior Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Senior Bond over any other Senior Bond or Senior Bonds, except as to the timing of payment of the Senior Bonds. Any security or Credit Facility provided for specific Senior Bonds or a specific Series of Senior Bonds may, as provided by Supplemental Senior Indenture, secure only such specific Senior Bonds or Series of Senior Bonds and, therefore, will not be included as security for all Senior Bonds under the Master Senior Indenture and moneys and securities held in trust as provided in the Master Senior Indenture exclusively for Senior Bonds which have become due and payable and moneys and securities which are held exclusively to pay Senior Bonds which are deemed to have been paid under the Master Senior Indenture will be held solely for the payment of such specific Senior Bonds.

Senior Repayment Obligations Afforded Status of Senior Bonds

If a Credit Provider or Liquidity Provider makes payment of principal of and/or interest on a Senior Bond or advances funds to purchase or provide for the purchase of Senior Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department’s Senior Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Senior Bond issued under the Master Senior Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Senior Bondholder and such Senior Bond will be deemed to have been issued at the time of the original Senior Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Senior Indenture; provided, however, the payment terms of the Senior Bond held by the Credit Provider or Liquidity Provider will be as follows (unless otherwise provided in the Supplemental Senior Indenture pursuant to which the Senior Bonds are issued or in the agreement with the Credit Provider or Liquidity Provider): interest will be due and payable semiannually and principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, (ii)(a) if shorter, a term extending to the maturity date of the enhanced Senior Bonds or (b) if later, the final maturity of the Senior Repayment Obligation under the written agreement, and providing substantially level Senior Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which

would apply to the Senior Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Senior Repayment Obligation. Any amount which comes due on the Senior Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Senior Bond will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of the Senior Bonds and any reserve funds established with respect to the Senior Bonds. This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Senior Indenture. The Senior Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non reimbursement and that such Senior Repayment Obligation is to be afforded the status of a Senior Bond under the Master Senior Indenture.

Obligations Under Qualified Swap; Nonqualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Senior Qualified Swap with respect to a Series of Senior Bonds may be on a parity with the obligation of the Department to make payments with respect to such Series of Senior Bonds and other Senior Bonds under the Master Senior Indenture, except as otherwise provided by in the Master Senior Indenture or a Supplemental Senior Indenture with respect to any Senior Swap Termination Payments. The Department may provide in any Supplemental Senior Indenture that Regularly Scheduled Swap Payments under a Senior Qualified Swap will be secured by a pledge of or lien on the Pledged Revenues on a parity with the Senior Bonds of such Series and all other Senior Bonds, regardless of the principal amount, if any, of the Senior Bonds of such Series remaining Outstanding. The Senior Trustee will take all action consistent with the other provisions hereof as will be requested in writing by the Senior Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Senior Trustee either to exercise the remedies granted in the Master Senior Indenture or to institute any action, suit or proceeding in its own name, the Senior Qualified Swap Provider will provide to the Senior Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Senior Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Senior Qualified Swap, such Senior Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Withdrawals from LAX Revenue Account

(a) Subject to the provisions of the Master Senior Indenture, the Department will cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective revenue account within the Airport Revenue Fund. The Department has covenanted and agreed that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Department in the LAX Revenue Account and will, immediately upon receipt thereof, become subject to the lien and pledge of the Master Senior Indenture. The Department has notified the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by the Master Senior Indenture and instructed the Treasurer that all such LAX Revenues, are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Department or the City. If the Treasurer fails to comply with such instructions, the Department will separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board.

Earnings on the various funds and accounts created under any Supplemental Senior Indenture will be deposited as provided in such Supplemental Senior Indenture, except that (i) during the continuation of a Senior

Event of Default earnings on such funds and accounts will be deposited into the Senior Debt Service Funds created under the respective Supplemental Senior Indentures, (ii) earnings on the Senior Construction Funds may, if so provided by Supplemental Senior Indenture, be retained in such Senior Construction Fund, (iii) pursuant to the provisions of the Master Senior Indenture, earnings on the Senior Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Senior Debt Service Reserve Fund may, if so provided by Supplemental Senior Indenture, be retained in such fund.

The sums of Pledged Revenues required by the Master Senior Indenture to be so set aside out of the LAX Revenue Account into the specified accounts will be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. An Authorized Representative will direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this section.

The provisions in the Master Senior Indenture regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and will be so construed.

(b) The amounts of Pledged Revenues credited to the LAX Revenue Account will first be applied as follows and in the order set forth:

FIRST To the payment of amounts required to be deposited in the Senior Debt Service Funds as described in “—Deposits Into and Withdrawals From the Debt Service Funds” below;

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

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

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

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

FIFTH To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department pursuant to the Master Senior Indenture;

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

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

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

Notwithstanding the provisions of the Master Senior Indenture, nothing in the Master Senior Indenture will preclude the Department from making the payments described in paragraphs FIRST through SEVENTH above from sources other than Pledged Revenues.

The Department reserves the right to make modifications to the application of funds provided in subsection (c). The Department has covenanted that no such modifications will violate provisions of subsections (a) or (b) above or the provisions of any other contracts or agreements of the Department or any legal requirements otherwise applicable to the use of such moneys.

Deposits and Withdrawals from the Senior Debt Service Funds

Deposits into the Senior Debt Service Funds. So long as any of the Senior Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, as to each Series of Senior Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each Series of Outstanding Senior Bonds: (i) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on Senior Bonds of that Series, as it becomes due, will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (ii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Senior Bonds of that Series, will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (iii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Senior Bonds of such Series will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any Series of Senior Bonds prior to the actual delivery of that Series of Senior Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Senior Bonds, there will be transferred and paid from the LAX Revenue Account to the Senior Debt Service Fund established for that Series of Senior Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Senior Bonds, so that interest due on such Series of Senior Bonds on the first interest payment date to occur after the issuance of such Series of Senior Bonds will be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Senior Bonds, and, if the first principal payment or sinking fund installment of such Series of Senior Bonds is due less than 12 months after the issuance of such Series of Senior Bonds, there will be transferred and paid from the LAX Revenue Account to the Senior Debt Service Fund established for that Series of Senior Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Senior Bonds, so that principal or sinking fund installments of such Series of Senior Bonds due on the first principal payment date to occur after the issuance of such Series of Senior Bonds will be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Senior Bonds. On any day on which the Senior Trustee receives funds from the Treasurer to be used to pay principal of or interest on Senior Bonds, the Senior Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Senior Debt Service Funds for the Series of Senior Bonds for which such payments were made. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from the LAX Revenue Account or otherwise deposited into any Senior Debt Service Fund for any Series of Senior Bonds for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Senior Bonds on the next succeeding Payment Date.

The Department may provide in any Supplemental Senior Indenture that, as to any Series of Senior Bonds Outstanding, any amounts required to be transferred to and paid into a Senior Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Senior Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Senior Indenture, the Department may provide that monies in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Senior Bonds so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Senior Trustee at the principal amount thereof to the next scheduled sinking installment payments on Senior Bonds of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Senior Bonds to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Senior Trustee in writing.

Money set aside and placed in a Senior Debt Service Fund for any Series of Senior Bonds will remain therein until from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Senior Debt Service Fund may be temporarily invested as provided in the Master Senior Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this section to be available in a Senior Debt Service Fund at the time required to meet payments of principal of and interest on Senior Bonds of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Senior Event of Default, such earnings will remain in the Senior Debt Service Funds created under the respective Supplemental Senior Indentures.

Each Senior Debt Service Fund established to pay principal of and interest on any Series of Senior Bonds will be held by the Senior Trustee or any agent of the Senior Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Senior Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Senior Trustee or any agent of the Senior Trustee in the various Senior Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Senior Trustee or such agents as will be provided by Supplemental Senior Indenture.

The moneys in each Senior Debt Service Fund established for any issue or Series will be held in trust and applied as provided herein and in the Supplemental Senior Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Senior Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Senior Bonds of such Series.

Withdrawals From Senior Debt Service Funds. On each Payment Date for any Outstanding Senior Bonds, the Senior Trustee will pay to the Owners of the Senior Bonds of a given Series from the appropriate Senior Debt Service Fund or Senior Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Senior Bonds.

On or before the fifteenth day preceding a mandatory redemption date from sinking installment payments for Term Senior Bonds of a Series of Senior Bonds, the Senior Trustee will transfer from the Senior Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Senior Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Senior Trustee will pay to the Owners of Senior Bonds of such Series from the redemption account for such Series, an amount equal to the amount of interest and the principal amount of Term Senior Bonds of such Series to be mandatorily redeemed on such date.

On each date on which Senior Bonds of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Senior Indenture, the Senior Trustee will pay to the Owners of such Senior Bonds from the redemption account, an amount of interest and principal, and premium, if any, on such Senior Bonds to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Senior Indenture

pursuant to which such Senior Bonds are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposits therein and available for such purpose, is sufficient to pay the redemption price of such Senior Bonds on such redemption date.

The payments made by the Senior Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Senior Debt Service Fund.

All money remaining in a Senior Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Senior Bonds of the Series for which that Senior Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Senior Bonds of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Senior Trustee will, at least 10 Business Days prior to each Payment Date on any Senior Bond, or as otherwise directed in any Supplemental Senior Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Senior Trustee to pay the amount required to be paid on such Payment Date in respect of such Senior Bond, in the event the amount then on deposit in any Senior Debt Service Fund is insufficient to pay the amounts due on any Series of Senior Bonds on such Payment Date. With respect to any Series of Senior Bonds, the Supplemental Senior Indenture under which such Senior Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Senior Indenture will control.

If, on any Payment Date, the Senior Trustee does not have sufficient amounts in the Senior Debt Service Funds (without regard to any amounts which may be available in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) to pay in full with respect to Senior Bonds of all Series all amounts of principal and/or interest due on such date, the Senior Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) as follows: first to the payment of past due interest on Senior Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Senior Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Senior Bonds of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Senior Bonds then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Senior Bonds and, if the amount available will not be sufficient to pay in full all principal on the Senior Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Senior Bonds.

If the Senior Reserve Fund or any Senior Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Senior Bonds secured thereby, then the Department may be required by Supplemental Senior Indenture to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider from Pledged Revenues provided that (a) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Senior Bonds which have become due and payable have been paid in full, (b) the required payments to replenish the Senior Reserve Fund and any Senior Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Senior Trustee for such purpose will be allocated among the Senior Reserve Fund and any Senior Debt Service Reserve Fund and the Credit Provider pro rata on the basis of the Outstanding Principal Amount of Senior Bonds secured thereby.

Notwithstanding the foregoing, the Department may, by Supplemental Senior Indenture, provide for different provisions and timing of deposits with the Senior Trustee and different methods of paying principal of or interest on Senior Bonds of any Series depending upon the terms of such Series of Senior Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Senior Debt Service Fund created for the Series of Senior Bonds for which such Credit Facility is provided.

If Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Senior Bonds, the Department may, at its election, pay to the Senior Trustee funds from any available sources with the direction that such funds be deposited into the Senior Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Pledged Revenues and the other security provided in the Granting Clauses of the Master Senior Indenture, secure all Senior Bonds issued under the terms of the Master Senior Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Senior Bonds or Series of Senior Bonds with no obligation to provide such additional security or credit enhancement to other Senior Bonds.

Payment of Principal and Interest

The Department has covenanted and agreed that it will duly and punctually pay or cause to be paid from the Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Senior Bond at the place and on the dates and in the manner set forth the Master Senior Indenture, the Supplemental Senior Indentures and in the Senior Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Senior Indenture and in the Senior Bonds contained, provided that the Department's obligation to make payment of the principal of, premium, if any, and interest on the Senior Bonds will be limited to payment from the Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Senior Indenture and any other source which the Department may specifically provide for such purpose and no Bondholder will have any right to enforce payment from any other funds of the Department.

Subordinated Obligations

The Department may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that:

- (1) Any Supplemental Senior Indenture authorizing the issuance of any Subordinated Obligations will specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds; and
- (2) Payment of principal of and interest on such Subordinated Obligations will be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

LAX Special Facilities and LAX Special Facility Obligations

The Department is permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this section. The Department may, from time to time, and subject to the terms and conditions set forth below, (1) designate a separately identifiable existing facility or planned facility as an "LAX Special Facility," (2) pursuant to an indenture other than the Senior Indenture and without a pledge of any Pledged Revenues, incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility, (3) provide that the contractual payments derived from such LAX Special Facility, together with other income and revenues available to the Department from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be "LAX Special Facilities Revenue" and not included as Pledged Revenues unless on terms provided in any supplemental indenture, and (4) provide that the debt so incurred will be an "LAX Special Facility Obligation" and the principal of and interest thereon will be payable solely from the LAX Special Facilities Revenue. The Department may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations will be payable as to principal, redemption premium, if any, and interest solely from LAX Special Facilities Revenue, which will include contractual payments derived by the Department under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Department and another person, firm or corporation, either public or private, as will undertake the operation of an LAX Special Facility.

No LAX Special Facility Obligations will be issued by the Department unless there has been filed with the Senior Trustee a certificate of an Authorized Representative stating that:

(1) The estimated LAX Special Facilities Revenue pledged to the payment of obligations relating to the LAX Special Facility will be at least sufficient to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special Facility not paid for by the operator thereof or by a party other than the Department and all sinking fund, reserve or other payments required by the resolution authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an "LAX Special Facility" or "LAX Special Facilities", the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Senior Event of Default then exists under Master Senior Indenture.

To the extent LAX Special Facilities Revenue received by the Department during any Fiscal Year will exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Department.

Notwithstanding any other provision of this section, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Department from such facility will be included as Pledged Revenues.

Maintenance and Operation of LAX Airport Facilities

Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of Los Angeles International Airport.

Insurance; Application of Insurance Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(1) the Department will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting Los Angeles International Airport and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Department, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self insured programs provided by similar airports;

(2) the Department will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Financial Officer and on any other employees of the Department who handle or are responsible for funds of the Department; and

(3) the Department will place on file with the Senior Trustee annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Representative containing a summary of all insurance policies and self insured programs then in effect with respect to Los Angeles International Airport and the operations of the Department. The Senior Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required herein or obtained by the Department.

“Qualified Self Insurance” will mean insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Department may have a material interest and of which the Department may have control, either singly or with others. Each plan of Qualified Self Insurance will be established in accordance with law, will provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Department determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self insurance program will be reviewed at least once every 12 months by a Consultant who will deliver to the Department a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he will make a recommendation as to the amount of reserves that should be established and maintained, and the Department will comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Department.

If, as a result of any event, any part of an LAX Airport Facility or any LAX Airport Facilities is destroyed or severely damaged, the Department will create within the LAX Revenue Account a special subaccount and will credit the Net Proceeds received as a result of such event of damage or destruction to such subaccount and such Net Proceeds will, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (1) repair or replace the LAX Airport Facilities, or portion thereof, which were damaged or destroyed, (2) provide additional revenue producing LAX Airport Facilities, (3) redeem Senior Bonds, or (4) create an escrow fund pledged to pay specified Senior Bonds and thereby cause such Senior Bonds to be deemed to be paid as provided in the Master Senior Indenture; provided, however, that the Department will first deliver to the Senior Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Senior Bonds, the rate covenant set forth in the Master Senior Indenture would, nevertheless, be met.

Transfer of LAX Airport Facility or LAX Airport Facilities.

The Department will not, except as permitted below transfer, sell or otherwise dispose of an LAX Airport Facility or LAX Airport Facilities. For purposes of this section, any transfer of an asset over which the Department retains substantial control in accordance with the terms of such transfer will not, for so long as the Department has such control, be deemed a disposition of an LAX Airport Facility or LAX Airport Facilities.

The Department may transfer, sell or otherwise dispose of LAX Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions:

- (a) The property being disposed of is inadequate, obsolete or worn out; or
- (b) The property proposed to be disposed of and all other LAX Airport Facilities disposed of during the 12 month period ending on the day of such transfer (but excluding property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the LAX Revenue Account to be used as described below and the Department believes that such disposal will not prevent it from fulfilling its obligations under the Senior Indenture; or
- (c) Prior to the disposition of such property, there is delivered to the Senior Trustee a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Department as evidenced by a certificate of an Authorized Representative, the Consultant estimates that Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the five Fiscal Years immediately following such disposition.

LAX Airport Facilities which were financed with the proceeds of obligations the interest on which is then excluded from gross income for federal income tax purposes will not be disposed of, except under the terms of provision (a) above, unless the Department has first received a written opinion of Bond Counsel to the effect that such disposition and the application of any disposition proceeds thereof will not cause the interest on such obligations to become includable in gross income for federal income tax purposes.

No such disposition will be made which would cause the Department to be in default of any other covenant contained in the Master Senior Indenture.

Investments

Moneys held by the Senior Trustee in the funds and accounts created herein and under any Supplemental Senior Indenture will be invested and reinvested as directed by the Department, in Senior Permitted Investments subject to the restrictions set forth in the Master Senior Indenture and such Supplemental Senior Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Senior Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Senior Trustee will, to the extent practicable, invest in Senior Permitted Investments specified in clause (9) of the definition thereof. The Senior Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Senior Permitted Investment is held. The Senior Trustee may buy or sell any Senior Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Senior Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Senior Indenture except for the purposes of payment from moneys or Government Obligations held by the Senior Trustee or a Senior Paying Agent for such purpose. When all Senior Bonds which have been issued under the Master Senior Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Senior Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Senior Trustee, the Senior Registrar and the Senior Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Senior Trustee in and to the Pledged Revenues and the other assets pledged to secure the Senior Bonds under the Master Senior Indenture will thereupon cease, terminate and become void, and thereupon the Senior Trustee will cancel, discharge and release the Master Senior Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence

such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Senior Indenture which may then be in the Senior Trustee's possession, except funds or securities in which such funds are invested and are held by the Senior Trustee or the Senior Paying Agent for the payment of the principal of, premium, if any, and interest on the Senior Bonds.

A Senior Bond will be deemed to be paid within the meaning of the Master Senior Indenture when payment of the principal, interest and premium, if any, either (a) will have been made or caused to be made in accordance with the terms of the Senior Bonds and the Master Senior Indenture or (b) will have been provided for by depositing with the Senior Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Senior Bonds will be deemed to be paid under the Master Senior Indenture, such Senior Bonds will no longer be secured by or entitled to the benefits of the Master Senior Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Senior Bonds. Once such deposit will have been made, the Senior Trustee will notify all holders of the affected Senior Bonds that the deposit required by (b) above has been made with the Senior Trustee and that such Senior Bonds are deemed to have been paid in accordance with the Master Senior Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Senior Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Senior Bonds or the Master Senior Indenture subject to (a) receipt of an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax exemption of any Senior Bond or Senior Bond then outstanding and (b) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Senior Bonds. Notwithstanding anything in this section to the contrary, monies from the trust or escrow established for the defeasance of Senior Bonds may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (a) and (b) above are met prior to or concurrently with any such withdrawal.

Senior Events of Default and Remedies

Senior Events of Default. Each of the following events will constitute and be referred to as a "***Senior Event of Default***":

- (a) a failure to pay the principal of or premium, if any, on any of the Senior Bonds, except out payments under Senior Qualified Swaps, when the same will become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Senior Bonds when such interest will become due and payable;
- (c) a failure to pay the purchase price of any Senior Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in the Supplemental Senior Indenture;
- (d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Senior Indenture or a Supplemental Senior Indenture, which failure, except for a violation under the rate covenant set forth in the Master Senior Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Senior Trustee, which notice may be given at the discretion of the Senior Trustee and will be given at the written request of holders of 25% or more of the Principal Amount of the Senior Bonds

then Outstanding, unless the Senior Trustee, or the Senior Trustee and holders of Senior Bonds in a Principal Amount not less than the Principal Amount of Senior Bonds the holders of which requested such notice, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Senior Trustee or the Senior Trustee and the holders of such principal amount of Senior Bonds will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 or 11 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Senior Event of Default as is provided in a Supplemental Senior Indenture.

Remedies.

(a) Upon the occurrence and continuance of any Senior Event of Default, the Senior Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Senior Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Senior Bondholders, and require the Department to carry out any agreements with or for the benefit of the Senior Bondholders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of this Indenture;

(ii) bring suit upon the Senior Bonds;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Senior Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Senior Bondholders.

(b) The Senior Trustee will be under no obligation to take any action with respect to any Senior Event of Default unless the Senior Trustee has actual knowledge of the occurrence of such Senior Event of Default.

Senior Bondholders' Right To Direct Proceedings. Anything in the Master Senior Indenture to the contrary notwithstanding, holders of not less than 51% in aggregate Principal Amount of the Senior Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Senior Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Senior Trustee under the Master Senior Indenture to be taken in connection with the enforcement of the terms of the Master Senior Indenture or exercising any trust or power conferred on the Senior Trustee by the Master Senior Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Senior Indenture and that there has been provided to the Senior Trustee security and indemnity satisfactory to the Senior Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Senior Trustee.

Limitation on Right To Institute Proceedings. No Senior Bondholder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the

Master Senior Indenture, or any other remedy under the Master Senior Indenture or on such Senior Bonds, unless such Senior Bondholder or Senior Bondholders previously has given to the Senior Trustee written notice of a Senior Event of Default as hereinabove provided and unless also holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding will have made written request of the Senior Trustee to do so, after the right to institute such suit, action or proceeding under the Master Senior Indenture will have accrued, and will have afforded the Senior Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Senior Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Senior Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Senior Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Senior Bondholders will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Senior Indenture, or to enforce any right under the Master Senior Indenture or under the Senior Bonds, except in the manner provided in the Master Senior Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Senior Indenture and for the equal benefit of all Senior Bondholders.

Application of Moneys. If a Senior Event of Default will occur and be continuing, all amounts then held or any moneys received by the Senior Trustee, by any receiver or by any Senior Bondholder pursuant to any right given or action taken under the provisions of the Master Senior Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Senior Trustee (including attorneys' fees and disbursements), will be applied as follows:

(a) Unless the principal of all the Senior Bonds subject to acceleration have been declared due and payable, all such moneys will be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Senior Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Senior Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Senior Bonds which will have become due with interest on such Senior Bonds at such rate as provided in a Supplemental Senior Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Senior Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Senior Bonds subject to acceleration will have been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Senior Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Bond over any other Senior Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Senior Bonds subject to acceleration will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Master Senior Indenture, then, subject to the provisions of clause (b) above which will be applicable in the event that the principal of all the Senior Bonds will later become due and payable, the moneys will be applied in accordance with the provisions of clause (a) above.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Senior Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Senior Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Senior Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Senior Bondholders and will not be required to make payment to any Senior Bondholder until such Senior Bonds will be presented to the Senior Trustee for appropriate endorsement or for cancellation if fully paid.

The Senior Trustee

Duties. If a Senior Event of Default has occurred and is continuing, the Senior Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Senior Trustee will perform the duties set forth in the Senior Indenture and no implied duties or obligations will be read into the Senior Indenture against the Senior Trustee. Except during the continuance of a Senior Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Senior Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Senior Trustee and conforming to the requirements of the Senior Indenture. However, the Senior Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Senior Indenture.

The Senior Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Senior Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Senior Trustee was negligent in ascertaining the pertinent facts; and (b) the Senior Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Senior Bondholders or the Department in the manner provided in the Senior Indenture.

The Senior Trustee will not, by any provision of the Senior Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (i) a Senior Event of Default has occurred or (ii) an event has occurred which with the giving of notice and/or the lapse of time would be a Senior Event of Default and, with respect to such events for which notice to the Department is required before such events will become Senior Events of Default, such notice has been given, then the Senior Trustee will promptly, after obtaining actual notice of such Senior Event of Default or event described in (ii) above, give notice thereof to each Senior Bondholder. Except in the case of a default in payment or purchase on any Senior Bonds, the Senior Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Senior Bondholders.

Eligibility of Senior Trustee. The Senior Indenture will always have a Senior Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Senior Trustee. The Senior Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The holders of not less than 51% in aggregate Principal Amount of the Senior Bonds may remove the Senior Trustee by notifying the removed

Senior Trustee and may appoint a successor Senior Trustee with the Department's consent. The Department may remove the Senior Trustee, by notice in writing delivered to the Senior Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Senior Trustee during any time when a Senior Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Senior Event of Default.

No resignation or removal of the Senior Trustee will be effective until a new Senior Trustee has taken office and delivered a written acceptance of its appointment to the retiring Senior Trustee and to the Department. Immediately thereafter, the retiring Senior Trustee will transfer all property held by it as Senior Trustee to the successor Senior Trustee, the resignation or removal of the retiring Senior Trustee will then (but only then) become effective and the successor Senior Trustee will have all the rights, powers and duties of the Senior Trustee under the Senior Indenture.

If the Senior Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Senior Indenture, the Department will promptly appoint a successor Senior Trustee.

If a Senior Trustee is not performing its duties under the Senior Indenture and a successor Senior Trustee does not take office within 60 days after the retiring Senior Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Senior Trustee, the Department or the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds may petition any court of competent jurisdiction for the appointment of a successor Senior Trustee.

Amendments and Supplements

Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders. The Department may, from time to time and at any time, without the consent of or notice to the Senior Bondholders, execute and deliver Supplemental Senior Indentures supplementing and/or amending the Master Senior Indenture or any Supplemental Senior Indenture, as follows:

- (a) to provide for the issuance of a Series or multiple Series of Senior Bonds under the provisions of Master Senior Indenture and to set forth the terms of such Senior Bonds and the special provisions which will apply to such Senior Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Senior Indenture or any Supplemental Senior Indenture, provided such supplement or amendment is not materially adverse to the Senior Bondholders;
- (c) to add to the covenants and agreements of the Department in the Master Senior Indenture or any Supplemental Senior Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Senior Bondholders;
- (d) to confirm, as further assurance, any interest of the Senior Trustee in and to the Pledged Revenues or in and to the funds and accounts held by the Senior Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Senior Indenture or to otherwise add additional security for the Senior Bondholders;
- (e) to evidence any change made in the terms of any Series of Senior Bonds if such changes are authorized by the Supplemental Senior Indenture at the time the Series of Senior Bonds is issued and such change is made in accordance with the terms of such Supplemental Senior Indenture;
- (f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, provided such supplement or amendment is not materially adverse to the Senior Bondholders;

(g) to provide for uncertificated Senior Bonds or for the issuance of coupons and bearer Senior Bonds or Senior Bonds registered only as to principal;

(h) to qualify the Senior Bonds or a Series of Senior Bonds for a rating or ratings by Moody's and/or S&P;

(i) to accommodate the technical, operational and structural features of Senior Bonds which are issued or are proposed to be issued or of a Senior Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Senior Bonds or a specific Series of Senior Bonds, provided such supplement or amendment is not materially adverse to the Senior Bondholders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Senior Bond Counsel, to prevent the federal income taxation of the interest on the Senior Bonds, including, without limitation, the segregation of Pledged Revenues into different funds; or

(l) to modify, alter, amend or supplement this Indenture or any Supplemental Senior Indenture in any other respect which is not materially adverse to the Senior Bondholders.

Before the Department executes, pursuant to this section, any Supplemental Senior Indenture, there will be delivered to the Department and Senior Trustee an opinion of Bond Counsel to the effect that such Supplemental Senior Indenture is authorized or permitted by the Master Senior Indenture, the Charter and, other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Senior Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Senior Indenture Requiring Consent of Senior Bondholders.

(a) Except for any Supplemental Senior Indenture entered into pursuant to the provisions described in “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above and any Supplemental Senior Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this paragraph (a) and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Senior Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Senior Indenture or in a Supplemental Senior Indenture; provided, however, that, unless approved in writing by the holders of all the Senior Bonds then Outstanding or unless such change affects less than all Series of Senior Bonds and the following subsection (b) is applicable, nothing contained in the Master Senior Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Senior Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds or the rate of interest thereon; and provided that nothing contained in the Master Senior Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Senior Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Senior Indenture) upon or pledge of the Pledged Revenues created by the Master Senior Indenture, ranking prior to or on a parity with the claim created by the Master Senior Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Senior Bonds, a preference or priority of any Senior Bond or Senior Bonds over any other Senior Bond or Senior Bonds with respect to the security granted therefor under the Granting Clauses of the Master Senior Indenture, or (v) a reduction in the aggregate Principal Amount of Senior Bonds the consent of the Senior Bondholders of which is required for any such

Supplemental Senior Indenture. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Senior Bondholders of the execution of any Supplemental Senior Indenture as authorized in to “—Supplemental Senior Indentures Not Requiring Consent of 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 Senior Bondholders will be required. If such Supplemental Senior Indenture contains provisions which affect the rights and interests of less than all Series of Senior Bonds Outstanding and the provisions described under “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds of all Series which are affected by such changes will have the right from time to time to consent to any Supplemental Senior Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Senior Indenture and affecting only the Senior Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Senior Bonds of all the affected Series then Outstanding, nothing contained in the Master Senior Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Senior Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Senior Bondholders of the adoption of any Supplemental Senior Indenture as authorized pursuant to the provisions as described under “—Supplemental Senior Indentures Not Requiring Consent of Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

Rights of Credit Provider

The Master Senior Indenture provides that if a Credit Facility is provided for a Series of Senior Bonds or for specific Senior Bonds, the Department may in the Supplemental Senior Indenture under which such Senior Bonds are issued, provide any or all of the following rights to the Credit Provider as the Department will deem to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Senior Trustee or to otherwise direct proceedings all as provided in the Master Senior Indenture to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds; (b) the right to act in place of the owners of the Senior Bonds which are secured by the Credit Facility for purposes of removing a Senior Trustee or appointing a Senior Trustee under the Senior Indenture; and (c) the right to consent to Supplemental Senior Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Principal Amount of the Outstanding Senior Bonds, entered into pursuant to the provisions described in “—Amendments and Supplements—Supplemental Senior Indenture Requiring Consent of Senior Bondholders” above, except with respect to any amendments described in clauses (a)(i) through (v) and clauses (b)(i) or (ii) described in “—Amendments and Supplements—Supplemental Senior Indenture Requiring Consent of Senior Bondholders” above, which consent of the actual Senior Bondholders will still be required, to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds.

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APPENDIX C-3

SUMMARY OF THE NINTH SUPPLEMENTAL SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2008 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Ninth 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 Ninth Supplemental Senior Indenture.

Terms of the Bonds

The Ninth Supplemental Senior Indenture sets forth the terms of the Series 2008 Senior Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE SERIES 2008 BONDS.”

Establishment of Funds and Accounts

Pursuant to the Ninth Supplemental Senior Indenture the Senior Trustee will establish and maintain the following funds and accounts: the Series 2008A Senior Debt Service Fund and the Series 2008B Senior Debt Service Fund (and within each such Senior Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2008A Senior Construction Fund, the Series 2008 Senior Costs of Issuance Fund, the Series 2008 Senior Reserve Account to be established in the Senior Reserve Fund, and the Series 2008 Senior Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2008 Senior Bonds and from other sources as described in the forepart of this Official Statement under “ESTIMATED SOURCES AND USES OF FUNDS.”

Series 2008 Senior Debt Service Funds. The Senior Trustee will deposit into the Interest Account of the Series 2008A Senior Debt Service Fund a portion of the proceeds of the Series 2008A Senior Bonds representing capitalized interest on the Series 2008A Senior Bonds. Additionally, the Senior Trustee will deposit in the Interest Accounts of the Series 2008A Senior Debt Service Fund and the Series 2008B Senior Debt Service Fund amounts received from the Department, as provided in the Master Senior Indenture, to be used to pay interest on the respective Series of Series 2008 Senior Bonds. The Senior Trustee will also deposit into the respective Interest Accounts of the Series 2008 Senior Debt Service Funds any other amounts deposited with the Senior Trustee for deposit in the respective Interest Accounts or transferred from other funds and accounts for deposit therein. Earnings on the respective 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 accounts.

The Senior Trustee will deposit into the Principal Accounts of the Series 2008A Senior Debt Service Fund and the Series 2008B Senior Debt Service Fund amounts received from the Department to be used to pay principal of the respective Series of Series 2008 Senior Bonds at maturity. The Senior Trustee will also deposit into the respective Principal Accounts of the Series 2008 Senior Debt Service Funds any other amounts deposited with the Senior Trustee for deposit into the respective Principal Accounts or transferred from other funds and accounts for deposit therein. Earnings on the respective Principal Accounts will be withdrawn and paid to the Department on the Business Day following an principal Payment Date for deposit into the LAX Revenue Account, unless a Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such accounts.

The Senior Trustee will deposit into the Redemption Accounts of the Series 2008A Senior Debt Service Fund and the Series 2008B Senior Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on the respective Series of Series 2008 Senior Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of

the mandatory sinking fund). Earnings on the respective Redemption Accounts will be retained in such accounts 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 2008 Senior Debt Service Fund will be invested and reinvested in Senior Permitted Investments as directed by an Authorized Representative.

Series 2008A Senior Construction Fund. Amounts in the Series 2008A Senior Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the Series 2008 Project for which the Series 2008A Senior Bonds were issued. While held by the Senior Trustee, amounts in the Series 2008A Senior Construction Fund will not secure the Outstanding Series 2008 Bonds. Amounts in the Series 2008A 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 2008 Senior Costs of Issuance Fund. The proceeds of the Series 2008 Senior Bonds deposited into the Series 2008 Senior Costs of Issuance Fund will be disbursed by the Senior Trustee, from time to time, to pay Costs of Issuance of the Series 2008 Senior Bonds. Amounts in the Series 2008 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 2008 Senior Reserve Account. For a description of the Senior Reserve Fund and the Series 2008 Senior Reserve Account, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Senior Bonds—Senior Reserve Fund.”

Series 2008 Senior Rebate Fund. The Ninth Supplemental Senior Indenture creates the Series 2008 Senior Rebate Fund for the Series 2008 Senior Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Senior Trustee with respect to the Series 2008 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 2008 Senior Bonds. Such excess is to be deposited into the Series 2008 Senior Rebate Fund and periodically paid to the United States of America. The Series 2008 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 2008 Bonds.

Additional Senior Event of Default

The occurrence of any event or failure to comply with any provision of the Tax Compliance Certificate executed by the Department at the time of issuance of the Series 2008 Senior Bonds which results in interest on the Series 2008 Senior Bonds being includable in gross income for federal income tax purposes is a Senior Event of Default under the Ninth Supplemental Senior Indenture and the Master Senior Indenture.

APPENDIX C-4

SUMMARY OF THE MASTER SUBORDINATE INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2008 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Subordinate Indenture.

Grant to Secure Subordinate Bonds; Pledge of Subordinate Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Subordinate Bonds and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Subordinate Indenture or contained in the Subordinate Bonds, the Department has pledged and assigned to the Subordinate Trustee and granted to the Subordinate Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provided that, except with respect to the Parity Subordinate Obligations (which are on parity with the Subordinate Bonds) such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Subordinate Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Subordinate Rebate Fund) held from time to time by the Subordinate Trustee under the Subordinate Indenture, and to the extent provided in any Supplemental Subordinate Indenture moneys and securities held in any Subordinate Construction Fund whether or not held by the Subordinate Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause, and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Subordinate Trustee as additional security under the Master Subordinate Indenture, for the equal and proportionate benefit and security of all Subordinate 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 Parity Subordinate Obligation or any Subordinate Bond over any other Parity Subordinate Obligations or Parity Subordinate Obligations or Subordinate Bond or Subordinate Bonds, except as to the timing of payment of the Parity Subordinate Obligations and the Subordinate Bonds. Any Subordinate Debt Service Reserve Fund and any Subordinate Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Subordinate Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Subordinate Bonds, a specific Series of Subordinate Bonds or one or more Series of Subordinate Bonds may, as provided by a Supplemental Subordinate Indenture, secure only such specific Subordinate Bonds, Series of Subordinate Bonds or one or more Series of Subordinate Bonds and, therefore, will not be included as security for all Subordinate Bonds under the Master Subordinate Indenture unless otherwise provided by a Supplemental Subordinate Indenture and moneys and securities held in trust as provided in the Master Subordinate Indenture exclusively for Subordinate Bonds which have become due and payable and moneys and securities which are held exclusively to pay Subordinate Bonds which are deemed to have been paid under the Master Subordinate Indenture will be held solely for the payment of such specific Subordinate Bonds. All amounts held in the funds and accounts created under the Senior Indenture will not be included as security for any Subordinate Bonds under the Master Subordinate Indenture.

Subordinate Repayment Obligations Afforded Status of Subordinate Bonds

If a Credit Provider or Liquidity Provider makes payment of principal and/or interest on a Subordinate Bond or advances funds to purchase or provide for the purchase of Subordinate Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department's Subordinate Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Subordinate Bond issued under the Master Subordinate Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Holder of such Subordinate Bond, and such Subordinate Bond will be deemed to have been issued at the time of the original Subordinate 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 Subordinate Indenture; provided, however, the payment terms of the Subordinate Bond held by the

Credit Provider or Liquidity Provider hereunder will be as follows (unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which the Subordinate Bonds are issued or in the agreement with the Credit Provider or Liquidity Provider): (a) interest will be due and payable semiannually and (b) principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(A) a term extending to the maturity date of the enhanced Subordinate Bonds or (B) if later, the final maturity of the Subordinate Repayment Obligation under the written agreement, and providing substantially level annual debt service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Subordinate Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Subordinate Repayment Obligation. Any amount which comes due on the Subordinate Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Bond will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Bonds and any reserve funds established with respect to Subordinate Bonds (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund). This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Subordinate Indenture. The Subordinate Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Subordinate Repayment Obligation is to be afforded the status of a Subordinate Bond under the Master Subordinate Indenture.

Obligations Under Subordinate Qualified Swap; Nonqualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Subordinate Qualified Swap with respect to a Series of Subordinate Bonds may be on a parity with the obligation of the Department to make payments with respect to such Series of Subordinate Bonds and other Subordinate Bonds under the Master Subordinate Indenture, except as otherwise provided by Supplemental Subordinate Indenture and elsewhere in the Master Subordinate Indenture with respect to any Subordinate Swap Termination Payments. The Department may provide in any Supplemental Subordinate Indenture that Regularly Scheduled Swap Payments under a Subordinate Qualified Swap will be secured by a pledge of or lien on the Subordinate Pledged Revenues on a parity with the Subordinate Bonds of such Series and all other Subordinate Bonds, regardless of the principal amount, if any, of the Subordinate Bonds of such Series remaining Outstanding. The Subordinate Trustee will take all action consistent with the other provisions of the Master Subordinate Indenture as will be requested in writing by the Subordinate Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Subordinate Trustee either to exercise the remedies granted in the Master Subordinate Indenture or to institute any action, suit or proceeding in its own name, the Subordinate Qualified Swap Provider will provide to the Subordinate Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Subordinate Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Subordinate Qualified Swap, such Subordinate Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Bonds and any reserve funds established with respect to Subordinate Bonds (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations,

Subordinate Bonds and any reserve funds established with respect to Subordinate Bonds (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Deposits and Withdrawals from the Subordinate Debt Service Funds

So long as any of the Subordinate Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, as to each Series of Subordinate Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each Series of Outstanding Subordinate Bonds: (a) sums in equal fractional parts for each one-half year so that at least the full amount required to pay the interest on Subordinate Bonds of that Series, as it becomes due, will be set aside in that Subordinate Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due; (b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Subordinate Bonds of that Series, will be set aside in that Subordinate Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due; and (c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Subordinate Bonds of such Series will be set aside in that Subordinate Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any Series of Subordinate Bonds prior to the actual delivery of that Series of Subordinate Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Subordinate Bonds, there will be transferred and paid from the LAX Revenue Account to the Subordinate Debt Service Fund established for that Series of Subordinate Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Subordinate Bonds, so that interest due on such Series of Subordinate Bonds on the first interest payment date to occur after the issuance of such Series of Subordinate Bonds will be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Subordinate Bonds, and, if the first principal payment or sinking fund installment of such Series of Subordinate Bonds is due less than 12 months after the issuance of such Series of Subordinate Bonds, there will be transferred and paid from the LAX Revenue Account to the Subordinate Debt Service Fund established for that Series of Subordinate Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Subordinate Bonds, so that principal or sinking fund installments of such Series of Subordinate Bonds due on the first principal payment date to occur after the issuance of such Series of Subordinate Bonds will be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Subordinate Bonds. On any day on which the Subordinate Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Bonds, the Subordinate Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Subordinate Debt Service Funds for the Series of Subordinate Bonds for which such payments were made. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Subordinate Debt Service Fund for any Series of Subordinate 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 Subordinate Bonds on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series of Subordinate Bonds Outstanding, any amounts required to be transferred to and paid into a Subordinate Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Subordinate Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (a price not greater than par) prior to notice of redemption of such Series. Such Subordinate Bonds so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Subordinate Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate 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 Subordinate 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 Subordinate Trustee in writing.

Money set aside and placed in a Subordinate Debt Service Fund for any Series of Subordinate Bonds will remain therein from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Subordinate Debt Service Fund may be temporarily invested as provided in the Master Subordinate Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Subordinate Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate 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 Subordinate Event of Default, such earnings will remain in the Subordinate Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Subordinate Debt Service Fund established to pay principal of and interest on any Series of Subordinate Bonds will be held by the Subordinate Trustee or any agent of the Subordinate Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Subordinate Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Subordinate Trustee or any agent of the Subordinate Trustee in the various Subordinate Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Subordinate Trustee or such agents as will be provided by the Supplemental Subordinate Indenture.

The moneys in each Subordinate Debt Service Fund established for any issue, Series will be held in trust and applied as provided in the Master Subordinate Indenture and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance with the Master Subordinate Indenture and with the provisions of such Supplemental Subordinate Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Bonds of such Series.

On each Payment Date for any Outstanding Subordinate Bonds, the Subordinate Trustee will pay to the Owners of the Subordinate Bonds of a given Series from the appropriate Subordinate Debt Service Fund or Subordinate Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Subordinate Bonds.

On or before the fifteenth day preceding a mandatory redemption date from sinking installment payments for Term Subordinate Bonds of a Series of Subordinate Bonds, the Subordinate Trustee will transfer from the Subordinate Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Subordinate Trustee will pay to the Owners of Subordinate 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 Subordinate Bonds of such Series to be mandatorily redeemed on such date.

On each date on which Subordinate 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 Subordinate Indenture, the Subordinate Trustee will pay to the Owners of such Subordinate Bonds from the redemption account, an amount of interest and principal, and premium, if any, on such Subordinate Bonds to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate 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 deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Bonds on such redemption date.

The payments made by the Subordinate Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Subordinate Debt Service Fund.

All money remaining in a Subordinate Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Bonds of the Series for which that Subordinate Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Bonds of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Subordinate Trustee will, at least 10 Business Days prior to each Payment Date on any Subordinate Bond, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Subordinate Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Bond, in the event the amount then on deposit in any Subordinate Debt Service Fund is insufficient to pay the amounts due on any Series of Subordinate Bonds on such Payment Date. With respect to any Series of Subordinate Bonds, the Supplemental Subordinate Indenture under which such Subordinate 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 Subordinate Indenture will control.

If, on any Payment Date, the Subordinate Trustee does not have sufficient amounts in the Subordinate Debt Service Funds (without regard to any amounts which may be available in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) to pay in full with respect to Subordinate Bonds of all Series all amounts of principal and/or interest due on such date, the Subordinate Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Subordinate 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 Subordinate 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 Subordinate 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 Subordinate Bonds and, if the amount available will not be sufficient to pay in full all principal on the Subordinate Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Subordinate Bonds.

If the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Bonds secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Subordinate Bonds which have become due and payable have been paid in full, (b) the required payments to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund exceeds the amount available for such purpose, the payments made to the Subordinate Trustee for such purpose will be allocated among the Subordinate Reserve Fund or the various Subordinate Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Bonds secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series of Subordinate Bonds, provide for different provisions and timing of deposits with the Subordinate Trustee and different methods of paying principal of or interest on such Subordinate Bonds depending upon the terms of such Subordinate Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Subordinate Debt Service Fund created for the Series of Subordinate Bonds for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Bonds, the Department may, at its election, pay to the Subordinate Trustee funds from any available sources with the direction that such funds be deposited into the Subordinate Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Subordinate Pledged Revenues and the other security provided in the Granting Clauses of the Master Subordinate Indenture, secure all Subordinate Bonds issued under the terms of the Master Subordinate Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Subordinate Bonds or Series of Subordinate Bonds with no obligation to provide such additional security or credit enhancement to other Subordinate Bonds.

Payment of Principal and Interest

The Department covenants and agrees that it will duly and punctually pay or cause to be paid from the Subordinate Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Subordinate Bond at the place and on the dates and in the manner set forth herein, and in the Supplemental Subordinate Indentures and in the Subordinate Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Subordinate Indenture and in the Subordinate Bonds contained, provided that the Department's obligation to make payments of the principal of, premium, if any, and interest on the Subordinate Bonds will be limited to payment from the Subordinate Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Subordinate Indenture and any other source which the Department may specifically provide for such purpose and no Holder will have any right to enforce payment from any other funds of the Department.

Junior and Subordinated Obligations

The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Bonds. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that: (a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations will specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Bonds; and (b) payment of principal of and interest on such subordinated obligations will be permitted, provided that all deposits required to be made to the Subordinate Trustee to be used to pay debt service on the Subordinate Bonds or to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund, if any, are then current in accordance with the Master Subordinate Indenture.

Maintenance and Operation of LAX Airport Facilities

Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any part of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of the LAX Airport Facilities.

Investments

Moneys held by the Subordinate Trustee in the funds and accounts created in the Master Subordinate Indenture and under any Supplemental Subordinate Indenture will be invested and reinvested as directed by the Department, in Subordinate Permitted Investments subject to the restrictions set forth in the Master Subordinate Indenture and such Supplemental Subordinate Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Subordinate Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Subordinate Trustee will, to the extent practicable, invest in Subordinate Permitted Investments specified in (i) of the definition thereof.

The Subordinate Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Subordinate Permitted Investment is held.

The Subordinate Trustee may buy or sell any Subordinate Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Subordinate 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 Subordinate Indenture except for the purposes of payment from moneys or Government Obligations held by the Subordinate Trustee or a Subordinate Paying Agent for such purpose. When all Subordinate Bonds which have been issued under the Master Subordinate Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Subordinate Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Subordinate Trustee, the Subordinate Registrar and the Subordinate Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues and the other assets pledged to secure the Subordinate Bonds under the Master Subordinate Indenture will thereupon cease, terminate and become void, and thereupon the Subordinate Trustee will cancel, discharge and release the Master Subordinate Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Subordinate Indenture which may then be in the Subordinate Trustee's possession, except funds or securities in which such funds are invested and are held by the Subordinate Trustee or the Subordinate Paying Agent for the payment of the principal of, premium, if any, and interest on the Subordinate Bonds.

A Subordinate Bond will be deemed to be paid within the meaning of the Master Subordinate Indenture when payment of the principal, interest and premium, if any, either (a) has been made or caused to be made in accordance with the terms of the Subordinate Bonds and the Master Subordinate Indenture or (b) has been provided for by depositing with the Subordinate Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Subordinate Bonds will be deemed to be paid under the Master Subordinate Indenture, such Subordinate Bonds will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Subordinate Bonds. Once such deposit has been made, the Subordinate Trustee will notify all Holders of the affected Subordinate Bonds that the deposit required by (b) above has been made with the Subordinate Trustee and that such Subordinate Bonds are deemed to have been paid in accordance with the Master Subordinate Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Subordinate Indenture under which such Subordinate Bonds were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Subordinate Indenture

under which such Subordinate Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Subordinate Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Subordinate Bonds or the Master Subordinate Indenture subject to (i) receipt of an approving opinion of Bond Counsel that such action will not adversely affect the tax-exemption of any Subordinate Bond or Subordinate Bonds then Outstanding and (ii) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Subordinate Bonds. Notwithstanding anything in this section to the contrary, moneys from the trust or escrow established for the defeasance of Subordinate Bonds may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (i) and (ii) above are met prior to or concurrently with any such withdrawal.

Subordinate Events of Default and Remedies

Subordinate Events of Default. Each of the following events will constitute and is referred to as a “*Subordinate Event of Default*”:

(a) a failure to pay the principal of or premium, if any, on any of the Subordinate Bonds, except termination payments under Subordinate Qualified Swaps, when the same will become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Subordinate Bonds when such interest will become due and payable;

(c) failure to pay the purchase price of any Subordinate Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in a Supplemental Subordinate Indenture;

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Subordinate Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under the rate covenant set forth in the Master Subordinate Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Subordinate Trustee, which notice may be given at the discretion of the Subordinate Trustee and will be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Bonds then Outstanding, unless the Subordinate Trustee, or the Subordinate Trustee and the Holders of Subordinate Bonds in a Principal Amount not less than the Principal Amount of Subordinate Bonds the Holders of which requested such notice, agree in writing to an extension of such period prior to its expiration; provided, however, that the Subordinate Trustee or the Subordinate Trustee and the Holders of such principal amount of Subordinate 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 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution;

(f) the occurrence of any other Subordinate Event of Default as is provided in a Supplemental Subordinate Indenture; or

(g) a default in the payment of principal of or interest on any Senior Bonds or Parity Subordinate Obligations.

Remedies.

(a) Upon the occurrence and continuance of any Subordinate Event of Default, the Subordinate Trustee in its discretion may, and upon the written direction of the Holders of 25% or more of the Principal Amount of the Subordinate Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Subordinate Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Subordinate Holders, and require the Department to carry out any agreements with or for the benefit of the Subordinate Holders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Subordinate Indenture;

(ii) bring suit upon the Subordinate 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 Subordinate Holders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Holders.

(b) The Subordinate Trustee will be under no obligation to take any action with respect to any Subordinate Event of Default unless the Subordinate Trustee has actual knowledge of the occurrence of such Subordinate Event of Default.

(c) In no event, upon the occurrence and continuation of an Subordinate Event of Default, will the Subordinate Trustee, the Subordinate Holders, a Subordinate Credit Provider or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Bonds Outstanding.

Holdings' Right To Direct Proceedings. Anything in the Master Subordinate Indenture to the contrary notwithstanding, Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Subordinate Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Subordinate Trustee under the Master Subordinate Indenture to be taken in connection with the enforcement of the terms of the Master Subordinate Indenture or exercising any trust or power conferred on the Subordinate Trustee by the Master Subordinate Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Subordinate Indenture and that there will have been provided to the Subordinate Trustee security and indemnity satisfactory to the Subordinate Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Subordinate Trustee.

Limitation on Right To Institute Proceedings. No Subordinate Holder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy under the Master Subordinate Indenture or on such Subordinate Bonds, unless such Subordinate Holder or Holders previously has given to the Subordinate Trustee written notice of a Subordinate Event of Default as hereinabove provided and unless also Holders of 25% or more of the Principal Amount of the Subordinate Bonds then Outstanding has made written request of the Subordinate Trustee to do so, after the right to institute such suit, action or proceeding under the Master Subordinate Indenture will have accrued, and will have afforded the Subordinate Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Subordinate Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Subordinate Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Subordinate Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Subordinate Holders will have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Master Subordinate

Indenture, or to enforce any right under the Master Subordinate Indenture or under the Subordinate Bonds, except in the manner provided in the Master Subordinate Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Subordinate Indenture and for the equal benefit of all Subordinate Holders.

Application of Moneys. If a Subordinate Event of Default will occur and be continuing, all amounts then held or any moneys received by the Subordinate Trustee, by any receiver or by any Subordinate Holder pursuant to any right given or action taken under the provisions of the Master Subordinate Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Subordinate Trustee (including attorneys' fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Subordinate Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Subordinate Bonds which have become due with interest on such Subordinate Bonds at such rate as provided in a Supplemental Subordinate Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Subordinate 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 Subordinate Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Subordinate Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Subordinate Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Subordinate Holders and will not be required to make payment to any Subordinate Holder until such Subordinate Bonds will be presented to the Subordinate Trustee for appropriate endorsement or for cancellation if fully paid.

The Subordinate Trustee

Duties. If a Subordinate Event of Default has occurred and is continuing, the Subordinate Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Subordinate Trustee will perform the duties set forth in the Subordinate Indenture and no implied duties or obligations will be read into the Subordinate Indenture against the Subordinate Trustee. Except during the continuance of a Subordinate Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Subordinate Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Subordinate Trustee and conforming to the requirements of the Master Subordinate Indenture. However, the Subordinate Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Subordinate Indenture.

The Subordinate Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Subordinate Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Subordinate Trustee was negligent in ascertaining the pertinent facts; and (b) the Subordinate Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Subordinate Holders or the Department in the manner provided in the Master Subordinate Indenture.

The Subordinate Trustee will not, by any provision of the Master Subordinate Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under

the Master Subordinate Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (a) a Subordinate Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be a Subordinate Event of Default and, with respect to such events for which notice to the Department is required before such events will become Subordinate Events of Default, such notice has been given, then the Subordinate Trustee will promptly, after obtaining actual notice of such Subordinate Event of Default or event described in (b) above, give notice thereof to each Subordinate Holder. Except in the case of a default in payment or purchase on any Subordinate Bonds, the Subordinate Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Subordinate Holders.

Eligibility of Subordinate Trustee. The Master Subordinate Indenture will always have a Subordinate Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Subordinate Trustee. The Subordinate Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may remove the Subordinate Trustee by notifying the removed Subordinate Trustee and may appoint a successor Subordinate Trustee with the Department's consent. The Department may remove the Subordinate Trustee, by notice in writing delivered to the Subordinate Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Subordinate Trustee during any time when a Subordinate Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Subordinate Event of Default.

No resignation or removal of the Subordinate Trustee will be effective until a new Subordinate Trustee has taken office and delivered a written acceptance of its appointment to the retiring Subordinate Trustee and to the Department. Immediately thereafter, the retiring Subordinate Trustee will transfer all property held by it as Subordinate Trustee to the successor Subordinate Trustee, the resignation or removal of the retiring Subordinate Trustee will then (but only then) become effective and the successor Subordinate Trustee will have all the rights, powers and duties of the Subordinate Trustee under the Subordinate Indenture.

If the Subordinate Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Subordinate Indenture, the Department will promptly appoint a successor Subordinate Trustee.

If a Subordinate Trustee is not performing its duties under the Subordinate Indenture and a successor Subordinate Trustee does not take office within 60 days after the retiring Subordinate Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Subordinate Trustee, the Department or the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may petition any court of competent jurisdiction for the appointment of a successor Subordinate Trustee.

Amendments and Supplements

Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders. The Department may, from time to time and at any time, without the consent of or notice to the Subordinate Holders, execute and deliver Supplemental Subordinate Indentures supplementing and/or amending the Master Subordinate Indenture or any Supplemental Subordinate Indenture, as follows:

- (a) to provide for the issuance of a Series or multiple Series of Subordinate Bonds under the provisions of the Master Subordinate Indenture and to set forth the terms of such Subordinate Bonds and the special provisions which will apply to such Subordinate Bonds;

(b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Subordinate Indenture or any Supplemental Subordinate Indenture, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(c) to add to the covenants and agreements of the Department in the Master Subordinate Indenture or any Supplemental Subordinate Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Subordinate Holders;

(d) to confirm, as further assurance, any interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues or in and to the funds and accounts held by the Subordinate Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Subordinate Indenture or to otherwise add additional security for the Subordinate Holders;

(e) to evidence any change made in the terms of any Series of Subordinate Bonds if such changes are authorized by a Supplemental Subordinate Indenture at the time the Series of Subordinate Bonds is issued and such change is made in accordance with the terms of such Supplemental Subordinate Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(g) to provide for uncertificated Subordinate Obligations or for the issuance of coupons and bearer Subordinate Bonds or Subordinate Bonds registered only as to principal;

(h) to qualify the Subordinate Bonds or a Series of Subordinate Bonds for a rating or ratings from a Rating Agency;

(i) to accommodate the technical, operational and structural features of Subordinate Bonds which are issued or are proposed to be issued or of a Subordinate Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Subordinate Bonds or a specific Series of Subordinate Bonds, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Bonds, including, without limitation, the segregation of Pledged Revenues and Subordinate Pledged Revenues into different funds; and

(l) to modify, alter, amend or supplement the Master Subordinate Indenture or any Supplemental Subordinate Indenture in any other respect which is not materially adverse to the Subordinate Holders.

Before the Department executes, pursuant to this section, any Supplemental Subordinate Indenture, there will be delivered to the Department and Subordinate Trustee an opinion of Bond Counsel to the effect that such Supplemental Subordinate Indenture is authorized or permitted by the Master Subordinate Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Subordinate 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 Subordinate Indentures Requiring Consent of Subordinate Bondholders.

(a) Except for any Supplemental Subordinate Indenture entered into pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above and any Supplemental Subordinate Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this section and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Subordinate Indenture or in a Supplemental Subordinate Indenture; provided, however, that, unless approved in writing by the Holders of all the Subordinate Bonds then Outstanding or unless such change affects less than all Series of Subordinate Bonds and the following subsection (b) is applicable, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Bonds or the rate of interest thereon; and provided that nothing contained in the Master Subordinate Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Subordinate Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Subordinate Indenture) upon or pledge of the Subordinate Pledged Revenues created by the Master Subordinate Indenture, ranking prior to or on a parity with the claim created by the Master Subordinate Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Subordinate Bonds, a preference or priority of any Subordinate Bond or Subordinate Bonds over any other Subordinate Bond or Subordinate Bonds with respect to the security granted therefor under the Granting Clauses of the Master Subordinate Indenture, or (v) a reduction in the aggregate Principal Amount of Subordinate Bonds the consent of the Subordinate Holders of which is required for any such Supplemental Subordinate Indenture. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Subordinate Holders of the execution of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above, including the granting, for the benefit of particular Series of Subordinate Bonds, security in addition to the pledge of the Subordinate Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Subordinate Indenture which amends the provisions of an earlier Supplemental Subordinate Indenture under which a Series or multiple Series of Subordinate Bonds were issued. If such Supplemental Subordinate Indenture is executed for one of the purposes described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above, no notice to or consent of the Subordinate Holders will be required. If such Supplemental Subordinate Indenture contains provisions which affect the rights and interests of less than all Series of Subordinate Bonds Outstanding and the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds of all Series of Subordinate Bonds Outstanding which are affected by such changes will have the right from time to time to consent to any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Subordinate Indenture and affecting only the Subordinate Bonds of such Series; provided, however, that, unless approved in writing by the Holders of all the Subordinate Bonds of all the affected Series then Outstanding, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Holders of the adoption of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described

under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above, including the granting, for the benefit of particular Series of Subordinate Bonds, security in addition to the pledge of the Subordinate Pledged Revenues.

Amendments to the Senior Indenture

The Holders of the Subordinate Bonds have no right to consent to or reject any amendments to the Senior Indenture that require the consent of the holders of the Senior Bonds (as described under “APPENDIX C-2—SUMMARY OF THE MASTER SENIOR INDENTURE—Amendments and Supplements—Supplemental Senior Indenture Requiring Consent of Senior Bondholders), except for amendments to the flow of funds that require the consent of the holders of the Senior Bonds (as described under “APPENDIX C-2—SUMMARY OF THE MASTER SENIOR INDENTURE—Amendments and Supplements—Supplemental Senior Indenture Requiring Consent of Senior Bondholders).

Rights of Credit Provider

The Master Subordinate Indenture provides that if a Credit Facility is provided for a Series of Subordinate Bonds or for specific Subordinate Bonds, the Department may in the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued, provide any or all of the following rights to the Credit Provider as the Department deems to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Subordinate Trustee or to otherwise direct proceedings all as provided in the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Subordinate Bonds; (b) the right to act in place of the owners of the Subordinate Bonds which are secured by the Credit Facility for purposes of removing a Subordinate Trustee or appointing a Subordinate Trustee under the Subordinate Indenture; and (c) the right to consent to Supplemental Subordinate Indentures, which would otherwise require the consent of the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds, entered into pursuant to the provisions set forth under the caption “—Amendments and Supplements— Supplemental Subordinate Indentures Requiring Consent of Subordinate Bondholders” above, except with respect to any amendments described in subsections (a)(i) through (iv) and (b)(i) or (ii) under the caption “—Amendments and Supplements— Supplemental Subordinate Indentures Requiring Consent of Subordinate Bondholders” above, which consent of the actual Subordinate Holders will still be required, of the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Holder of such Subordinate Bonds.

APPENDIX C-5

SUMMARY OF THE FOURTH SUPPLEMENTAL SUBORDINATE INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2008 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Fourth Supplemental Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Fourth Supplemental Subordinate Indenture.

Terms of the Bonds

The Fourth Supplemental Subordinate Indenture sets forth the terms of the Series 2008 Subordinate Bonds, most of which terms are described in the forepart of this Official Statement under "DESCRIPTION OF THE SERIES 2008 BONDS."

Establishment of Funds and Accounts

Pursuant to the Fourth Supplemental Subordinate Indenture the Subordinate Trustee will establish and maintain the following funds and accounts: the Series 2008C Subordinate Debt Service Fund (and within such Series 2008C Subordinate Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2008C Subordinate Construction Fund, the Series 2008C Subordinate Costs of Issuance Fund, the Subordinate Reserve Fund and the Series 2008C Subordinate Reserve Account to be established in the Subordinate Reserve Fund, and the Series 2008C Subordinate Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2008 Subordinate Bonds and from other sources as described in the forepart of this Official Statement under "ESTIMATED SOURCES AND USES OF FUNDS."

Series 2008C Subordinate Debt Service Fund. The Subordinate Trustee will deposit in the Interest Account of the Series 2008C Subordinate Debt Service Fund amounts received from the Department, as provided in the Master Subordinate Indenture, to be used to pay interest on the Series 2008 Subordinate Bonds. The Subordinate Trustee will also deposit into the Interest Account of the Series 2008C Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit in the Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the Interest Account will be withdrawn and paid to the Department on the Business Day following an Interest Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Subordinate Trustee will deposit into the Principal Account of the Series 2008C Subordinate Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2008 Subordinate Bonds at maturity. The Subordinate Trustee will also deposit into the Principal Account of the Series 2008C Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Account will be withdrawn and paid to the Department on the Business Day following an principal Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such account.

The Subordinate Trustee will deposit into the Redemption Account of the Series 2008C Subordinate Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on the Series 2008 Subordinate Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund). Earnings on the Redemption Account will be retained in such accounts or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Subordinate Trustee by an Authorized Representative at the time of such deposit.

The Series 2008C Subordinate Debt Service Fund will be invested and reinvested in Subordinate Permitted Investments as directed by an Authorized Representative.

Series 2008C Subordinate Construction Fund. Amounts in the Series 2008C Subordinate Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the Series 2008 Project for which the Series 2008 Subordinate Bonds were issued. While held by the Subordinate Trustee, amounts in the Series 2008C Subordinate Construction Fund will not secure the Outstanding Series 2008 Bonds. Amounts in the Series 2008C Subordinate Construction Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Series 2008C Subordinate Costs of Issuance Fund. The proceeds of the Series 2008 Subordinate Bonds deposited into the Series 2008C Subordinate Costs of Issuance Fund will be disbursed by the Subordinate Trustee, from time to time, to pay Costs of Issuance of the Series 2008 Subordinate Bonds. Amounts in the Series 2008C Subordinate Costs of Issuance Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Subordinate Reserve Fund and Series 2008C Subordinate Reserve Account. For a description of the Subordinate Reserve Fund, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008 BONDS—Subordinate Bonds—Subordinate Reserve Fund.”

Series 2008C Subordinate Rebate Fund. The Fourth Supplemental Subordinate Indenture creates the Series 2008C Subordinate Rebate Fund for the Series 2008 Subordinate Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Subordinate Trustee with respect to the Series 2008 Subordinate Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2008 Subordinate Bonds. Such excess is to be deposited into the Series 2008C Subordinate Rebate Fund and periodically paid to the United States of America. The Series 2008C Subordinate Rebate Fund while held by the Subordinate Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2008 Bonds.

Additional Subordinate Event of Default

The occurrence of any event or failure to comply with any provision of the Tax Compliance Certificate executed by the Department at the time of issuance of the Series 2008 Subordinate Bonds which results in interest on the Series 2008 Subordinate Bonds being includable in gross income for federal income tax purposes is a Subordinate Event of Default under the Fourth Supplemental Subordinate Indenture and the Master Subordinate Indenture.

APPENDIX D-1

PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE

FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS

The Fifty-One Percent Master Senior Indenture Amendments will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Senior Bonds Outstanding and the consent of the CP Banks and BNP (the “Fifty-One Percent Master Senior Indenture Consent Requirement”). By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. At the time of issuance of the Series 2008 Senior Bonds, the owners of more than 51% in aggregate principal amount of all of the Senior Bonds Outstanding will have consented to the Fifty-One Percent Master Senior Indenture Amendments. However, the Department will not receive the consents of the CP Banks or BNP to the Fifty-One Percent Master Senior Indenture Amendments (except BNP will consent to the amendments to Section 5.07 of the Master Senior Indenture) at the time of issuance of the Series 2008 Senior Bonds. At this time there can be no assurance that the Fifty-One Percent Master Senior Indenture Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) Subparagraph (iv) of the definition of “Aggregate Annual Debt Service”

(iv) if any Outstanding Bonds (including Program Bonds then issued and Outstanding) or any Bonds which are then proposed to be issued constitute Tender Indebtedness ~~(but excluding Program Bonds or Bonds as to which a Qualified Swap is in effect and to which subsection (vi) or (viii) applies)~~, then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if **(a)** the principal amount of such Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued, **provided, however, notwithstanding the previous provisions of this clause (a), any principal amortization schedule set forth in a Supplemental Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) shall be applied to determine the principal amortization of such Bonds;** **(b)** the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and **(c)** with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (v) or (vi) below, as appropriate;

(b) Subparagraph (v) of the definition of “Aggregate Annual Debt Service”

(v) if any Outstanding Bonds constitute Variable Rate Indebtedness, **including obligations described in subsection (viii)(b) to the extent it applies** (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Tender Indebtedness or subsection ~~(vi-viii)~~(a) relating to Synthetic Fixed Rate Indebtedness or (viii) relating to Qualified Swaps Debt applies), the interest rate ~~on~~ **used for such Bonds computation** shall be the average rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the ~~12 months~~ **last week of the month** preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for such **fixed-rate** Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(c) Subparagraph (viii) of the definition of “Aggregate Annual Debt Service”

(viii) (a) for purposes of computing the **Aggregate** Annual Debt Service of Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon **shall, if the Board elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Board does not elect such rate, then it** shall be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate ~~as implied by the terms of the Swap Agreement or the net interest rate payable pursuant to offsetting indices, as applicable~~ **determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;**

(b) for purposes of computing **the Aggregate** Annual Debt Service ~~on all other of~~ Bonds with respect to which a Qualified Swap is in effect, such Qualified Swap shall be marked to market (that is, treated as if it were being closed out with an at the market bid) at the time of such calculation and the putative gain or loss thereon under the terms and conditions of the agreement creating such Qualified Swap shall be treated as amortized over the remaining term of the Qualified Swap and the annualized gain or loss payment thereunder shall be added to or subtracted from Annual Debt Service for such Bonds **Swap has been entered into whereby the Board has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Bonds shall be the sum of that rate as determined in accordance with subsection (v) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;**

(d) Subparagraph (ix) of the definition of “Aggregate Annual Debt Service”

(ix) if moneys ~~or~~, Permitted Investments **or any other amounts not included in Pledged Revenues have been used to pay or** have been irrevocably deposited with and are held by the Trustee or another fiduciary **to pay** or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments, **other amounts not included in Pledged**

Revenues or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating Aggregate Annual Debt Service; and

- (e) Subparagraph (xi) of the definition of “Aggregate Annual Debt Service”

(xi) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues or from earnings thereon shall be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Aggregate Annual Debt Service.

- (f) The definition of “Authorized Amount”

“Authorized Amount” shall mean, when used with respect to Bonds, including Program Bonds, the maximum Principal Amount of Bonds which is then authorized by a resolution or Supplemental Indenture adopted by the Board pursuant to Section 2.09 hereof to be Outstanding at any one time under the terms of such Program or Supplemental Indenture. If the maximum Principal Amount of Bonds or Program Bonds authorized by a preliminary resolution or form of Supplemental Indenture approved by the Board pursuant to Section 2.09 of this Indenture exceeds the maximum Principal Amount of Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Indenture executed and delivered by the Board pursuant to which such Bonds are issued or such Program is established, the Principal Amount of such Bonds or Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Indenture as executed and delivered by the Board shall be deemed to be the “Authorized Amount.” Notwithstanding the provisions of this definition of “Authorized Amount,” in connection with Section 2.11(a) and (b) and the calculation of Maximum Aggregate Annual Debt Service and Aggregate Annual Debt Service with respect to a Commercial Paper Program, “Authorized Amount” shall mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.

- (g) The definition of “Costs” or “Costs of a Project”

“Costs” or “Costs of a Project” shall mean all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and shall include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, the Reserve Fund, any Debt Service Reserve Fund (other than the Reserve Fund), Trustee’s fees and expenses; (6) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series

of Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. Costs of a Project shall also include the acquisition or refunding of outstanding revenue bonds and obligations of the Department, RAIC bonds and California Statewide Communities Development Authority bonds, including any financing costs with respect thereto.

- (h) The definition of “Customer Facility Charge”

“Customer Facility Charges” shall mean all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

- (i) The definition of “Debt Service Reserve Fund Surety Policy”

“Debt Service Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit (other than a Reserve Fund Surety Policy) deposited with the Trustee for the credit of a Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. The Except as otherwise provided in a Supplemental Indenture, the entity providing such Debt Service Reserve Fund Surety Policy shall be rated, at the time such instrument is provided, in one of the two highest long-term ~~rating~~ Rating Categories by both Moody’s if Moody’s is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds ~~at the time such instrument is provided.~~

- (j) The definition of “Estimated Completion Date”

~~“Estimated Completion Date” shall mean the estimated date upon which a Specified LAX Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified LAX Project is expected to have been acquired and payment therefor made, in each case, as that date shall be set forth in a certificate of an Authorized Board Representative delivered to the Trustee at or prior to the time of issuance of the Bonds which are issued to finance such Project.~~

- (k) The definition of “LAX Special Facility Obligations”

“LAX Special Facility Obligations” shall mean bonds or other debt instruments issued pursuant to an indenture other than this Indenture to finance LAX Special Facilities and which, except as otherwise provided in Section 5.07 hereof, are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

- (l) The definition of “Pledged Revenues”

“Pledged Revenues” shall mean, except to the extent specifically excluded herein or under the terms of any Supplemental Indenture (only with respect to the Series of Bonds issued pursuant to such Supplemental Indenture), LAX Revenues. “Pledged Revenues” shall also include such additional revenues, if any, as are designated as “Pledged Revenues” under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “LAX Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other

proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from "Pledged Revenues," unless designated as "Pledged Revenues" under the terms of a Supplemental Indenture: (a) any Swap Termination Payments paid to the Board pursuant to a Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture, **(d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture** (provided that only ~~Passenger~~ **Customer** Facility Charges in respect of LAX may be so pledged), **(d e)** unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and **(e f)** Released LAX Revenues. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from "Pledged Revenues," unless otherwise provided for in such Supplemental Indenture.

- (m) The definition of "Qualified Swap"

"Qualified Swap" shall mean any Swap (a) whose Designated Debt is all or part of a particular Series of Bonds; (b) ~~which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series of Bonds (including any bond insurer);~~ (c) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or ~~Average~~ **Aggregate** Annual Debt Service is being made; **(d e)** which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; **(e d)** which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Bonds; and **(f e)** which has been approved by S&P, if S&P has an outstanding rating on any Bonds, and Moody's, if Moody's has an outstanding rating on the Bonds.

- (n) The definition of "Qualified Swap Provider"

"Qualified Swap Provider" shall mean a financial institution (a) whose senior long -term debt obligations, or whose obligations under any Qualified Swap, are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long -term debt obligations, are rated at least "Aa" in the case of Moody's and "AA" in the case of S&P, or the equivalent thereto in the case of any successor thereto, and ~~(b) acceptable to the Credit Provider for the Designated Debtor~~ **(b) whose obligations under any Qualified Swap are fully secured by obligations described in items (1) or (2) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.**

- (o) The definition of "Unenhanced Commercial Paper Program"

"Unenhanced Commercial Paper Program" shall be a Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

Section 2.09

Clause (e) of Section 2.09 is to be amended to read as follows:

(e) a certificate of the Authorized Board Representative stating that ~~(i)(A)~~ none of the Events of Default set forth in Section 8.01 of this Indenture ~~have occurred and remain uncured and~~ **has occurred and remains uncured or (B) that upon issuance of such Series of Bonds, all Events of Default set forth in Section 8.01 of this Indenture that have occurred and are continuing, shall be cured, and (ii)** that the Board is in full compliance with the terms of Section 5.04 herein;

Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Tests for Issuance of Bonds. Subject to the provisions under subsection (i), (ii) or ~~(iii)~~ **(iii)** of the last paragraph of this Section 2.11 and excepting ~~the~~ Initial Bonds, as a condition to the issuance of any Series of Bonds, there shall first be delivered to the Trustee either:

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

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

(1) the Net Pledged Revenues, ~~(as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date~~ **together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date** of issuance of the proposed Series of Bonds or the establishment of a Program, were at least equal to 125% of Maximum **the sum of the Aggregate Annual Debt Service; due and payable with respect to all Outstanding Bonds (not including the proposed Series of Bonds or the proposed Program Bonds) for such Fiscal Year or other applicable period; and**

(2) ~~for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Board will be in compliance with Section 5.04(a) and (b) of this Indenture; and~~

~~(3)~~ **(2) for the period from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Series of Bonds, or (B) the third full Fiscal Year during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof**, the estimated Net Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an

~~Authorized Board Representative, together with any estimated Transfer, for each such Fiscal Year, will be at least equal to 125% of Maximum the Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds~~ (calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding).

For purposes of subparagraphs (a) and (b) above, ~~no the amount of any Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Board Representative or the Consultant taken into account shall not exceed 25% of the Aggregate Annual Debt Service on the Outstanding Bonds, Unissued Program Bonds, the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds, as applicable, for such applicable Fiscal Year or such other applicable period.~~

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

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

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(ii) if the Bonds being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Board Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the ~~Net~~ Pledged Revenues for any 12 consecutive months out of the ~~18~~ **most recent 24** months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Board Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the ~~Department~~ **Board** will be in compliance with Section 5.04 (a) and (b) of this Indenture; ~~or~~

(iii) if the Bonds being issued are to pay costs of completing a Specified LAX Project for which Bonds have previously been issued and the principal amount of such Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Bonds originally issued for such Specified LAX Project and reasonably allocable to the Specified LAX Project to be completed as shown in a written certificate of an Authorized Board Representative and there is delivered to the Trustee (1) a Consultant's certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (2) a certificate of an Authorized Board Representative to the effect that (x) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Specified LAX Project) of the original Bonds issued to finance such Specified LAX Project have been or will be used to pay Costs of the Specified LAX Project, (y) the then estimated Costs of the Specified LAX Project exceed the sum of the Costs of the Specified LAX Project already paid plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Bonds previously issued for such purpose), and (z) the proceeds to be received from the issuance of such Bonds plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Bonds previously issued for such purpose) will be sufficient to pay the remaining estimated Costs of the Specified LAX Project.

Section 4.13

Section 4.13 is to be amended to read as follows:

Section 4.13. Creation of Debt Service Reserve Fund; Additional Funds and Accounts. Notwithstanding Section 4.07 hereof, instead of making or causing a deposit to be made to the Reserve Fund, the Board may, at the time of issuance of any Series of Bonds, ~~except for such Series of Bonds designated as Variable Rate Indebtedness,~~ provide by Supplemental Indenture for the creation of a Debt Service Reserve Fund as **additional** security for such Series **of Bonds**, and in its discretion reserving the right to allow a future Series of Bonds to participate in such Debt Service Reserve Fund, or provide that such Series of Bonds participate in a Debt Service Reserve Fund previously created for an Outstanding Series of Bonds. Any Debt Service Reserve Fund established under a Supplemental Indenture shall be funded, **at the time of issuance of such Series of Bonds or over such other period of time as set forth in a Supplemental Indenture,** in an amount equal to the Reserve Requirement **with respect to the Bonds participating in such Debt Service Reserve Fund.** The Board shall, by such Supplemental Indenture, provide for the manner of funding and replenishing of such Debt Service Reserve Fund and shall establish such other terms with respect to such Debt Service Reserve Fund as the Board may deem to be appropriate, including providing a Credit Facility in lieu thereof. ~~In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.~~

Notwithstanding either Section 4.07 hereof or this Section, at the time of issuance of any Series of Bonds, the Board may provide pursuant to a Supplemental Indenture that neither a deposit to the Reserve Fund nor a deposit to a Debt Service Reserve Fund shall be required and that such Series of Bonds shall not be secured by the Reserve Fund or a Debt Service Reserve Fund.

In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.

Section 5.04(c)

Section 5.04(c) is to be amended to read as follows:

(c) If the Board violates either covenant set forth in subsection (a) or (b) above, such violation shall not be a default under this Indenture and shall not give rise to a declaration of an Event of

Default if, within ~~420~~ **180** days after the date such violation is discovered, the Board revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce Pledged Revenues to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent fiscal year succeeding the date such violation is discovered, an Event of Default may be declared under Section 8.01(d) hereof. The Board may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Board into compliance with said covenants.

Section 5.07

Section 5.07 is to be amended to read as follows:

Section 5.07. LAX Special Facilities and LAX Special Facility Obligations. The Board shall be permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this Section 5.07. The Board may, from time to time, and subject to the terms and conditions of this Section 5.07, ~~(1 i)~~ designate a separately identifiable existing facility or **improvement or** planned facility **or improvement** as an "LAX Special Facility," ~~(2 ii)~~ pursuant to an indenture other than this Indenture and without a pledge of any Pledged Revenues **(except as otherwise provided in (iv) below)**, incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility **or improvement**, ~~(3 iii)~~ provide that the contractual payments derived from **or related to** such LAX Special Facility, together with other income and revenues available to the Board from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be "LAX Special Facilities Revenue" and not included as Pledged Revenues, unless ~~on terms~~ **otherwise** provided in any supplemental indenture, and ~~(4 iv)~~ provide that the debt so incurred shall be an "LAX Special Facility Obligation" and the principal of and interest thereon shall be payable solely from the LAX Special Facilities Revenue **and the proceeds of such LAX Special Facility Obligation set aside exclusively to pay debt service on such LAX Special Facility Obligation (except the Board may, in its sole discretion, determine to make Pledged Revenues or such other moneys not included in Pledged Revenues available (through a specific pledge or otherwise and subject to any covenants or other provisions of this Indenture (including, but not limited to, Sections 2.09, 2.11 and 5.04 hereof) or such other indentures or agreements of the Board) to the payment of the principal of and interest on such LAX Special Facility Obligation in such amounts and at such times as may be agreed to by the Board)**. The Board may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations shall be payable as to principal, redemption premium, if any, and interest solely from **(a) LAX Special Facilities Revenue, which shall include contractual payments derived by the Board under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Board and another person, firm or corporation, either public or private, as shall undertake the operation of an LAX Special Facility, (b) proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and (c) such Pledged Revenues or other moneys not included in Pledged Revenues made available by the Board as provided in clause (iv) of the previous paragraph, if any.**

No LAX Special Facility Obligations shall be issued by the Board unless there shall have been filed with the Trustee a certificate of an Authorized Board Representative stating that:

(1) The estimated LAX Special Facilities Revenue pledged to the payment of ~~obligations relating to~~ the LAX Special Facility **Obligations, the proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and such Pledged Revenues or other moneys made available by the Board pursuant to clause (iv) of the first paragraph of this Section 5.07, if any,** will be at least sufficient, to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special

Facility not paid for by the operator thereof or by a party other than the Board and all sinking fund, reserve or other payments required by the resolution or indenture authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an “LAX Special Facility” or “LAX Special Facilities”, the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue, the proceeds of any LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations or any Pledged Revenues or other moneys made available by the Board pursuant to clause (iv) of the first paragraph of this Section 5.07, if any, and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Board will be in compliance with Section 5.04(a) and (b) of this Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Event of Default then exists under Article VIII of this Indenture.

To the extent LAX Special Facilities Revenue received by the Board during any Fiscal Year shall exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Board.

Notwithstanding any other provision of this Section 5.07, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Board from such facility shall be included as Pledged Revenues.

Section 8.01

(a) Clause (a) of Section 8.01 is to be amended to read as follows:

(a) a failure to pay the principal of or premium, if any, on any of the Bonds, ~~except out payments under Qualified Swaps~~, when the same shall become due and payable at maturity or upon redemption;

(b) Clause (d) of Section 8.01 is to be amended to read as follows:

(d) a failure by the Board to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this Section 8.01) that are to be observed or performed by the Board and which are contained in this Indenture or a Supplemental Indenture, which failure, except for a violation under Section 5.04 which shall be controlled by the provisions set forth therein, shall continue for a period of ~~60~~ 90 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Board by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Board within such period and is being diligently pursued until such failure is corrected;

Section 8.02

Clause (c) of Section 8.02 is to be amended to read as follows:

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider, in no event, upon the occurrence and continuation of an Event of Default described in Section 8.01 hereof, shall the Trustee, the Holders, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Bonds Outstanding.

Section 8.10

Section 8.10 is to be amended to read as follows:

Section 8.10. Application of Moneys. If an Event of Default shall occur and be continuing, all amounts then held or any moneys received by the Trustee, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of this Article VIII (which shall not include moneys provided through a Credit Facility, which moneys shall be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee (including attorneys' fees and disbursements), shall be applied as follows: (i ~~a~~) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii ~~b~~) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Bonds which shall have become due with interest on such Bonds at such rate as provided in a Supplemental Indenture from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

~~(b) If the principal of all the Bonds subject to acceleration shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.~~

~~(c) If the principal of all the Bonds subject to acceleration shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of Section 8.02(b) and Section 8.03 hereof, then, subject to the provisions of clause (b) of this Section 8.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of clause (a) of this Section 8.10.~~

Whenever moneys are to be applied pursuant to the provisions of this Section 8.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Bondholders and shall not be required to make

payment to any Bondholder until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

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ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS

Senior Pledge Change Amendment

The Senior Pledge Change Amendment will not become effective until (a) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks and BNP (the "Senior Pledge Change Consent Requirement") and (b) the Subordinate Pledge Change Consent Requirement has been met. By the purchase and acceptance of the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds, the owners of the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds, respectively, will be deemed to have irrevocably consented to the Senior Pledge Change Amendment. At the time of issuance of the Series 2008 Bonds, the owners of approximately 84% of the Outstanding Senior Bonds and the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the Senior Pledge Change Amendment; but the Department will not receive the consent of any of the owners of the Outstanding Subordinate Commercial Paper Notes or the consents of the CP Banks and BNP to the Senior Pledge Change Amendment at the time of issuance of the Series 2008 Senior Bonds and the Subordinate Pledge Change Consent Requirement will not be met.

At this time there can be no assurance that the Senior Pledge Change Consent Requirement or the Subordinate Pledge Change Consent Requirement will be met within any definite time frame. See "INTRODUCTION—Amendments to Master Senior Indenture" in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strike through~~. The Other Master Senior Indenture Amendments as described in "—OTHER MASTER SENIOR INDENTURE AMENDMENTS" are assumed to become effective prior to the Senior Pledge Change Amendment and therefore are incorporated in the description of the Senior Pledge Change Amendment described below.

WHEREAS CLAUSES

The eighth and ninth WHEREAS clauses will be amended to read as follows:

WHEREAS, the Board has determined that it is necessary and advisable to issue bonds from time to time for the purposes set forth in the Resolution and that such bonds be payable from and secured by the **Net** Pledged Revenues (as hereinafter defined); and

WHEREAS, the Board wishes to provide in this Indenture for the issuance and payment of certain bonds and the pledge of the **Net** Pledged Revenues thereto, and the Trustee is willing to accept the trusts provided in this Indenture;

GRANTING CLAUSE

The GRANTING CLAUSE will be amended to read as follows:

GRANTING CLAUSE

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Board of all the covenants, agreements and conditions expressed or implied herein or contained in the Bonds, the Board hereby pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the **Net** Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under this Indenture, moneys and securities held in the Reserve Fund or any Debt Service Reserve Fund and any Reserve Fund Surety Policy or Debt Service Reserve Fund Surety Policy, as

hereinafter defined, provided at any time in satisfaction of all or a portion of the Reserve Requirement, and to the extent provided in any Supplemental Indenture, moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause (except to the extent excluded from the definition of "Pledged Revenues" by this Indenture), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any security or Credit Facility provided for specific Bonds or a specific Series of Bonds may, as provided by Supplemental Indenture, secure only such specific Bonds or Series of Bonds and, therefore, shall not be included as security for all Bonds under this Indenture and moneys and securities held in trust as provided in Section 4.10 exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under Article VII hereof shall be held solely for the payment of such specific Bonds.

ARTICLE I – Definitions

The following definitions are to be amended to read as follows:

- (a) The definition of "Bond" or "Bonds"

"Bond" or "Bonds" shall mean any debt obligation of the Department issued under and in accordance with the provisions of Article II of this Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in Section 2.13 of this Indenture. The term "Bond" or "Bonds" herein does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Indenture to this Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to this Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations or Third Lien Obligations shall be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term "Bond" and "Bonds" includes Program Bonds.

- (b) The definition of "Released LAX Revenues"

"Released LAX Revenues" shall mean LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs ~~SECOND through SEVENTH~~ **SECOND through EIGHTH** of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by

the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs ~~SECOND through EIGHTH~~ SECOND through EIGHTH ~~FIRST through SEVENTH~~ of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of this Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody's (provided such Rating Agencies have been requested by the Department to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of this Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Bonds.

For purposes of subparagraph (b) above, no Transfer shall be taken into account in the computation of Net Pledged Revenues.

Additionally, the Department shall give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Bonds and S&P is then maintaining a rating on any of the Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of this Indenture as proved in this definition of "Released LAX Revenues."

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board shall no longer be included in Pledged Revenues and shall be excluded from the pledge and lien of this Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of this Indenture pursuant to a Supplemental Indenture.

(c) The definition of "Subordinated Obligation"

"Subordinated Obligation" shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund and any Debt Service Reserve Fund. "Subordinated Obligations" are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations shall be secured on a junior and subordinate basis to the Bonds from the Net Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a "Subordinated Obligation" for purposes of this Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Board as a "Subordinated Obligation" in a Supplemental Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in effect, the term "Subordinated Obligation" includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term "Subordinated Obligations" also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term "Subordinated Obligation" includes any Swap Termination Payment under a Qualified Swap with respect to any Bonds payable on parity with Subordinated Obligations.

(d) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all **LAX Maintenance and Operation Expenses and** amounts of principal and interest which have become due and payable on the Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund, any Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “Third Lien Obligations” are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations shall be secured on a junior and subordinate basis to the Bonds and the Subordinated Obligations from the **Net** Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a “Third Lien Obligation” for purposes of this Indenture and payable on a subordinated basis from **Net** Pledged Revenues unless specifically designated by the Board as a “Third Lien Obligation” in a Supplemental Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “Third Lien Obligation” includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term “Third Lien Obligations” also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term “Third Lien Obligation” includes any Swap Termination Payment under a Qualified Swap with respect to any Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

(e) The definition of “Unissued Program Bonds”

“Unissued Program Bonds” shall mean the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from **Net** Pledged Revenues, issuable in an amount up to the Authorized Amount relating to such Program, which have been approved for issuance by the Board pursuant to a resolution adopted by the Board and with respect to which Program the items described in Section 2.09(a) through (g) have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the Program documents.

Section 2.01

The third paragraph of Section 2.01 is to be amended to read as follows:

All Bonds shall contain a statement to the following effect:

Neither the faith and the credit nor the taxing power of The City of Los Angeles, the State of California or any public agency, other than the Department of Airports of The City of Los Angeles to the extent of the **Net** Pledged Revenues, is pledged to the payment of the principal of, premium, if any, or interest on, this Bond. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Bonds. The Department has no power of taxation.

Section 2.02

The first paragraph of Section 2.02 is to be amended to read as follows:

Section 2.02. Terms, Medium and Place of Payment. The Bonds shall be issued in the principal amount, shall bear interest at a rate or rates, including a rate of 0% and including variable or adjustable rates or rates set by auction, or by such other methods as the Board may from time to time determine, and

such interest may be payable periodically, in whole or in part, or may be accumulated and paid at maturity or at such other time or times as the Board shall determine. Bonds shall mature and shall be subject to redemption prior to their respective maturities, all as shall be set forth in a Supplemental Indenture. The Bonds of each Series shall state that they are issued under and are secured by this Indenture and the Net Pledged Revenues and state that regardless of the form thereof, they are “Bonds” issued hereunder and within the meaning of this Indenture.

Section 2.13

The third sentence of Section 2.13 is to be amended to read as follows:

Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond shall be payable from Net Pledged Revenues on a basis subordinate to the payment and/or funding of the Bonds and any reserve funds established with respect to the Bonds.

Section 2.14

Section 2.14 is to be amended to read as follows:

Section 2.14. Obligations Under Qualified Swap; Nonqualified Swap.

(a) The obligation of the Board to make Regularly Scheduled Swap Payments under a Qualified Swap with respect to a Series of Bonds may be on a parity with the obligation of the Board to make payments with respect to such Series of Bonds and other Bonds under this Indenture, except as otherwise provided by Supplemental Indenture and elsewhere herein with respect to any Swap Termination Payments. The Board may provide in any Supplemental Indenture that Regularly Scheduled Swap Payments under a Qualified Swap shall be secured by a pledge of or lien on the Net Pledged Revenues on a parity with the Bonds of such Series and all other Bonds, regardless of the principal amount, if any, of the Bonds of such Series remaining Outstanding. The Trustee shall take all action consistent with the other provisions hereof as shall be requested in writing by the Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Board with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence shall require the Trustee either to exercise the remedies granted in this Indenture or to institute any action, suit or proceeding in its own name, the Qualified Swap Provider shall provide to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the Board under a Qualified Swap, such Swap Termination Payment and any such other amounts shall, unless otherwise provided in a Supplemental Indenture, constitute an obligation of the Board payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Bonds and any reserve funds established with respect to such Bonds.

(c) Obligations of the Board to make payments, including termination payments, under a Nonqualified Swap shall, unless otherwise provided in a Supplemental Indenture, constitute an obligation of the Board payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Bonds and any reserve funds established with respect to such Bonds.

Section 4.01

Section 4.01 is to be amended to read as follows:

Section 4.01. Bonds Secured by Lien on Net Pledged Revenues. The Bonds authorized and issued under the provisions of this Indenture shall be secured as provided in the Granting Clauses of this Indenture. The Board hereby represents and states that it has not previously created any charge or lien on or any security interest in the Net Pledged Revenues and the Board covenants that, until all the Bonds authorized and issued under the provisions of this Indenture and the interest thereon shall have been paid or are deemed to have been paid, it will not, except as specifically provided in this Indenture, grant any prior or parity pledge of or any security interest in the Net Pledged Revenues or any of the other security which is pledged pursuant to the Granting Clauses of this Indenture, or create or permit to be created any charge or lien thereon or any security interest therein ranking prior to or on a parity with the charge or lien of the Bonds (including Additional Bonds) from time to time Outstanding under this Indenture. The Board may, as provided in Section 5.06 hereof, grant a lien on or security interest in the Net Pledged Revenues to secure Subordinated Obligations and Third Lien Obligations.

Section 4.04(b)

Section 4.04(b) is to be amended to read as follows:

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

FIRST ~~To the payment of 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 ~~FIRST~~ To the payment of amounts required to be deposited in the Debt Service Funds pursuant to Section 4.05;

THIRD ~~SECOND~~ To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07, and any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;

FOURTH ~~THIRD~~ To the payment of debt service on any indebtedness (other than Outstanding Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FIFTH ~~FOURTH~~ To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

SIXTH ~~FIFTH~~ To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

SEVENTH ~~SIXTH~~ To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

EIGHTH SEVENTH To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Board pursuant to Section 4.08 hereof;

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

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

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

Notwithstanding the provisions of this Indenture, nothing herein shall preclude the Board from making the payments described in paragraphs FIRST through NINTH above from sources other than Pledged Revenues.

Section 4.06

The eighth and tenth paragraphs of Section 4.06 are to be amended to read as follows:

If the Reserve Fund or any Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Bonds secured thereby, then the Board may be required by Supplemental Indenture to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the Credit Provider from **Net** Pledged Revenues provided that (a) no amount from **Net** Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (b) the required payments to replenish the Reserve Fund and any Debt Service Reserve Fund or reimburse the Credit Provider shall be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Trustee for such purpose shall be allocated among the Reserve Fund and any Debt Service Reserve Fund and the Credit Provider pro rata on the basis of the Outstanding Principal Amount of Bonds secured thereby.

If **Net** Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Bonds, the Board may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Section 4.07

Section 4.07(a)(i) is to be amended to read as follows:

(a) (i) Except as otherwise provided herein, each Supplemental Indenture providing for the issuance of Bonds shall require as a condition of issuance that an amount be deposited in the Reserve

Fund so that, together with any Reserve Fund Surety Policy provided pursuant to (b) below, the amount on deposit in the Reserve Fund will be equal to the Reserve Requirement with respect to the Bonds participating in the Reserve Fund. Any cash to be deposited in the Reserve Fund may be derived from proceeds of Bonds or any other legally available source of funds. In the event that federal tax law in the opinion of Bond Counsel would prohibit the Reserve Requirement with respect to the Bonds participating in the Reserve Fund or any portion thereof from being paid from the proceeds of any issue of Bonds, the Board shall be permitted to pay the portion of the Reserve Requirement with respect to the Bonds participating in the Reserve Fund not permitted to be paid from Bond proceeds from Net Pledged Revenues, to the extent permissible under federal tax laws, in equal monthly installments within 60 months from the date of issuance of said series of Bonds.

Section 4.12

Section 4.12 is to be amended to read as follows:

Section 4.12. Additional Security. The pledge of Net Pledged Revenues and the other security provided in the Granting Clauses hereof, secure all Bonds issued under the terms of this Indenture on an equal and ratable basis, except as to the timing of such payments. The Board may, however, in its discretion, provide additional security or credit enhancement for specified Bonds or Series of Bonds with no obligation to provide such additional security or credit enhancement to other Bonds.

Section 5.01

Section 5.01 is to be amended to read as follows:

Section 5.01. Payment of Principal and Interest. The Board covenants and agrees that it will duly and punctually pay or cause to be paid from the Net Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner herein, in the Supplemental Indentures and in the Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements herein and in the Bonds contained, provided that the Board's obligation to make payment of the principal of, premium, if any, and interest on the Bonds shall be limited to payment from the Net Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of this Indenture and any other source which the Board may specifically provide for such purpose and no Bondholder shall have any right to enforce payment from any other funds of the Board.

Section 5.02

Section 5.02 is to be amended to read as follows:

Section 5.02. Performance of Covenants by Board; Authority; Due Execution. The Board covenants that it will faithfully perform at all times any and all covenants and agreements contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Board covenants that it is duly authorized under the Constitution and laws of the State and the Charter to issue the Bonds and pledge and grant a security interest in the Net Pledged Revenues and other security pledged thereto or in which a security interest is granted and that the Board has not previously pledged such Net Pledged Revenues or other assets to secure other obligations.

Section 5.03

Section 5.03 is to be amended to read as follows:

Section 5.03. Senior Lien Obligations Prohibited. The Board hereby agrees that so long as any Bonds are Outstanding under this Indenture, it (i) will not adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue

any additional bonds or other obligations with a lien on or security interest granted in Net Pledged Revenues which is senior to the Bonds. Notwithstanding the previous sentence, nothing in this Indenture prohibits the Board from entering into agreements that provide for the granting of Facilities Construction Credits by the Board.\

Section 5.05

Section 5.05 is to be amended to read as follows:

Section 5.05. No Inconsistent Contract Provisions. The Board covenants that no contract or contracts will be entered into or any action taken by the Board which shall be inconsistent with the provisions of this Indenture. The Board covenants that it will not take any action which, in the Board's judgment at the time of such action, will substantially impair or materially adversely affect the Net Pledged Revenues, or will substantially impair or materially adversely affect in any manner the pledge of, lien on or security interest granted in the Net Pledged Revenues herein or the rights of the holders of the Bonds. The Board shall be unconditionally and irrevocably obligated, so long as any of the Bonds are Outstanding and unpaid, to take all lawful action necessary or required to pay from the Net Pledged Revenues the principal of and interest on the Bonds and to make the other payments provided for herein.

Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Subordinated Obligations and Third Lien Obligations.

(a) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Subordinated Obligations shall specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Bonds; and

(ii) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses and the Trustee to be used to pay debt service on the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

(b) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and any Subordinated Obligations and which indebtedness is, in this Indenture, referred to as Third Lien Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Third Lien Obligations shall specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Bonds and the Subordinated Obligations; and

(ii) Payment of principal of and interest on such Third Lien Obligations shall be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses, to the Trustee to be used to pay debt service on

the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund, and ~~all deposits required to be made to the trustee or paying agent for the Subordinated Obligations~~ to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with Section 4.04 of this Indenture.

Article VII

The first paragraph of Article VII is to be amended to read as follows:

Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full shall no longer be secured by or entitled to the benefits of this Indenture except for the purposes of payment from moneys or Government Obligations held by the Trustee or a Paying Agent for such purpose. When all Bonds which have been issued under this Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable hereunder by the Board, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the Net Pledged Revenues and the other assets pledged to secure the Bonds hereunder shall thereupon cease, terminate and become void, and thereupon the Trustee shall cancel, discharge and release this Indenture, shall execute, acknowledge and deliver to the Board such instruments as shall be requisite to evidence such cancellation, discharge and release and shall assign and deliver to the Board any property and revenues at the time subject to this Indenture which may then be in the Trustee's possession, except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds.

Section 8.06

Section 8.06 is to be amended to read as follows:

Section 8.06. No Impairment of Right To Enforce Payment. Notwithstanding any other provision in this Indenture, the right of any Bondholder to receive payment of the principal of and interest on such Bond or the purchase price thereof, on or after the respective due dates expressed therein and to the extent of the Net Pledged Revenues and other security provided for the Bonds, or to institute suit for the enforcement of any such payment on or after such respective date, shall not be impaired or affected without the consent of such Bondholder.

Section 9.15(c)

Section 9.15(c) is to be amended to read as follows:

(c) The Trustee shall annually, within a reasonable period after the end of the Fiscal Year, furnish to the Board and to each Bondholder who shall have filed his name and address with the Trustee for such purpose (at such Bondholder's cost) a statement (which need not be audited) covering receipts, disbursements, allocation and application of Bond proceeds, Net Pledged Revenues and any other moneys in any of the funds and accounts established by it pursuant to this Indenture or any Supplemental Indenture for the preceding year.

Section 10.02

Section 10.02(d) is to be amended to read as follows:

(d) to confirm, as further assurance, any interest of the Trustee in and to the Net Pledged Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities

or funds of the Board provided pursuant to this Indenture or to otherwise add additional security for the Bondholders;

Section 10.02(k) is to be amended to read as follows:

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Bonds, including, without limitation, the segregation of Pledged Revenues and Net Pledge Revenues into different funds; or

Senior Debt Service Deposit Amendment

The Senior Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds (the "Senior Debt Service Deposit Consent Requirement"). By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds will be deemed to have irrevocably consented to the Senior Debt Service Deposit Amendment. At the time of issuance of the Series 2008 Senior Bonds, the owners of approximately 84% of the Outstanding Senior Bonds will have consented to the Senior Debt Service Deposit Amendment. At this time there can be no assurance that the Senior Debt Service Deposit Consent Requirement will be met within any definite time frame. See "INTRODUCTION—Amendments to Master Senior Indenture" in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

Section 4.05

Section 4.05 is to be amended to read as follows:

~~"Section 4.05. Deposits Into and Withdrawals From the Debt Service Funds. The Trustee shall, at least fifteen (15) Business Days prior to each Payment Date on any Bond, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Capitalized Interest, if any, on deposit in the Debt Service Funds, required to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture shall control.~~

So long as any of the Bonds are Outstanding, the Authorized Board Representative shall deliver to the Treasurer, **at least ten (10) Business Days prior to each Payment Date**, as to each Series of Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than ~~the first day of each calendar month~~ **five (5) Business Days prior to each Payment Date**, transfer from the LAX Revenue Account to the Trustee for deposit in the Debt Service Funds established in respect of each Series of Outstanding Bonds: ~~(i) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on Bonds of that Series, as it becomes due, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (ii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Bonds of that Series, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (iii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Bonds of such Series shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment~~

~~becomes due. No such transfer need be made in respect of any Series of Bonds prior to the actual delivery of that Series of Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Bonds, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series of Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Bonds, so that interest due on such Series of Bonds on the first interest payment date to occur after the issuance of such Series of Bonds shall be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Bonds, and, if the first principal payment or sinking fund installment of such Series of Bonds is due less than 12 months after the issuance of such Series of Bonds, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series of Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Bonds, so that principal or sinking fund installments of such Series of Bonds due on the first principal payment date to occur after the issuance of such Series of Bonds shall be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Bonds.~~ **principal of and/or interest on Bonds of that Series due on such Payment Date.**

On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Bonds, the Trustee shall, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Debt Service Funds for the Series of Bonds for which such payments were made **and any excess funds shall be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates.** Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from the LAX Revenue Account or otherwise deposited into any Debt Service Fund for any Series of Bonds for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Bonds on the next succeeding Payment Date.

The Board may provide in any Supplemental Indenture that, as to any Series of Bonds Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled ~~monthly~~ transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Indenture, the Board may provide that monies in the Redemption Account allocable to sinking fund installment payments of a Series may, at the discretion of the Board, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Bonds so delivered or previously redeemed or purchased at the direction of the Board shall be credited by the Trustee at the principal amount thereof to the next scheduled sinking installment payments on Bonds of such Series and any excess over the sinking installment payment deposit required on that date shall be credited against future sinking installment deposits in such manner and order as the Board may determine in its discretion, and the scheduled principal amount of the Bonds to be redeemed by operation of such sinking installment payments shall be accordingly modified in such manner as the Board may determine and as specified to the Trustee in writing.

Money set aside and placed in a Debt Service Fund for any Series of Bonds shall remain therein until from time to time expended for the aforesaid purposes thereof and shall not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Debt Service Fund may be temporarily invested as provided in Article VI hereof, but such investment shall not affect the obligation of the Board to cause the full amount required by the terms of this Section to be available in a Debt Service Fund at the time required to meet payments of principal of and interest on Bonds of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Event of Default, such earnings shall remain in the Debt Service Funds created under the respective Supplemental Indentures.

Each Debt Service Fund established to pay principal of and interest on any Series of Bonds shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Board Representative and shall be held by the Trustee or such agents as shall be provided by Supplemental Indenture.

The moneys in each Debt Service Fund established for any issue or Series shall be held in trust and applied as provided herein and in the Supplemental Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Indenture shall be subject to a lien on and security interest in favor of the holders of the Outstanding Bonds of such Series.

Section 4.06

The second paragraph of Section 4.06 is to be amended to read as follows:

On or before ~~the fifteenth day preceding~~ a mandatory redemption date from sinking installment payments for Term Bonds of a Series of Bonds, the Trustee shall transfer from the Debt Service Fund to the Redemption Account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Trustee shall pay to the Owners of Bonds of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Bonds of such Series to be mandatorily redeemed on such date.

The six paragraph of Section 4.06 is to be amended to read as follows:

The Trustee shall, at least ~~10~~ **two (2)** Business Days prior to each Payment Date on any Bond, or as otherwise directed in any Supplemental Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Trustee to pay the amount required to be paid on such Payment Date in respect of such Bond, in the event the amount then on deposit in any Debt Service Fund is insufficient to pay the amounts due on any Series of Bonds on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of notifying the Board of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture shall control.

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OTHER MASTER SENIOR INDENTURE AMENDMENTS

The Other Master Senior Indenture Amendments do not require the consent of the owners of the Senior Bonds, however, certain of the Other Master Senior Indenture Amendments require the consent of the CP Banks (which the Department will not receive at the time of issuance of the Series 2008 Bonds) and BNP (which the Department will receive at the time of issuance of the Series 2008 Bonds). The Other Master Senior Indenture Amendments that require the consent of the CP Banks and BNP are described below. At this time there can be no assurance that the Other Master Senior Indenture Amendments that require the consent of the CP Banks and BNP will become effective within any definite time frame. See “INTRODUCTION—Amendments to Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in bold and double underline and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) The definition of “Bond” or “Bonds”

“Bond” or “Bonds” shall mean any debt obligation of the Department issued under and in accordance with the provisions of Article II of this Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in Section 2.13 of this Indenture. The term “Bond” or “Bonds” herein does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Indenture to this Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth ~~issued~~ pursuant to this Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations or Third Lien Obligations shall be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Pledged Revenues. The term “Bond” and “Bonds” includes Program Bonds.

- (b) The definition of “Refunding Bonds”

“Refunding Bonds” shall mean any Bonds issued pursuant to Section 2.10 hereof to refund or defease all or a portion of any series of Outstanding Bonds or, any Subordinated Obligation or any Third Lien Obligation.

- (c) Clause (b) of the definition of “Released LAX Revenues”

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through ~~FIFTH~~ SEVENTH of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs

FIRST through ~~FIFTH~~ **SEVENTH** of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(d) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund, any Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “Third Lien Obligations” are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations shall be secured on a junior and subordinate basis to the Bonds and the Subordinated Obligations from the Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a “Third Lien Obligation” for purposes of this Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Board as a “Third Lien Obligation” in a Supplemental Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “Third Lien Obligation” includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term “Third Lien Obligations” also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term “Third Lien Obligation” includes any Swap Termination Payment under a Qualified Swap with respect to any Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

(e) The definition of “Transfer”

“Transfer” shall mean for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through ~~SEVENTH~~ **NINTH** of Section 4.04 hereof have been made as of the last day of the immediately preceding Fiscal Year).

Section 4.01

The last sentence of Section 4.01 is to be amended to read as follows:

The Board may, as provided in Section 5.06 hereof, grant a lien on or security interest in the Pledged Revenues to secure Subordinated Obligations **and Third Lien Obligations**.

Section 4.04

Section 4.04 is to be amended to read as follows:

Section 4.04. Receipt and Deposit of LAX Revenues LAX Revenue Account. Subject to the provisions of Section 4.11 of this Indenture:

(a) The Board shall cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective

revenue account within the Airport Revenue Fund. The Board covenants and agrees that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Board pursuant to this Section 4.04 in the LAX Revenue Account and shall, immediately upon receipt thereof, become subject to the lien and pledge of this Indenture. The Board will notify the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by this Indenture and will instruct the Treasurer that all such LAX Revenues, shall be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Board or the City. If the Treasurer fails to comply with such instructions, the Department shall separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board.

Earnings on the various funds and accounts created under any Supplemental Indenture shall be deposited as provided in such Supplemental Indenture, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Indentures, (ii) earnings on the Construction Funds may, if so provided by Supplemental Indenture, be retained in such Construction Fund, (iii) pursuant to Section 4.07(d) of this Indenture, earnings on the Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Debt Service Reserve Fund may, if so provided by Supplemental Indenture, be retained in such fund.

The sums of Pledged Revenues required by this Section 4.04 to be so set aside out of the LAX Revenue Account into the specified accounts shall be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. The Authorized Board Representative shall direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this Section 4.04.

The provisions herein regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and shall be so construed.

(b) ~~The amounts of~~ Pledged Revenues credited to the LAX Revenue Account shall ~~first~~ be applied as follows and in the order set forth below:

FIRST To the payment of amounts required to be deposited in the Debt Service Funds pursuant to Section 4.05;

SECOND To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07, ~~or~~ **and** any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;

~~(e) After application of moneys as provided in (b) above, Pledged Revenues shall then be applied as follows and in the order set forth below:~~

THIRD To the payment of debt service on any indebtedness (other than Outstanding Bonds **or Third Lien Obligations**), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FOURTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds **or Third Lien Obligations**), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

FIFTH **To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any.**

but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

SIXTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

SEVENTH To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Board pursuant to Section 4.08 hereof;

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

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

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

Notwithstanding the provisions of this Indenture, nothing herein shall preclude the Board from making the payments described in paragraphs FIRST through ~~SEVENTH~~ NINTH above from sources other than Pledged Revenues.

~~The Board reserves the right to make modifications to the application of funds provided in subsection (c). The Board covenants that no such modifications will violate provisions of subsections (a) or (b) above or the provisions of any other contracts or agreements of the Board or any legal requirements otherwise applicable to the use of such moneys.~~

Section 5.03

Section 5.03 is to be amended to read as follows:

Section 5.03. Senior Lien Obligations Prohibited. The Board hereby agrees that so long as any Bonds are Outstanding under this Indenture, it (i) will not adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue any additional bonds or other obligations with a lien on or security interest granted in Pledged Revenues which is senior to the Bonds. Notwithstanding the previous sentence, nothing in this Indenture prohibits the Board from entering into agreements that provide for the granting of Facilities Construction Credits by the Board.

Section 5.04

Clause (a) of Section 5.04 is to be amended to read as follows:

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

~~(1) payments required for such Fiscal Year pursuant to paragraphs FIRST and SECOND of Section 4.04(b) hereof; and~~

~~(2) payments required for such Fiscal Year pursuant to Section 4.04(c) paragraphs THIRD, FOURTH, FIFTH AND SIXTH hereof;~~ **SECOND, THIRD, FOURTH, FIFTH, SIXTH, SEVENTH and EIGHTH of Section 4.04(b) hereof.**

Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Subordinated Obligations **and Third Lien Obligations.**

(a) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) ~~(1)~~ Any Supplemental Indenture authorizing the issuance of any ~~Subordinate Obligations~~ **Subordinated Obligations** shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds; and

~~(2)~~ (ii) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds ~~or~~ **and** to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

(b) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and any Subordinated Obligations and which indebtedness is, in this Indenture, referred to as Third Lien Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Third Lien Obligations shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds and the Subordinated Obligations; and

(ii) Payment of principal of and interest on such Third Lien Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund, and all deposits required to be made to the

trustee or paying agent for the Subordinated Obligations to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with Section 4.04 of this Indenture.

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APPENDIX D-2

PROPOSED AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE

FIFTY-ONE PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS

The Fifty-One Percent Master Subordinate Indenture Amendments will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Subordinate Bonds Outstanding and the consent of BNP (the “Fifty-One Percent Master Subordinate Indenture Consent Requirement”). By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Subordinate Indenture Amendments. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of more than 51% in aggregate principal amount of all of the Subordinate Bonds Outstanding will have consented to the Fifty-One Percent Master Subordinate Indenture Amendments. However, the Department will not receive the consent of BNP to the Fifty-One Percent Master Subordinate Indenture Amendments at the time of issuance of the Series 2008 Subordinate Bonds. At this time there can be no assurance that the Fifty-One Percent Master Subordinate Indenture Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are shown in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

(a) Subparagraph (d) of the definition of “Aggregate Annual Debt Service”

(d) if any Outstanding Subordinate Obligations (including Subordinate Program Obligations) or any Subordinate Obligations which are then proposed to be issued constitute Tender Indebtedness ~~(but excluding Subordinate Program Obligations or Subordinate Obligations as to which a Qualified Swap is in effect and to which subsection (g) or (h) applies)~~, then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if **(i)** the principal amount of such Subordinate Obligations were to be amortized over a term of not more than 30 years commencing in the year in which such Series or Subseries is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued, **provided, however, notwithstanding the previous provisions of this clause (i), any principal amortization schedule set forth in a Supplemental Subordinate Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) shall be applied to determine the principal amortization of such Subordinate Obligations;** **(ii)** the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; and **(iii)** with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (e) or (f) below, as appropriate;

(b) Subparagraph (h) of the definition of “Aggregate Annual Debt Service”

(h) (i) for purposes of computing the Aggregate Annual Debt Service of Subordinate Obligations which constitute Synthetic Fixed Rate Debt, the interest payable thereon shall, if the Department elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Department ~~fails to~~ **does not** elect such rate, then it shall be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, **or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;**

(ii) for purposes of computing the Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Obligations to which such Swap pertains shall be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Obligations shall, ~~if the Department elects,~~ be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;

(c) Subparagraph (j) of the definition of “Aggregate Annual Debt Service”

(j) if moneys ~~or~~, Permitted Investments **or any other amounts not included in Subordinate Pledged Revenues have been used to pay or** have been irrevocably deposited with and are held by the Trustee or another fiduciary **to pay** or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments, **other amounts not included in Subordinate Pledged Revenues** or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating **Aggregate** Annual Debt Service;

(d) Subparagraph (k) of the definition of “Aggregate Annual Debt Service”

(k) if Passenger Facility Charges, **Customer Facility Charges**, state and/or federal grants or other moneys **not included in Subordinate Pledged Revenues** have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such Passenger Facility Charges, **Customer Facility Charges**, state and/or federal grants or other moneys **not included in Subordinate Pledged Revenues** or from earnings thereon shall be disregarded (unless such Passenger Facility Charges, **Customer Facility Charges**, state and/or federal grants or other moneys are included in ~~the definition of~~ Pledged Revenues) and not included in calculating Aggregate Annual Debt Service; and

(e) The definition of “Authorized Amount”

“Authorized Amount” shall mean, when used with respect to Subordinate Obligations, including Subordinate Program Obligations, the maximum Principal Amount of Subordinate Obligations which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to Section 2.09 hereof to be Outstanding at any one time under the terms of such Program or Supplemental Subordinate Indenture. If the maximum Principal Amount of Subordinate Obligations or Subordinate Program Obligations authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to Section 2.09 of this Indenture exceeds the maximum Principal

Amount of Subordinate Obligations set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such Subordinate Obligations are issued or such Program is established, the Principal Amount of such Subordinate Obligations or Subordinate Program Obligations as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department shall be deemed to be the "Authorized Amount." Notwithstanding the provisions of this definition of "Authorized Amount," in connection with Section 2.11(a) and (b) and the calculation of Maximum Aggregate Annual Debt Service **and Aggregate Annual Debt Service** with respect to a Commercial Paper Program, "Authorized Amount" shall mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.

(f) The definition of "Costs" or "Costs of a Project"

"Costs" or "Costs of a Project" shall mean all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and shall include, but not be limited to the following: (a) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (b) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (c) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the Department or Consultant; (d) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (e) financing expenses, including costs related to issuance of and securing of Subordinate Obligations, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, a Debt Service Reserve Fund, if any, Trustee's fees and expenses; (f) any Swap Termination Payments due in connection with a Series or Subseries of Subordinate Obligations or the failure to issue such Series or Subseries of Subordinate Obligations, and (g) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. **Costs of a Project shall also include the acquisition or refunding of outstanding revenue bonds and obligations of the Department, RAIC bonds and California Statewide Communities Development Authority bonds, including any financing costs with respect thereto.**

(g) The definition of "Customer Facility Charge"

"Customer Facility Charges" shall mean all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

(h) The definition of "Debt Service Reserve Fund Surety Policy"

"Debt Service Reserve Fund Surety Policy" shall mean an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more Series or Subseries of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. **The Except as otherwise provided in a Supplemental Subordinate Indenture, the** entity providing such Debt Service Reserve Fund Surety Policy shall be rated, **at the time such instrument is provided,** in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

- (i) The definition of “Estimated Completion Date”

~~“Estimated Completion Date” shall mean the estimated date upon which a specified Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a specified Project is expected to have been acquired and payment therefor made, in each case, as that date shall be set forth in a certificate of an Authorized Representative delivered to the Trustee at or prior to the time of issuance of the Subordinate Obligations which are issued to finance such specified Project.~~

Section 2.09

Clause (f) of Section 2.09 is to be amended to read as follows:

(f) a certificate of the Authorized Representative stating that ~~(i)(A)~~ none of the Events of Default set forth in Section 8.01(a), (b), (c), (e), (f) and (g) of this Indenture have occurred and remain uncured, that none of the events of default set forth in Section 5.01(a), (c), (d) and (e) of the Parity Subordinate Indenture have occurred and remain uncured, ~~and~~ that none of the events of default set forth in the Senior Lien Trust Indenture have occurred and remain uncured, ~~and~~ or (B) that upon the issuance of such Series or Subseries of Subordinate Obligations all the Events of Default set forth in Section 8.01(a), (b), (c), (e), (f) and (g) of this Indenture that have occurred and are continuing, that all of the events of default set forth in Section 5.01(a), (c), (d) and (e) of the Parity Subordinate Indenture that have occurred and are continuing, and that all of the events of default set forth in the Senior Lien Trust Indenture that have occurred and are continuing, shall be cured, and (ii) that the Department is in full compliance with the terms of Sections 5.04 and 5.05 hereof, Section 4.04 of the Parity Subordinate Indenture and Section 5.04 of the Senior Lien Trust Indenture;

Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Test for Issuance of Subordinate Obligations. In addition to the certificate required by Section 2.11 of the Parity Subordinate Indenture ~~(which certificate shall not be required on and after the earlier to occur of (y) the date the Parity Subordinate Indenture is discharged pursuant to Article VIII of the Parity Subordinate Indenture, or (z) the date the Department amends Section 2.11 of the Parity Subordinate Indenture, and such amendments become effective, so that the provisions of Section 2.11 of the Parity Subordinate Indenture will be substantially similar to the provisions of this Section 2.11)~~, and subject to the provisions under subsections (a 1), (b 2) or (e 3) of the last paragraph of this Section 2.11 ~~and excepting the Initial Subordinate Obligations~~, as a condition to the issuance of any Series or Subseries of Subordinate Obligations in excess of the Initial Subordinate Obligations, there shall first be delivered to the Trustee ~~and the Parity Subordinate Issuing and Paying Agent~~ either:

(a) a certificate, dated as of a date between the date of pricing of the Subordinate Obligations being issued and the date of delivery of such Subordinate Obligations (both dates inclusive), prepared by an Authorized Representative showing that the Net 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 or Subseries of Subordinate Obligations or preceding the first issuance of the proposed Subordinate Program Obligations were at least equal to 115% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, Parity Subordinate Obligations and the proposed Series or Subseries of Subordinate Obligations, calculated as if the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding; or

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

(i) the Net Subordinate Pledged Revenues ~~(as calculated by said Consultant)~~, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 24 18 consecutive months immediately preceding the date of issuance of the proposed Series or Subseries of Subordinate Obligations or the establishment of a Program, were at least equal to 115% of ~~Maximum~~ the sum of the Aggregate Annual Debt Service due and payable with respect to all Outstanding Subordinate Obligations, ~~Unissued (not including the proposed Series or Subseries of Subordinate Obligations or the proposed~~ Subordinate Program Obligations) and Parity Subordinate Obligations for such Fiscal Year or other applicable period; and

~~(ii) — for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of this Indenture; and~~

~~(ii) (iii) for the period from and including the first full Fiscal Year following the issuance of such proposed Series or Subseries of Subordinate Obligations during which no interest on such Series or Subseries of Subordinate Obligations is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Series or Subseries of Subordinate Obligations, or (B) the third full Fiscal Year during which no interest on such Series or Subseries of Subordinate Obligations is expected to be paid from the proceeds thereof,~~ the estimated Net Subordinate Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, together with any estimated Transfer, for each such Fiscal Year, will be at least equal to 115% of ~~Maximum~~ the Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, Parity Subordinate Obligations and the proposed Series or Subseries of Subordinate Obligations calculated as if the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding.

For purposes of subparagraphs (a) and (b) above, ~~no the amount of any Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Representative or the Consultant~~ taken into account shall not exceed 15% of the Aggregate Annual Debt Service on the Outstanding Subordinate Obligations, Unissued Program Subordinate Obligations, Parity Subordinate Obligations, the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations, as applicable, for such applicable Fiscal Year or such other applicable period.

For purposes of subsections (b)(ii) ~~and (iii)~~ above, in estimating Net Subordinate Pledged Revenues, the Consultant may take into account (1) Pledged Revenues from Specified LAX Projects or LAX Airport Facilities reasonably expected to become available during the period for which the estimates are provided, (2) any increase in fees, rates, charges, rentals or other sources of Pledged Revenues which have been approved by the Board and will be in effect during the period for which the estimates are provided, (3) any other increases in Pledged Revenues which the Consultant believes to be a reasonable assumption for such period. With respect to LAX Maintenance and Operation Expenses, the Consultant shall use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors,

including inflation and changing operations or policies of the Board, as the Consultant believes to be appropriate. The Consultant shall include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated Net Subordinate Pledged Revenues and shall also set forth the calculations of ~~Maximum~~ Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants or the Authorized 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 shall certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(b) (2) if the Subordinate Obligations being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Department will be in compliance with Section 5.04(a) and (b) of this Indenture; or

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

Section 5.04

Clauses (c), (d) and (e) of Section 5.04 is to be amended to read as follows:

(c) ~~The Department covenants that if Net~~ **If the Department violates either covenant set forth in subsection (a) or (b) above, such violation shall not be a default under this Indenture and shall not give rise to a declaration of an Event of Default if, within 180 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce** Subordinate Pledged Revenues, together with any Transfer (only as applied in (b) above), in any Fiscal Year are less than the amount specified in paragraph (a) or (b) of this Section 5.04, the Department will retain and direct a Consultant to make recommendations as to the revision of the Department's business operations and its schedule of rentals, rates, fees and charges for the use of LAX and for services rendered by the Department in connection with LAX, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Department shall take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Subordinate Pledged Revenues, together with any Transfer (only as applied in (b) above), in the amount specified in paragraph (a) or (b) of this Section 5.04 in the next succeeding Fiscal Year. **to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent fiscal year succeeding the date such violation is discovered, an Event of Default may be declared under Section 8.01(d) hereof. The Department may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Department into compliance with said covenants.**

(d) ~~In the event that Net Subordinate Pledged Revenues for any Fiscal Year are less than the amount specified in paragraph (a) or (b) of this Section 5.04, but the Department promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by paragraph (c) of this Section 5.04, such deficiency in Net Subordinate Pledged Revenues shall not constitute an Event of Default under the provisions of Section 8.01(d). Nevertheless, if after taking the measures required by paragraph (c) of this Section 5.04 to revise the schedule of rentals, rates, fees and charges, Net Subordinate Pledged Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Department for such Fiscal Year) are less than the amount specified in paragraph (a) or (b) of this Section 5.04, such deficiency in Net Subordinate Pledged Revenues shall constitute an Event of Default under the provisions of Section 8.01(d).~~

(d) ~~(e)~~ In addition to the covenants set forth in (a) and (b) above, the Department covenants to continue to comply with Section 4.04 of the Parity Subordinate Indenture, as long as such Section is applicable.

Section 5.14

Section 5.14 is to be amended to read as follows:

Section 5.14. LAX Special Facilities and LAX Special Facility Obligations. Subject to the terms and provisions of Section 5.07 of the Senior Lien Trust Indenture, ~~as such section exists on the date of execution of this Indenture~~, the Department shall be permitted to designate and provide that certain of the contractual payments derived or relating to a LAX Special Facility (as such term is defined in the Senior Lien Trust Indenture) together with other income and revenues available to the Department from such LAX Special Facility, be "LAX Special Facilities Revenue" (as defined in the Senior Lien Trust Indenture) and not included as Pledged Revenues or, Net Pledged Revenues **or Subordinate Pledged Revenues**. Subject to the terms of Section 5.07 of the Senior Lien Trust Indenture, the Department will be permitted to issue "LAX Special Facility Obligations" (as defined in the Senior Lien Trust Indenture) payable solely from LAX Special Facilities Revenue, **proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, and such Pledged Revenues**

or other moneys not included in Pledged Revenues made available by the Department as provided in Section 5.07 of the Senior Lien Trust Indenture.

Section 8.01

(a) Clause (a) of Section 8.01 is to be amended to read as follows:

(a) a failure to pay the principal of or premium, if any, on any of the Subordinate Obligations, ~~except termination payments under Qualified Swaps~~, when the same shall become due and payable at maturity or upon redemption;

(b) Clause (d) of Section 8.01 is to be amended to read as follows:

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this Section 8.01) that are to be observed or performed by the Department and which are contained in this Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under Section 5.04 which shall be controlled by the provisions set forth therein, shall continue for a period of ~~60~~ **90** days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Department by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding, unless the Trustee, or the Trustee and the Holders of Subordinate Obligations in a Principal Amount not less than the Principal Amount of Subordinate Obligations the Holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the Holders of such principal amount of Subordinate Obligations shall 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;

Section 8.02

Clause (c) of Section 8.02 is to be amended to read as follows:

(c) ~~In~~ **Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Subordinate Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider (subject to the prior lien on Pledged Revenues granted to the Senior Lien Revenue Bonds pursuant to the Senior Lien Trust Indenture), in** no event, upon the occurrence and continuation of an Event of Default described in Section 8.01 hereof, shall the Trustee, the Holders, a Credit Provider, **a Liquidity Provider** or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Obligations Outstanding.

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ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS

Subordinate Pledge Change Amendment

The Subordinate Pledge Change Amendment will not become effective until (a) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and the consent of BNP, and the Department has made similar conforming amendments to the Parity Subordinate Indenture (which amendments will require the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks) (collectively, the “Subordinate Pledge Change Consent Requirement”), and (b) the Senior Pledge Change Consent Requirement has been met. By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Subordinate Pledge Change Amendment. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the Subordinate Pledge Change Amendment; but the Department will not receive the consent of BNP, the Department will not have made similar amendments to the Parity Subordinate Indenture (or received the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks for such amendments) and the Senior Pledge Change Consent Requirement will not be met.

At this time there can be no assurance that the Subordinate Pledge Change Consent Requirement or the Senior Pledge Change Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are shown in bold and double underline and deletions are shown in ~~strike through~~. The Fifty-One Percent Master Subordinate Indenture Amendments described in “—FIFTY-ONE PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS” above the Other Master Subordinate Indenture Amendments as described in “—OTHER MASTER SUBORDINATE INDENTURE AMENDMENTS” below are assumed to become effective prior to the Subordinate Pledge Change Amendment and therefore are incorporated in the description of the Subordinate Pledge Change Amendment described below.

WHEREAS CLAUSES

The fourth, fifth and tenth WHEREAS clauses will be amended to read as follows:

WHEREAS, pursuant to Resolution No. 19050, adopted by the Board on January 30, 1995, and the Master Trust Indenture, dated as of April 1, 1995 (the “Senior Lien Trust Indenture”), by and between the Department and BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee thereunder (the “Senior Lien Trustee”), as amended and supplemented, the Department authorized and provided for the issuance of Bonds (as defined in the Senior Lien Trust Indenture) secured by and payable from a pledge of Net Pledged Revenues (as defined in the Senior Lien Trust Indenture); and

WHEREAS, under the terms of the Senior Lien Trust Indenture, the Board may create a charge or lien on the Net Pledged Revenues ranking junior and subordinate to the charge or lien of the obligations issued pursuant to the Senior Lien Trust Indenture; and

WHEREAS, the Department hereby declares and provides that, with respect to the Net Pledged Revenues, the pledge and lien provided in this Indenture are subordinate to the lien created by the Senior Lien Trust Indenture and obligations issued hereunder will be subordinate to obligations to be issued under the Senior Lien Trust Indenture with respect to payment from the Net Pledged Revenues and shall be payable from the Net Pledged Revenues only when and to the extent the Net Pledged Revenues are released under the Senior Lien Trust Indenture in accordance with its terms; and

ARTICLE I – Definitions

The following definitions are to be amended to read as follows:

- (a) The definition of “Net Subordinate Pledged Revenues”

~~“Net Subordinate Pledged Revenues” shall mean for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Aggregate Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture) on the Outstanding (as such term is defined in the Senior Lien Trust Indenture) Senior Lien Revenue Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Section 4.04(b) SECOND of the Senior Lien Trust Indenture.~~

- (b) The definition of “Subordinate Pledged Revenues”

“Subordinate Pledged Revenues” shall mean for any given period, the Pledged Revenues available to pay debt service on the Subordinate Obligations for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Aggregate Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture) on the Outstanding (as such term is defined in the Senior Lien Trust Indenture) Senior Lien Revenue Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Section 4.04(e)(b) THIRD of the Senior Lien Trust Indenture.

Section 2.01

The last paragraph of Section 2.01 is to be amended to read as follows:

In addition, each Subordinate Obligation shall contain an express statement that such obligation and the interest thereon are junior and subordinate in all respects to the Senior Lien Revenue Bonds as to lien on and source and security for payment from the Net Pledged Revenues.

Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Test for Issuance of Subordinate Obligations. In addition to the certificate required by Section 2.11 of the Parity Subordinate Indenture (which certificate shall not be required on and after the earlier to occur of (y) the date the Parity Subordinate Indenture is discharged pursuant to Article VIII of the Parity Subordinate Indenture, or (z) the date the Department amends Section 2.11 of the Parity Subordinate Indenture, and such amendments become effective, so that the provisions of Section 2.11 of the Parity Subordinate Indenture will be substantially similar to the provisions of this Section 2.11), and subject to the provisions under subsections (1), (2) or (3) of the last paragraph of this Section 2.11, as a condition to the issuance of any Series or Subseries of Subordinate Obligations in excess of the Initial Subordinate Obligations, there shall first be delivered to the Trustee and the Parity Subordinate Issuing and Paying Agent either:

- (a) a certificate, dated as of a date between the date of pricing of the Subordinate Obligations being issued and the date of delivery of such Subordinate Obligations (both dates inclusive), prepared by an Authorized Representative showing that the Net 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 or Subseries of Subordinate Obligations or preceding the first issuance of the proposed Subordinate Program Obligations were at least equal to 115% of Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, Parity Subordinate Obligations and the proposed Series or Subseries of Subordinate

Obligations, calculated as if the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding; or

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

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

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

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

For purposes of subsection (b)(ii) above, in estimating ~~Net~~ Subordinate Pledged Revenues, the Consultant may take into account (1) Pledged Revenues from Specified LAX Projects or LAX Airport Facilities reasonably expected to become available during the period for which the estimates are provided, (2) any increase in fees, rates, charges, rentals or other sources of Pledged Revenues which have been approved by the Board and will be in effect during the period for which the estimates are provided, (3) any other increases in Pledged Revenues which the Consultant believes to be a reasonable assumption for such period. With respect to LAX Maintenance and Operation Expenses, the Consultant shall use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the Board, as the Consultant believes to be appropriate. The Consultant shall include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated ~~Net~~ Subordinate Pledged Revenues and shall also set forth the calculations of 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 shall certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(2) if the Subordinate Obligations being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the ~~Net~~ Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Department will be in compliance with Section 5.04(a) and (b) of this Indenture; or

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

Section 2.12

The third sentence of Section 2.12 is to be amended to read as follows:

Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Obligation shall be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of **LAX Maintenance and Operation Expenses**, Senior Lien Revenue Bonds, any reserve funds established with respect to Senior Lien Revenue Bonds, Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

Section 2.13

Clauses (b) and (c) of Section 2.13 is to be amended to read as follows:

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the Department under a Qualified Swap, such Swap Termination Payment and any such other amounts shall, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund **LAX Maintenance and Operation Expenses**, Senior Lien Revenue Bonds, any reserve funds established with respect to Senior Lien Revenue Bonds, Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

(c) Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap shall, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund **LAX Maintenance and Operation Expenses**, Senior Lien Revenue Bonds, any reserve funds established with respect to Senior Lien Revenue Bonds, Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

Section 5.04

Clauses (a) and (b) of Section 5.04 is to be amended to read as follows:

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

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

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

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

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

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

(b) The Department further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that

during each Fiscal Year the ~~Net~~ Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations and the outstanding Parity Subordinate Obligations. For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 15% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations and the outstanding Parity Subordinate Obligations in such Fiscal Year.

Section 10.02

Clause (k) of Section 10.02 is to be amended to read as follows:

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Obligations, including, without limitation, the segregation of Pledged Revenues, **Net Pledged Revenues** and Subordinate Pledged Revenues into different funds; and

Subordinate Debt Service Deposit Amendment

The Subordinate Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds (the "Subordinate Debt Service Deposit Consent Requirement"). By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Subordinate Debt Service Deposit Amendment. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the Subordinate Debt Service Deposit Amendment. At this time there can be no assurance that the Subordinate Debt Service Deposit Consent Requirement will be met within any definite time frame. See "INTRODUCTION—Amendments to Master Subordinate Indenture" in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are show in **bold and double underline** and deletions are shown in ~~strike through~~.

Section 4.03

Section 4.03 is to be amended to read as follows:

Section 4.03. Creation and Funding of Debt Service Funds. The Department shall, at the time of issuance of each Series or Subseries of Subordinate Obligations create a Debt Service Fund for such Series or Subseries, which Debt Service Fund shall be designated "Los Angeles International Airport Subordinate Revenue [Obligations/Bonds/Commercial Paper Notes] Debt Service Fund [Series/Subseries] _____", (each, respectively, a "Debt Service Fund") which Debt Service Fund and all Subaccounts shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series or Subseries, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created in the various Debt Service Funds and shall be held by the Trustee or such agents as shall be provided by Supplemental Subordinate Indenture. In addition, to provide for the redemption of any Subordinate Obligations which are subject to optional or mandatory redemption, including mandatory sinking fund redemption, the Department may establish within each Debt Service Fund an account designated the "Redemption Account."

The Trustee shall, at least fifteen (15) Business Days prior to each Payment Date on any Subordinate Obligation, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Capitalized Interest, if any, on deposit in the Debt Service Funds, required to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series or Subseries of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may

provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series or Subseries and, in such event, the terms of such Supplemental Subordinate Indenture shall control.

So long as any of the Subordinate Obligations are Outstanding, the Authorized Representative shall deliver to the Treasurer, **at least ten (10) Business Days prior to each Payment Date**, as to each Series and Subseries of Subordinate Obligations Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than ~~the first day of each calendar month~~ **five (5) Business Days prior to each Payment Date**, transfer from the LAX Revenue Account to the Trustee for deposit in the Debt Service Funds established in respect of each Series or ~~and~~ Subseries of Outstanding Subordinate Obligations: ~~(a) sums in equal fractional parts for each one half year so that at least the full amount required to pay the~~ **principal of and/or** interest on Subordinate Obligations of that Series or Subseries, as it becomes due, ~~shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due;~~ ~~(b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Subordinate Obligations of that Series or Subseries, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due;~~ and ~~(c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Subordinate Obligations of such Series or Subseries shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due.~~ No such transfer need be made in respect of any Series or Subseries of Subordinate Obligations prior to the actual delivery of that Series or Subseries of Subordinate Obligations to the purchasers thereof; provided, however, that subsequent to the issuance of such Series or Subseries of Subordinate Obligations, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series or Subseries of Subordinate Obligations, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series or Subseries of Subordinate Obligations, so that interest due on such Series or Subseries of Subordinate Obligations on the first interest payment date to occur after the issuance of such Series or Subseries of Subordinate Obligations shall be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series or Subseries of Subordinate Obligations, and, if the first principal payment or sinking fund installment of such Series or Subseries of Subordinate Obligations is due less than 12 months after the issuance of such Series or Subseries of Subordinate Obligations, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series or Subseries of Subordinate Obligations, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series or Subseries of Subordinate Obligations, so that principal or sinking fund installments of such Series or Subseries of Subordinate Obligations due on the first principal payment date to occur after the issuance of such Series or Subseries of Subordinate Obligations shall be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series or Subseries of Subordinate Obligations: **due on such Payment Date**.

On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Obligations, the Trustee shall, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Debt Service Funds for the Series or Subseries of Subordinate Obligations for which such payments were made **and any excess funds shall be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates**. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Debt Service Fund for any Series or Subseries of Subordinate Obligations for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Subordinate Obligations on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series or Subseries of Subordinate Obligations Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled ~~monthly~~ transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the Redemption Account allocable to sinking fund installment payments of a Series or Subseries may, at the discretion of the Department, be applied to the purchase and cancellation of such Series or Subseries (a price not greater than par) prior to notice of redemption of such Series or Subseries. Such Subordinate Obligations so delivered or previously redeemed or purchased at the direction of the Department shall be credited by the Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Obligations of such Series or Subseries and any excess over the sinking installment payment deposit required on that date shall be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Subordinate Obligations to be redeemed by operation of such sinking installment payments shall be accordingly modified in such manner as the Department may determine and as specified to the Trustee in writing.

Money set aside and placed in a Debt Service Fund for any Series or Subseries of Subordinate Obligations shall remain therein from time to time expended for the aforesaid purposes thereof and shall not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Debt Service Fund may be temporarily invested as provided in Article VI hereof, but such investment shall not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Obligations of the Series or Subseries for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Event of Default, such earnings shall remain in the Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Debt Service Fund established to pay principal of and interest on any Series or Subseries of Subordinate Obligations shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series or Subseries, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Representative and shall be held by the Trustee or such agents as shall be provided by the Supplemental Subordinate Indenture.

The moneys in each Debt Service Fund established for any issue, Series or Subseries shall be held in trust and applied as provided herein and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Subordinate Indenture shall be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Obligations of such Series or Subseries.

On each Payment Date for any Outstanding Subordinate Obligations, the Trustee shall pay to the Owners of the Subordinate Obligations of a given Series or Subseries from the appropriate Debt Service Fund or Debt Service Funds, an amount equal to the principal and interest becoming due on such Series or Subseries of Subordinate Obligations.

On or before ~~the fifteenth day preceding~~ a mandatory redemption date from sinking installment payments for Term Subordinate Obligations of a Series or Subseries of Subordinate Obligations, the Trustee shall transfer from the Debt Service Fund to the Redemption Account for such Series or Subseries an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Obligations of a Series or Subseries are to be mandatorily redeemed from sinking installment payments, the Trustee shall pay to the Owners of Subordinate Obligations of such Series or Subseries from the Redemption Account for such Series or Subseries, an amount equal to the amount of

interest and the principal amount of Term Subordinate Obligations of such Series or Subseries to be mandatorily redeemed on such date.

On each date on which Subordinate Obligations of any Series or Subseries shall otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Subordinate Indenture, the Trustee shall pay to the Owners of such Subordinate Obligations from the Redemption Account, an amount of interest and principal, and premium, if any, on such Subordinate Obligations to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Obligations are issued, the Department shall have or shall have caused to be deposited in the Redemption Account for such Series or Subseries, an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Obligations on such redemption date.

The payments made by the Trustee in this Section shall be made solely to the extent that moneys are on deposit in the appropriate Debt Service Fund.

All money remaining in a Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Obligations of the Series or Subseries for which that Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Obligations of that Series or Subseries, shall be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Trustee shall, at least ~~10~~ two (2) Business Days prior to each Payment Date on any Subordinate Obligation, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Obligation, in the event the amount then on deposit in any Debt Service Fund is insufficient to pay the amounts due on any Series or Subseries of Subordinate Obligations on such Payment Date. With respect to any Series or Subseries of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series or Subseries and, in such event, the terms of such Supplemental Subordinate Indenture shall control.

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in a Debt Service Reserve Fund) to pay in full with respect to Subordinate Obligations of all Series or Subseries all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day (without regard to any amounts in a Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Obligations of any Series or Subseries, in the order in which such interest came due, then to the payment of past due principal on Subordinate Obligations of any Series or Subseries, in the order in which such principal came due, then to the payment of interest then due and payable on the Subordinate Obligations of each Series or Subseries due on such Payment Date and, if the amount available shall not be sufficient to pay in full all interest on the Subordinate Obligations then due, then pro rata among the Series or Subseries according to the amount of interest then due and second to the payment of principal then due on the Subordinate Obligations and, if the amount available shall not be sufficient to pay in full all principal on the Subordinate Obligations then due, then pro rata among the Series or Subseries according to the Principal Amount then due on the Subordinate Obligations.

If a Debt Service Reserve Fund or Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Obligations secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish such Debt Service Reserve Fund or Debt Service Reserve Funds or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose

until all payments of principal of and interest on all Subordinate Obligations which have become due and payable shall have been paid in full, (b) the required payments to replenish any such Debt Service Reserve Fund or Debt Service Reserve Funds or reimburse the Credit Provider shall be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Debt Service Reserve Fund or Debt Service Reserve Funds exceeds the amount available for such purpose, the payments made to the Trustee for such purpose shall be allocated among the various Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Obligations secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series or Subseries of Subordinate Obligations, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on such Subordinate Obligations depending upon the terms of such Subordinate Obligations and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Debt Service Fund created for the Series or Subseries of Subordinate Obligations for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Obligations, the Department may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

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OTHER MASTER SUBORDINATE INDENTURE AMENDMENTS

The Other Master Subordinate Indenture Amendments do not require the consent of the owners of the Subordinate Bonds, however, certain of the Other Master Subordinate Indenture Amendments will not become effective until the Other Master Senior Indenture Amendments described under APPENDIX D-1—“PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE—OTHER MASTER SENIOR INDENTURE AMENDMENTS” become effective. The Other Master Subordinate Indenture Amendments that will not become effective until the Other Master Senior Indenture Amendments described under APPENDIX D-1—“PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE—OTHER MASTER SENIOR INDENTURE AMENDMENTS” become effective are described below. At this time there can be no assurance that the Other Master Subordinate Indenture Amendments described below will become effective within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) The definition of “Refunding Subordinate Obligations”

“Refunding Subordinate Obligations” shall mean any Subordinate Obligations issued pursuant to Section 2.10 hereof to refund or defease all or a portion of any Series or Subseries of Outstanding Subordinate Obligations, any Parity Subordinate Obligations or, any Senior Lien Revenue Bonds **or any Third Lien Obligations.**

- (b) The definition of “Subordinate Obligation” or “Subordinate Obligations”

“Subordinate Obligation” or “Subordinate Obligations” shall mean any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of Article II of this Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in Section 2.12 of this Indenture. **The terms “Subordinate Obligation” and “Subordinate Obligations” herein do not include any Third Lien Obligation; provided, however, the Department may provide in a Supplemental Subordinate Indenture that Third Lien Obligations may be issued thenceforth pursuant to this Indenture having the terms applicable to the Subordinate Obligations, except that such Third Lien Obligations shall be junior and subordinate in payment of such Third Lien Obligations from the Subordinate Pledged Revenues.** The terms “Subordinate Obligation” and “Subordinate Obligations” include Subordinate Program Obligations.

- (c) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall have the meaning provided in Article I of the Senior Lien Trust Indenture, or as may be amended or supplemented pursuant to Article X of the Senior Lien Trust Indenture.

- (d) The definition of “Transfer”

“Transfer” shall mean for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue

Account (after all deposits and payments required by paragraphs FIRST through ~~SEVENTH~~ NINTH of Section 4.04 of the Senior Lien Trust Indenture have been made as of the last day of the immediately preceding Fiscal Year).

Section 4.02

The last sentence of Section 4.02 is to be amended to read as follows:

Notwithstanding this provision, no Construction Fund shall be required for a given Series or Subseries of Subordinate Obligations if all of the proceeds thereof (except those deposited into any Debt Service Reserve Fund or a Debt Service Fund) are spent at the time of issuance of such Series or Subseries or are used to refund Senior Lien Revenue Bonds, ~~or Parity~~ Subordinate Obligations ~~or otherwise~~, Subordinate Obligations or Third Lien Obligations or the Department otherwise determines that there is no need to create a Construction Fund for such Series or Subseries.

Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Junior and Subordinated Obligations. The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Department shall determine, provided that:

(a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations (including, but not limited to, Third Lien Obligations) shall specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Obligations; and

(b) payment of principal of and interest on such subordinated obligations (including, but not limited to, Third Lien Obligations) shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Subordinate Obligations ~~or and~~ to replenish ~~the any~~ Debt Service Reserve Fund, ~~if any~~, are then current in accordance with Section 4.03 and 4.04 of this Indenture.

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APPENDIX E

PROPOSED FORMS OF BOND COUNSEL'S OPINIONS

[Closing Date]

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

\$602,075,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2008 Series A

\$7,875,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Senior Refunding Revenue Bonds
2008 Series B

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board") of \$602,075,000 aggregate principal amount of its Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the "Series 2008A Senior Bonds"), and \$7,875,000 aggregate principal amount of its 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"). The Series 2008 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., 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 Ninth Supplemental Trust Indenture, dated as of August 1, 2008 (the "Ninth Supplemental Senior Indenture"), by and between the Department, acting through the Board, and the Senior Trustee. Issuance of the Series 2008 Senior Bonds has been authorized by Resolution No. 23557, adopted by the Board on May 5, 2008, and approved by the City Council on June 4, 2008, and Resolution No. 23598, adopted by the Board on July 7, 2008 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Senior Indenture and the Ninth Supplemental Senior Indenture.

In connection with the issuance of the Series 2008 Senior Bonds, 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 Ninth 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 2008 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 execute the Master Senior Indenture and the Ninth Supplemental Senior Indenture and to issue the Series 2008 Senior Bonds.

2. The Master Senior Indenture and the Ninth 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 2008 Senior Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Senior Indenture and the Ninth Supplemental Senior Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2008 Senior Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Senior Trustee of the Pledged Revenues and certain funds and accounts created under the Master Senior Indenture and the Ninth Supplemental Senior Indenture, and not out of any other fund or moneys of the Department or the City. Neither the faith and credit nor the taxing power of the City, the State of California or any public agency, other than the Department to the extent of the Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2008 Senior Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2008 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 2008 Senior Bonds for any period during which such Series 2008 Senior Bonds, as applicable, are held by a person who is a “substantial user” of the facilities financed and refinanced by the Series 2008 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 (the “Code”). Interest on the Series 2008 Senior Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2008 Senior Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 4 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Senior Indenture, the Ninth Supplemental Senior Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2008 Senior Bonds to be included in gross income retroactive to the date of issue of the Series 2008 Senior Bonds. Although we are of the opinion that interest on the Series 2008 Senior Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2008 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 2008 Senior Bonds, the Master Senior Indenture and the Ninth 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, July 23, 2008, or any other offering material relating to the Series 2008

Senior Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2008 Senior Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

[Closing Date]

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

\$243,350,000
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Revenue Bonds
2008 Series C

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board") of \$243,350,000 aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2008 Series C (the "Series 2008 Subordinate Bonds"). The Series 2008 Subordinate Bonds are being issued under the terms of the Charter of the City of Los Angeles, relevant ordinances of the City of Los Angeles, and the Los Angeles Administrative Code (collectively, the "Charter"), the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association (also known as U.S. Bank, N.A.), as trustee (the "Subordinate Trustee"), and the Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008 (the "Fourth Supplemental Subordinate Indenture"), by and between the Department and the Subordinate Trustee. Issuance of the Series 2008 Subordinate Bonds has been authorized by Resolution No. 23557, adopted by the Board on May 5, 2008, and approved by the City Council on June 4, 2008, and Resolution No. 23598, adopted by the Board on July 7, 2008 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture.

In connection with the issuance of the Series 2008 Subordinate Bonds, we have examined the following:

- (a) a copy of the Charter;
- (b) certified copies of the Resolutions;
- (c) an executed counterpart of the Master Subordinate Indenture;
- (d) an executed counterpart of the Fourth Supplemental Subordinate Indenture;
- (e) certifications of the Department and others;
- (f) an executed copy of the Tax Compliance Certificate dated this date relating to the Series 2008 Subordinate 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 execute the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture and to issue the Series 2008 Subordinate Bonds.

2. The Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Subordinate Trustee, represent valid and binding agreements of the Department enforceable in accordance with their terms.

3. The Series 2008 Subordinate Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2008 Subordinate Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Subordinate Trustee of the Subordinate Pledged Revenues and certain funds and accounts created under the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture, and not out of any other fund or moneys of the Department or the City. Neither the faith and credit nor the taxing power of the City, the State of California or any public agency, other than the Department to the extent of the Subordinate Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2008 Subordinate Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2008 Subordinate Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2008 Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in the federal alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporation over the federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2008 Subordinate Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 4 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Subordinate Indenture, the Fourth Supplemental Subordinate Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2008 Subordinate Bonds to be included in gross income retroactive to the date of issue of the Series 2008 Subordinate Bonds. Although we are of the opinion that interest on the Series 2008 Subordinate Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2008 Subordinate Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The obligations of the Department and the security provided therefor, as contained in the Series 2008 Subordinate Bonds, the Master Subordinate Indenture and the Fourth Supplemental Subordinate Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect and to the limitations on legal remedies against cities in the State of California. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated July 23, 2008, or any other offering material relating to the Series 2008 Subordinate Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2008 Subordinate Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

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APPENDIX F

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. Neither the City nor the Department make any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2008 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE CITY, THE SENIOR TRUSTEE NOR THE SUBORDINATE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2008 BONDS UNDER THE SENIOR INDENTURE OR THE SUBORDINATE INDENTURE, AS APPLICABLE, (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 2008 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 2008 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2008 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 2008 Bonds. The Series 2008 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 2008 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 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 2008 Bond certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The Department undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s websites

as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

Purchases of the Series 2008 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2008 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2008 Bonds, except in the event that use of the book-entry system for the Series 2008 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008 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 2008 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 2008 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008 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 2008 Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2008 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 2008 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 2008 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 2008 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2008 Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Department, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2008 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008 Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Bonds depository). In that event, bond certificates will be printed and delivered.

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 2008 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2008 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2008 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 2008 Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2008 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 2008 Bonds will be governed by the provisions of the Senior Indenture or the Subordinate Indenture, as applicable.

Risks of Book-Entry System

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2008 Bonds.

In addition, Beneficial Owners of the Series 2008 Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2008 Bonds since such distributions will be forwarded by the Department to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Series 2008 Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2008 Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2008 Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Series 2008 Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Certificate") is executed and delivered by the Department of Airports of the City of Los Angeles, California (the "Issuer") acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board"), in connection with the issuance by the Issuer of (a) its Los Angeles International Airport Senior Revenue Bonds, 2008 Series A and Senior Refunding Revenue Bonds, 2008 Series B (collectively, the "Senior Bonds"), pursuant to a Master Trust Indenture, dated as of April 1, 1995, as amended (the "Master Senior Indenture"), by and between the Department, 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 to U.S. Trust Company of California, N.A., as trustee (the "Senior Trustee"), and a Ninth Supplemental Trust Indenture, dated as of August 1, 2008, 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 and (b) its Los Angeles International Airport Subordinate Revenue Bonds, 2008 Series C (together with the Senior Bonds, the "Bonds") pursuant to a Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Issuer and U.S. Bank National Association, also known as U.S. Bank, N.A., as trustee (the "Subordinate Trustee"), and a Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008, between the Issuer and the Subordinate Trustee (together with the Master Subordinate Indenture, and all supplements thereto, the "Subordinate Indenture"). The Issuer covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Senior Indenture and the Subordinate Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Information" shall mean any Annual Information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Certificate.

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Fiscal Year" shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Issuer, with notice of such selection or change in fiscal year to be provided as set forth herein.

"GAAP" shall mean generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, as in effect from time to time in the United States.

"Holder" shall mean either the registered owners and any Beneficial Owner of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"MSRB" shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as the same may be amended from time to time.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at: <http://www.sec.gov/info/municipal/nrmsir.htm>.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” shall mean the United States Securities and Exchange Commission.

“State” shall mean the State of California.

“State Depository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Depository.

Section 2. Purpose of this Certificate. This Certificate is being executed and delivered by the Issuer pursuant to the Rule for the benefit of the Holders of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

Section 3. Obligation to Provide Continuing Disclosure.

(a) The Issuer hereby undertakes, for the benefit of the Holders, to provide or cause to be provided:

(i) to each Repository no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2008, the Annual Information relating to the prior Fiscal Year;

(ii) if not submitted as part of the Annual Information, to each Repository, audited financial statements of the Issuer for each Fiscal Year when and if they become available;

(iii) to each National Repository or to the MSRB, and to the State Depository, in a timely manner, notice of any of the following events with respect to the Bonds, if material:

- (A) principal and interest payment delinquencies;
- (B) non-payment related defaults;
- (C) unscheduled draws on debt service reserves relating to financial difficulties;
- (D) unscheduled draws on credit enhancements reflecting financial difficulties;
- (E) substitution of credit or liquidity providers, or their failure to perform;
- (F) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (G) modifications to the rights of security holders;
- (H) Bond calls;
- (I) defeasances;
- (J) release, substitution or sale of property securing repayment of the Bonds; and
- (K) rating changes; and

(iv) to each National Repository or to the MSRB, and to the State Depository, in a timely manner, notice of a failure to provide any Annual Information required by clause (a)(i) of this Section 3.

(b) Nothing herein shall be deemed to prevent the Issuer from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the Issuer disseminates any such additional information, the Issuer shall have no obligation to update such information or include it in any future materials disseminated hereunder.

(c) The Annual Information may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 hereof.

Section 4. Annual Information.

(a) The required Annual Information shall contain or incorporate by reference the following, updated to incorporate information for the most recent Fiscal Year or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Series 2008 Bonds):

(i) If available at the time of providing of the Annual Information pursuant to Section 3(a) hereof, the financial statements of the Issuer for the most recently ended Fiscal Year, prepared in accordance with the provisions of Section 5 hereof. If the Issuer's audited financial statements are not available by the time the Annual Information is required to be filed pursuant to Section 3(a), the Annual Information shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided in the same manner as the Annual Information when they become available;

(ii) Historical financial and operating data for Los Angeles International Airport of the types shown in the following tables:

- (A) Table 1 – “Existing Senior Bonds”;
- (B) Table 2 – “Existing Subordinate Bonds and Subordinate Commercial Paper Notes”;
- (C) Table 3 – “Senior Bonds and Subordinate Bonds Debt Service Requirements” (only if such information changes);
- (D) Table 6 – “Air Carriers Serving LAX” (as of the first day of the current Fiscal Year);
- (E) Table 8 – “Air Traffic Data”;
- (F) Table 9 – “Historical Total Enplanements by Airline”;
- (G) Table 10 – “Total Revenue Landed Weight”;
- (H) Table 11 – “Enplaned and Deplaned Cargo”;
- (I) Table 12 – “Historical Operating Statements”;
- (J) Table 13 – “Top Ten Revenue Providers”;
- (K) Table 15 – “Top Ten Revenue Sources”;

- (L) Table 17 – “Historical Debt Service Coverage”;
- (M) The columns entitles “Department Carrying Value” and “LAX Carrying Value” in Table 18 – “City of Los Angeles Pooled Investment Fund Assets”; and
- (N) Unless otherwise provided in “Historical Operating Statements,” the total amount of PFCs received by the Issuer with respect to Los Angeles International Airport; and

(b) All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the Repositories, and, if the document is an official statement, the MSRB or (ii) the SEC.

Section 5. Financial Statements. The Issuer’s annual financial statements for each Fiscal Year shall be prepared in accordance with GAAP as in effect from time to time. Such financial statements shall be audited by an independent accounting firm.

Section 6. Transmission of Information and Notices. The Issuer may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Depository by filing the same with any dissemination agent or conduit, including, any “central post office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such National Repository or State Depository, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter that has not been revoked from the SEC staff to the effect that using the agent or conduit to transmit information to the National Repositories and the State Depository will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Depository.

Section 7. Remedies. If the Issuer shall fail to comply with any provision of this Certificate, then any Holder may enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding in law or in equity, this Certificate against the Issuer and any of the officers, agents and employees of the Issuer, and may compel the Issuer or any such officers, agents or employees to perform and carry out their duties under this Certificate; provided that the sole and exclusive remedy for breach of this Certificate shall be an action to compel specific performance of the obligations of the Issuer hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances, and provided further, that any challenge to the adequacy of any information provided pursuant to Section 3 may be brought only by the Holders of 25% in aggregate principal amount of the Bonds at the time outstanding. A failure by the Issuer to comply with any provision of this Certificate shall not constitute an Event of Default under the Senior Indenture or the Subordinate Indenture.

Section 8. Parties in Interest. This Certificate is executed and delivered solely for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 9. Amendment. Without the consent of any Holders of Bonds, the Issuer at any time and from time to time may enter into any amendments or changes to this Certificate for any of the following purposes:

- (a) to comply with or conform to any changes in the Rule or any authoritative interpretations thereof by the SEC or its staff (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Issuer and the assumption by any such successor of the covenants of the Issuer hereunder;

(d) to add to the covenants of the Issuer for the benefit of the Holders, or to surrender any right or power herein conferred upon the Issuer; or

(e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or type of business conducted; provided that (i) the Certificate, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of Holders, as determined either by a party unaffiliated with the Issuer (such as Bond Counsel), or by the vote or consent of Holders of a majority in outstanding principal amount of the Bonds on or prior to the time of such amendment or change.

Section 10. Termination. This Certificate shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Bonds shall have been paid in full or legally defeased pursuant to the Senior Indenture and the Subordinate Indenture. Upon any such legal defeasance, the Issuer shall provide notice of such defeasance to each Repository and the MSRB. Such notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 11. Governing Law. THIS CERTIFICATE SHALL BE GOVERNED BY THE LAWS OF CALIFORNIA DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW.

Section 12. Dissemination Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. The dissemination agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Certificate.

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IN WITNESS WHEREOF, the undersigned have duly authorized, executed and delivered this Certificate as of _____, 2008.

DEPARTMENT OF AIRPORTS ACTING THROUGH THE
BOARD OF AIRPORT COMMISSIONERS OF THE CITY
OF LOS ANGELES, CALIFORNIA

By: _____

Name: _____

Title: _____



FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272