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

In the opinion of Kutak Rock LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2016A Subordinate Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2016A Subordinate Bond for any period during which such Series 2016A Subordinate Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2016A Subordinate Bonds, or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Bond Counsel is further of the opinion that interest on the Series 2016A Subordinate Bonds is a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that interest on the Series 2016A Subordinate Bonds is exempt from present State of California personal income taxes. See "TAX MATTERS" herein.

$289,210,000
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
2016 Series A
(AMT)

Los Angeles World Airports

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

The Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series A (the "Series 2016A Subordinate Bonds") of the Department of Airports of the City of Los Angeles (the "Department") are being issued as described herein. Capitalized terms not defined on the cover of this Official Statement shall have the meanings ascribed to them in this Official Statement.

The Series 2016A Subordinate Bonds are being issued to (i) pay or reimburse the Department for certain capital projects at Los Angeles International Airport ("LAX"), (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2016A Subordinate Bonds, and (iv) pay costs of issuance of the Series 2016A Subordinate Bonds. See "PLAN OF FINANCE."

The Series 2016A Subordinate Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues and (ii) certain funds and accounts held by the Subordinate Trustee. The Series 2016A Subordinate Bonds are being issued on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS."

The Series 2016A Subordinate Bonds do not constitute or evidence an indebtedness of the City of Los Angeles (the "City") or a lien or charge on any property or the general revenues of the City. Neither the faith and the credit nor the taxing power of the City, the State of California or any public agency, other than the Department, to the extent described herein, is pledged to the payment of the principal of or interest on the Series 2016A Subordinate Bonds. The Department has no power of taxation. The Series 2016A Subordinate Bonds constitute and evidence an obligation of the Department payable only in accordance with Section 609(b) of the City Charter and any other applicable provisions thereof. None of the properties of the Airport System is subject to any mortgage or other lien for the benefit of the owners of the Series 2016A Subordinate Bonds. The Department is under no obligation to pay the Series 2016A Subordinate Bonds, except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Subordinate Indenture.

Interest on the Series 2016A Subordinate Bonds will be payable on each May 15 and November 15, commencing November 15, 2016. The Series 2016A Subordinate Bonds are being issued only as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), and will be available in authorized denominations of $5,000 and integral multiples thereof. The Series 2016A Subordinate Bonds initially are being issued and delivered in book-entry form only.

The Series 2016A Subordinate Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described in this Official Statement. See "DESCRIPTION OF THE SERIES 2016A SUBORDINATE BONDS – Redemption Provisions."

The Series 2016A Subordinate Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Kutak Rock LLP, Bond Counsel to the Department, and certain other conditions. Certain legal matters will be passed upon for the Department by Michael N. Feuer, City Attorney of the City. Polsinelli LLP serves as Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation. Public Resources Advisory Group and Public Financial Management, Inc. serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2016A Subordinate Bonds will be made through DTC on or about June 1, 2016

Loop Capital Markets

Cabrera Capital **Morgan Stanley**

Date of Official Statement: May 11, 2016.

MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP[†] NUMBERS

$289,210,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
2016 Series A
(AMT)

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP No.[†] (544445)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP[†] No. (544445)
2017	$ 1,605,000	3.00%	0.67%	AA7	2027	$ 9,835,000	5.00%	2.20%[c]	AL3
2018	6,340,000	5.00	0.86	AB5	2028	10,325,000	5.00	2.30[c]	AM1
2019	6,660,000	5.00	1.03	AC3	2029	10,845,000	5.00	2.37[c]	AN9
2020	6,990,000	5.00	1.19	AD1	2030	11,390,000	5.00	2.44[c]	AP4
2021	7,340,000	5.00	1.32	AE9	2031	11,960,000	5.00	2.50[c]	AQ2
2022	7,710,000	5.00	1.45	AF6	2032	12,550,000	5.00	2.56[c]	AR0
2023	8,090,000	5.00	1.58	AG4	2033	13,175,000	5.00	2.60[c]	AS8
2024	8,500,000	5.00	1.72	AH2	2034	13,835,000	4.00	2.90[c]	AT6
2025	8,925,000	5.00	1.86	AJ8	2035	14,395,000	5.00	2.67[c]	AU3
2026	9,370,000	5.00	2.02	AK5	2036	15,120,000	4.00	2.98[c]	AV1

$94,250,000 – 5.00% Series 2016A Subordinate Term Bonds due May 15, 2042 – Yield 2.89%[c], CUSIP[†] No. 544445AW9

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† Copyright 2016, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, operated on behalf of the American Bankers Association by S&P Capital IQ, a division of McGraw Hill Financial Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the Department and are included solely for the convenience of the registered owners of the applicable bonds. None of the Underwriters, the Co-Financial Advisors or the Department is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the applicable bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the bonds.

C Priced to May 15, 2026, the first redemption date the Series 2016A Subordinate Bonds can be redeemed at par.

No dealer, broker, salesperson or other person has been authorized by the Department to give any information or to make any representation, other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the Department. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016A Subordinate Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2016A Subordinate Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Subordinate Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2016A Subordinate 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 2016A Subordinate Bonds, the Underwriters may over-allot or effect transactions that may stabilize or maintain the market price of such Series 2016A Subordinate Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

CITY OF LOS ANGELES OFFICIALS

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

CITY COUNCIL

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

BOARD OF AIRPORT COMMISSIONERS

Sean O. Burton, President
Valeria C. Velasco, Vice President
Gabriel L. Eshaghian, Commissioner
Jeffery J. Daar, Commissioner
Beatrice C. Hsu, Commissioner
Nolan V. Rollins, Commissioner
Cynthia A. Telles, Commissioner

LOS ANGELES WORLD AIRPORTS STAFF

Deborah Flint, Executive Director
Samson Mengistu, Chief Operating Officer
Stephen C. Martin, Chief Development Officer
Ryan Yakubik, Chief Financial Officer
Debbie Bowers, Deputy Executive Director, Commercial Development
Patrick M. Gannon, Deputy Executive Director, Homeland Security and Law Enforcement
Roger Johnson, Deputy Executive Director, Airports Development
Cynthia Guidry, Deputy Executive Director, Capital Programming and Planning Group
Wei Chi, Deputy Executive Director, Comptroller
David Shuter, Deputy Executive Director, Facilities Maintenance and Utilities Group
Raymond S. Ilgunas, General Counsel

SUBORDINATE TRUSTEE

U. S. Bank National Association

BOND COUNSEL

Kutak Rock LLP

DISCLOSURE COUNSEL

Polsinelli LLP

CO-FINANCIAL ADVISORS

Public Resources Advisory Group and Public Financial Management, Inc.

AIRPORT CONSULTANT

WJ Advisors LLC

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OFFICIAL STATEMENT

$289,210,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT
Subordinate Revenue Bonds
(AMT)

INTRODUCTION

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

General

The purpose of this Official Statement, which includes the cover page, the inside cover pages, the table of contents and the appendices of this Official Statement, is to provide certain information concerning the issuance by the Department of Airports (the "Department") of the City of Los Angeles, California (the "City"), acting through the Board of Airport Commissioners of the City (the "Board"), of its $289,210,000 Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series A (the "Series 2016A Subordinate Bonds"). Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE ELEVENTH SUPPLEMENTAL SUBORDINATE INDENTURE."

The City, the Department and the Airport System

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

Aviation Activity

According to Airports Council International ("ACI") statistics, in calendar year 2015, LAX ranked as the 7th busiest airport in the world and the 3rd busiest airport in North America in terms of total number of enplaned passengers, and 12th busiest airport in the world and 5th busiest airport in North America in terms of total cargo. According to the United States Department of Transportation Origins and Destinations Survey of Airline Passenger Traffic, for Fiscal Year 2015, LAX ranked first nationally in number of domestic origin and destination passengers. LAX is classified by the FAA as a large hub airport. See "LOS ANGELES INTERNATIONAL AIRPORT" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – OVERVIEW OF AIRPORT ROLE."

Plan of Finance

The Series 2016A Subordinate Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Series 2016A Subordinate Bonds Projects (as defined below), (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2016A Subordinate Bonds, and (iv) pay costs of issuance of the Series 2016A Subordinate Bonds.

See "PLAN OF FINANCE," "DESCRIPTION OF THE SERIES 2016A SUBORDINATE BONDS" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Series 2016A Subordinate Bonds

The Series 2016A Subordinate Bonds are being issued pursuant to the Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association, as trustee (the "Subordinate Trustee"), and an Eleventh Supplemental Subordinate Trust Indenture, to be dated as of June 1, 2016 (the "Eleventh 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; Resolution No. 25899 adopted by the Board on February 18, 2016 and approved by the City Council of the City (the "City Council") and the Mayor of the City on April 12, 2016 (the "Authorizing Resolutions"), and Resolution No. 25952 adopted by the Board on April 21, 2016 (the "Document Resolution," and together with the Authorizing Resolution, the "Resolutions"); 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 Document Resolution will not become final until five City Council meetings convened in regular session have passed. During those five City Council meetings, the City Council may, on a two-thirds vote, take up the matter. If the matter is taken up, the City Council may approve or veto the Document Resolution within 21 calendar days of taking up the matter in accordance with Section 245 of the Charter. If the City Council takes no action to assert jurisdiction over the action of the Board during those five meetings the Document Resolution will become final.

The Series 2016A Subordinate Bonds are secured by a pledge of and first lien on Subordinate Pledged Revenues. "Subordinate Pledged Revenues" means for a given period, the Pledged Revenues for such period, less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the debt service payable on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to the Senior Indenture. Pledged Revenues generally includes certain income and revenue received by the Department from LAX, but excludes any income and revenue from the Department's other airports. The Series 2016A Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Commercial Paper Notes (as defined below), the payment obligations of the Department under the CP Reimbursement Agreements (as defined below), the Existing Subordinate Bonds (as defined below), any additional bonds issued on parity with the Series 2016A Subordinate Bonds under the terms and provisions of the Master Subordinate Indenture ("Additional Subordinate Bonds") and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture ("Additional Subordinate Obligations"). The Series 2016A Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Pledge of Subordinate Pledged Revenues."

For purposes of this Official Statement, "Subordinate Bonds" means the Series 2016A Subordinate Bonds, the Existing Subordinate Bonds and any Additional Subordinate Bonds; and "Subordinate Obligations" means the Subordinate Bonds, the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreements and any Additional Subordinate Obligations.

THE SERIES 2016A SUBORDINATE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2016A SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2016A SUBORDINATE BONDS CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2016A SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2016A 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 2016A SUBORDINATE BONDS."

Existing Subordinate Obligations

Existing Subordinate Bonds

Pursuant to the Subordinate Indenture and the Charter, the Department has previously issued and, as of April 1, 2016, there were outstanding $797,275,000 aggregate principal amount of its:

- Los Angeles International Airport, Subordinate Revenue Bonds, 2008 Series C (the "Series 2008C Subordinate Bonds");

- Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series C (the "Series 2009C Subordinate Bonds");

- Los Angeles International Airport, Subordinate Refunding Revenue Bonds, 2009 Series E (the "Series 2009E Subordinate Bonds" and collectively with the Series 2009C Subordinate Bonds, the "Series 2009 Subordinate Bonds");

- Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series B (the "Series 2010B Subordinate Bonds");

- Los Angeles International Airport, Subordinate Revenue Bonds, 2010 Series C (the "Series 2010C Subordinate Bonds" and together with the Series 2010B Subordinate Bonds, the "Series 2010 Subordinate Bonds");

- Los Angeles International Airport, Subordinate Revenue Bonds, 2013 Series B (the "Series 2013B Subordinate Bonds"); and

- Los Angeles International Airport, Subordinate Revenue Refunding Bonds, 2015 Series C (the "Series 2015C Subordinate Bonds").

The Series 2008C Subordinate Bonds, the Series 2009 Subordinate Bonds, the Series 2010 Subordinate Bonds, the Series 2013B Subordinate Bonds and the Series 2015C Subordinate Bonds are collectively referred to in this Official Statement as the "Existing Subordinate Bonds." See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes."

Subordinate Commercial Paper Notes

Pursuant to the Subordinate Indenture, the Department is authorized to issue and have outstanding, at any one time, its Los Angeles International Airport, Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity – AMT), Series C (Federally Taxable) and Series D (Private Activity – Non-AMT) (collectively, the "Subordinate Commercial Paper Notes") in a maximum aggregate principal amount not exceeding $500,000,000 (subject to certain conditions). As of April 1, 2016 Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately $50.3 million.

Existing Senior Bonds

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 various supplemental trust indentures (collectively 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 the Charter, the Department, acting through the Board, has previously issued and, as of April 1, 2016, there were outstanding $3,634,010,000 aggregate principal amount of its:

- Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the "Series 2008 Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the "Series 2009A Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds, 2010 Series A (the "Series 2010A Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds, 2010 Series D (the "Series 2010D Senior Bonds" and together with the Series 2010A Senior Bonds, the "Series 2010 Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds 2012 Series A (the "Series 2012A Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds 2012 Series B (the "Series 2012B Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds 2012 Series C (the "Series 2012C Senior Bonds" and, together with the Series 2012A Senior Bonds and the Series 2012B Senior Bonds, the "Series 2012 Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds 2013 Series A (the "Series 2013A Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds, 2015 Series A (the "Series 2015A Senior Bonds');

- Los Angeles International Airport Senior Revenue Bonds, 2015 Series B (the "Series 2015B Senior Bonds" and together with the Series 2015A Senior Bonds, the "Series 2015AB Senior Bonds");

- Los Angeles International Airport Senior Revenue Bonds 2015 Series D (the "Series 2015D Senior Bonds"); and

- Los Angeles International Airport Senior Revenue Bonds 2015 Series E (the "Series 2015E Senior Bonds" and together with the Series 2015D Senior Bonds, the Series "2015DE Senior Bonds," and together with the Series 2015AB Senior Bonds, the "Series 2015 Senior Bonds").

The Series 2008 Senior Bonds, the Series 2009A Senior Bonds, the Series 2010 Senior Bonds, the Series 2012 Senior Bonds, the Series 2013A Senior Bonds and the Series 2015 Senior Bonds are collectively referred to in this Official Statement as the "Existing Senior Bonds").

As of the date of this Official Statement, the only obligations the Department has issued pursuant to the Senior Indenture, and are currently outstanding, are the Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and first lien on the Net Pledged Revenues. "Net Pledged Revenues" means, for any given period, Pledged Revenues for such period, less, for such period, LAX Maintenance and Operations Expenses. For purposes of this Official Statement, "Senior Bonds" means the Existing Senior Bonds and any additional bonds issued on parity with respect to Net Pledged Revenues with the Existing Senior Bonds under the terms of the Master Senior Indenture ("Additional Senior Bonds"). See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds."

Investment Considerations

The purchase and ownership of the Series 2016A Subordinate Bonds involve investment risks. Prospective purchasers of the Series 2016A Subordinate Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2016A Subordinate Bonds, see "CERTAIN INVESTMENT CONSIDERATIONS."

Continuing Disclosure

In connection with the issuance of the Series 2016A Subordinate Bonds, the Department will covenant for the benefit of the owners of the Series 2016A Subordinate Bonds to provide annually certain financial information and operating data concerning the Department to the Municipal Securities Rulemaking Board ("MSRB") and notice of certain enumerated events, pursuant to the requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission ("Rule 15c2-12"). See "CONTINUING DISCLOSURE" and APPENDIX F – "FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Report of the Airport Consultant

Included as APPENDIX A to this Official Statement is a Report of the Airport Consultant dated May 4, 2016 prepared by WJ Advisors LLC (the "Airport Consultant") in connection with the issuance of the Series 2016A

Subordinate Bonds (the "Report of the Airport Consultant"). See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

The Report of the Airport Consultant includes, among other things, descriptions and/or analysis of the following: airline traffic and economic role of LAX; the economic basis for airline traffic; certain key factors which may effect future airline traffic; airline traffic forecasts; LAX's facilities and capital program; certain LAX facilities; the Department's capital program; the funding of the Department's capital program; the Department's financial performance; the Department's financial framework; and the Airport Consultant's forecasts of debt service coverage through Fiscal Year 2022; and a description of the assumptions upon which such forecasts were based.

No assurances can be given that the forecasts and expectations discussed in the Report of the Airport Consultant will be achieved or that the assumptions upon which the forecasts are based will be realized. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2016A Subordinate Bonds. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety for an explanation of the assumptions and forecasts used therein. The financial forecasts in the Report of the Airport Consultant are based upon certain information and assumptions that were provided or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the financial forecasts. See "—Forward-Looking Statements," "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, including the appendices that are not purely historical, are forward-looking statements, including statements regarding the Department's or the Board's expectations, hopes, intentions or strategies regarding the future. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "forecast," "will likely result," "are expected to," "will continue," "is anticipated," "intend" or other similar words. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Department and the Board on the date hereof, and the Department and the Board assume no obligation to update any such forward-looking statements with new forward-looking statements. It is important to note that the Department's actual results likely will differ, and could differ materially, from those in such forward-looking statements.

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

Changes from the Preliminary Official Statement

The information in APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES" is provided by the City. Appendix H to this Official Statement includes changes to certain information which had been included in Appendix H to the Preliminary Official Statement dated May 4, 2016 with respect to the Series 2016A Subordinate Bonds. See the italicized text under APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – Los Angeles City Employees' Retirement System ("LACERS")". The Department is relying upon, and has not independently confirmed or verified the accuracy or the completeness of, the information in Appendix H or the LACERS Reports (as defined below), or other information incorporated by reference therein. See also "THE DEPARTMENT OF AIRPORTS – Retirement Plan" in this Official Statement. This Official Statement also includes changes relating to the principal amounts, maturity dates, interest rates, yields, redemption provisions and other terms of the Series 2016A Subordinate Bonds.

Additional Information

Brief descriptions of the Series 2016A Subordinate Bonds, the Senior Indenture, the Subordinate Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department or LAX since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department and purchasers or owners of any of the Series 2016A Subordinate Bonds. The Department maintains certain websites and social media accounts, the information on which is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in deciding whether to invest in the Series 2016A Subordinate Bonds.

PLAN OF FINANCE

General

The Series 2016A Subordinate Bonds are being issued to (i) pay or reimburse the Department for a portion of the costs of the Series 2016A Subordinate Bonds Projects, (ii) make a deposit to the Subordinate Reserve Fund, (iii) fund a portion of the interest accruing on the Series 2016A Subordinate Bonds, and (iv) pay costs of issuance of the Series 2016A Subordinate Bonds.

The Series 2016A Subordinate Bonds Projects

The "Series 2016A Subordinate Bonds Projects" consist of the following and are described in more detail in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM – Series 2016A Subordinate Bonds Projects."

Terminal 1 Improvement Project

The Terminal 1 Improvement Project consists of, among other things, the phased reconstruction of substantially all of Terminal 1, including the development of a new centralized 12-lane passenger security screening checkpoint, a new checked baggage inspection system, and redeveloped public areas, holdrooms and gate areas, airline operations space, and adjacent apron areas. Southwest Airlines is providing construction funding and undertaking these improvements, which will be purchased by the Department from Southwest Airlines for the agreed upon cost of the project (less approximately $16.1 million to be paid by Southwest Airlines for tenant specific improvements), in phases when they are complete. The total estimated cost of all phases of the Terminal 1 Improvement Project is approximately $536.5 million. See also "USE OF AIRPORT FACILITIES – Department Acquisition of Certain Terminal Improvements; Credits."

Terminal 2 Improvements Project

The Terminal 2 Improvements Project consists of, among other things, the phased redevelopment of portions of Terminal 2, including the ticketing lobby, baggage claim areas, baggage screening, concourse areas, and building systems. The total estimated cost of the Terminal 2 Improvements Project is approximately $204.9 million.

Terminals 6/7/8 Improvements Project

The Terminals 6/7/8 Improvements Project consists of, among other things, the phased redevelopment of portions of Terminals 6, 7, and 8, including a new checked baggage screening system and baggage sorting system, and renovated baggage claim areas, passenger security screening checkpoints, and airline office areas; the replacement of passenger boarding bridges, and the construction of a new club room for use by United Airlines' premium passengers. United Airlines is funding and undertaking these improvements, which will be purchased by the Department from United Airlines for the agreed upon cost of the project (less approximately $21.2 million to be paid by United Airlines for tenant specific improvements) in phases when they are complete. The total estimated cost of all phases of the Terminals 6/7/8 Improvements Project is approximately $548.8 million. See also "USE OF AIRPORT FACILITIES – Department Acquisition of Certain Terminal Improvements; Credits."

Elevators and Escalators Replacement Project

The Elevators and Escalators Replacement Project consists of a comprehensive upgrading of elevator and escalator systems throughout the public areas of LAX (primarily in the Central Terminal Area) that have exceeded their useful lives. The total estimated cost of all phases of the Elevators and Escalators Replacement Project is approximately $263.9 million.

West Maintenance Facility Pad and Infrastructure Project

The West Maintenance Facility Pad and Infrastructure Project consists of demolition of existing facilities, grading, and infrastructure improvements associated with approximately 84 acres of land at LAX located to the west of the LAX aviation support area and to the south of the remote gates, commonly known as the West Aircraft Maintenance Area. Infrastructure elements of the West Maintenance Facility Pad and Infrastructure Project include utilities and storm water improvements. The West Maintenance Facility Pad and Infrastructure Project does not include the future maintenance hangars, employee parking lot, storage/equipment facilities, or related facilities that may be constructed by tenants at the West Aircraft Maintenance Area. The total estimated cost of all phases of the West Maintenance Facility Pad and Infrastructure Project is approximately $100.7 million.

The Series 2016A Subordinate Bonds Projects are expected to be financed with a combination of grants, Department and other funds, and the proceeds of the Series 2016A Subordinate Bonds, Existing Senior Bonds, Existing Subordinate Obligations, Additional Senior Bonds and/or Additional Subordinate Obligations. See "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program."

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2016A Subordinate Bonds:

SOURCES:	
Principal Amount	$ 289,210,000.00
Original Issue Premium	54,563,718.40
TOTAL:	$ 343,773,718.40
USES:	
Deposit to Series 2016A Subordinate Construction Fund(1)	$ 315,697,972.00
Deposit to Series 2016A Subordinate Interest Account(2)	6,145,098.89
Deposit to Subordinate Reserve Fund	20,273,971.25
Costs of Issuance(3)	1,656,676.26
TOTAL:	$ 343,773,718.40

(1) To be used to pay a portion of the costs of the Series 2016A Subordinate Bonds Projects.
(2) Represents a portion of the interest accruing on the Series 2016A Subordinate Bonds.
(3) Includes legal fees, underwriters' discount, trustee fees, financial advisory fees, consultant fees, rating agencies' fees, printing costs, and other costs of issuance.

DESCRIPTION OF THE SERIES 2016A SUBORDINATE BONDS

General

The Series 2016A Subordinate Bonds will bear interest at the rates and mature, subject to redemption prior to maturity, on the dates set forth on the inside front cover page of this Official Statement. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2016A Subordinate 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, 2016 (each an "Interest Payment Date"). Interest due and payable on the Series 2016A Subordinate Bonds on any Interest Payment Date will be payable to the person who is the registered owner as of the Record Date (DTC, so long as the book-entry system with DTC is in effect). Each Series 2016A Subordinate Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless such date of authentication is an Interest Payment Date, in which event such Series 2016A Subordinate 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 2016A Subordinate Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before November 1, 2016, in which event such Series 2016A Subordinate Bond will bear interest from its date of delivery. If interest on the Series 2016A Subordinate Bonds is in default, Series 2016A Subordinate Bonds issued in exchange for Series 2016A Subordinate 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 2016A Subordinate Bonds surrendered.

The Series 2016A Subordinate Bonds are being issued in denominations of $5,000 and integral multiples thereof ("Authorized Denominations"), in fully registered form in the name of Cede & Co., as registered owner and nominee of DTC. DTC will act as securities depository for the Series 2016A Subordinate Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2016A Subordinate Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2016A Subordinate Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2016A Subordinate Bonds.

So long as Cede & Co. is the registered owner of the Series 2016A Subordinate Bonds, the principal and redemption price of and interest on the Series 2016A Subordinate Bonds are payable by wire transfer by the Subordinate Trustee to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Direct and Indirect Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX E – "BOOK ENTRY ONLY SYSTEM."

Redemption Provisions

Optional Redemption at Make-Whole Redemption Price (Prior to May 15, 2026)

Prior to May 15, 2026 (the "Par Call Date"), the Series 2016A Subordinate Bonds maturing on or after May 15, 2027 are redeemable at the option of the Department, in whole or in part at any time (in Authorized Denominations), from any moneys that may be provided for such purpose and at a redemption price equal to the greater of: (i) 102% of the Amortized Value (as defined below) of the Series 2016A Subordinate Bonds to be redeemed, and (ii) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2016A Subordinate Bonds to be redeemed (but not including any interest accrued and unpaid as of the redemption date), from and after the redemption date to the Par Call Date (assuming that the scheduled payments of the principal of the Series 2016A Subordinate Bonds to be redeemed is deemed to be paid on the Par Call Date), discounted to the redemption date on a semiannual basis, at a discount rate equal to the Applicable Tax-Exempt Bond Rate (as defined below), plus accrued interest to the date fixed for redemption.

"Amortized Value" means the principal amount of the Series 2016A Subordinate Bonds to be redeemed, multiplied by the price of such Series 2016A Subordinate Bonds (expressed as a percentage). The price of such Series 2016A Subordinate Bonds will be calculated based on the industry standard method of calculating bond prices and will have the following characteristics: (a) the date of delivery will be the applicable redemption date; (b) the maturity date will be the Par Call Date; (c) the interest rate will be the stated interest rate on such Series 2016A Subordinate Bonds (as shown on the inside front cover page of this Official Statement); and (d) the yield will be the yield on the applicable Series 2016A Subordinate Bonds as of the Closing Date (as shown on the inside front cover page of this Official Statement).

"Closing Date" means June 1, 2016.

"Applicable Tax-Exempt Bond Rate" means the "Interpolated AAA Yields" rate for the Par Call Date as published by Thomson Reuters Municipal Market Data ("MMD") on a date selected by the Department, which will be at least five calendar days, but not more than forty-five calendar days, prior to the redemption date of the Series 2016A Subordinate Bonds to be redeemed. If no such rate is published for the Par Call Date, then the "Applicable Tax-Exempt Bond Rate" will be determined based on a straight-line interpolation between the "AAA Municipal Yield Curve" rates published by MMD for the closest preceding date and the closest succeeding date to the Par Call Date. If MMD no longer publishes the "AAA Municipal Yield Curve" rates, the Department will select another comparable index or if in the Department's determination no comparable index is available, then the "Applicable Tax-Exempt Bond Rate" will be determined by a quotation agent selected by the Department (which may be, but is not limited to, one of the underwriters of the Series 2016A Subordinate Bonds), and such rate will be based upon a rate per annum equal to the semiannual equivalent yield to maturity for those tax-exempt revenue bonds rated in one of the two highest Rating Categories by two or more of the Rating Agencies, with a maturity date of the Par Call Date and having characteristics (other than the ratings) most comparable to those of the Series 2016A Subordinate Bonds to be redeemed in the judgment of the quotation agent. The quotation agent's determination of the "Applicable Tax-Exempt Bond Rate" will be final and binding in the absence of manifest error.

Optional Redemption at Par (On and after May 15, 2026)

The Series 2016A Subordinate Bonds maturing on or after May 15, 2027 are redeemable at the option of the Department on or after May 15, 2026, in whole or in part at any time, from any moneys that may be provided for such purpose and at a redemption price equal to 100% of the principal amount of the Series 2016A Subordinate Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

Mandatory Sinking Fund Redemption

The Series 2016A Subordinate Bonds maturing on May 15, 2042 (the "Series 2016A Subordinate Term Bonds") are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Series 2016A Subordinate Term Bonds

Redemption Date (May 15)	Principal Amount
2037	$ 15,720,000
2038	15,200,000
2039	15,960,000
2040	16,760,000
2041	17,595,000
2042†	13,015,000

† Final Maturity

At the option of the Department, to be exercised by delivery of a written certificate to the Subordinate Trustee, on or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2016A Subordinate Term Bonds, it may (a) deliver to the Subordinate Trustee, for cancellation, Series 2016A Subordinate Term Bonds or portions thereof (in Authorized Denominations) purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of such Series 2016A Subordinate Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been optionally redeemed and previously cancelled by the Subordinate Trustee, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Series 2016A Subordinate Term Bond or portion thereof so purchased, acquired or optionally redeemed and delivered to the Subordinate Trustee, for cancellation will be credited by the Subordinate Trustee, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of such Series 2016A Subordinate Term Bond on such mandatory sinking fund redemption date.

Notices of Redemption

The Subordinate Trustee is required to give notice of redemption, in the name of the Department, to Holders affected by redemption (or to DTC, so long as the book-entry system with DTC is in effect) at least 30 days but not more than 60 days before each redemption date and send such notice of redemption by first class mail (or with respect to the Series 2016A Subordinate Bonds held by DTC, either via electronic means or by an express delivery service for delivery on the next following Business Day) to each Holder of a Series 2016A Subordinate Bond to be redeemed; each such notice will be sent to the Holder's registered address.

Each notice of redemption will specify the date of issue, the maturity date, the interest rate and the CUSIP number of the Series 2016A Subordinate Bonds to be redeemed, if less than all of the Series 2016A Subordinate Bonds of a maturity date and interest rate are called for redemption, the numbers of the Series 2016A Subordinate Bonds assigned to the Series 2016A Subordinate Bonds to be redeemed, the principal amount to be redeemed, the date fixed for redemption, the redemption price (or the formula that will be used to calculate the redemption price on the redemption date, provided a supplemental notice of redemption is delivered prior to the redemption date setting forth the actual redemption price), the place or places of payment, that payment will be made upon presentation and surrender of the Series 2016A Subordinate 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 2016A Subordinate Bonds will not affect the validity of the call for redemption of any Series 2016A Subordinate Bond, in respect of which no failure occurs. Any notice sent as provided in the Eleventh 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 2016A Subordinate 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 Subordinate Trustee, sufficient for redemption, interest on the Series 2016A Subordinate Bonds to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2016A Subordinate Bond, to be redeemed in part only, the Subordinate Trustee will authenticate for the holder a new Series 2016A Subordinate Bond or Series 2016A Subordinate Bonds of the same maturity date and interest rate equal in principal amount to the unredeemed portion of the Series 2016A Subordinate 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 Subordinate Trustee moneys sufficient to redeem all the Series 2016A Subordinate Bonds called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Subordinate Trustee, not later than the opening of business one Business Day prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit 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 2016A Subordinate 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 Eleventh Supplemental Subordinate Indenture and sufficient moneys for payment of the redemption price being held in trust by the Subordinate Trustee to pay the redemption price, interest on such Series 2016A Subordinate Bonds will cease to accrue from and after such redemption date, such Series 2016A Subordinate Bonds will cease to be entitled to any lien, benefit or security under the Master Subordinate Indenture and the Eleventh Supplemental Subordinate Indenture and the Holders of such Series 2016A Subordinate Bonds will have no rights in respect thereof except to receive payment of the redemption price. The Series 2016A Subordinate Bonds which have been duly called for redemption under the provisions of the Eleventh Supplemental Subordinate Indenture and for the payment of the redemption price of which moneys are required to be held in trust for the Holders of the Series 2016A Supplemental Bonds to be redeemed, all as provided in the Eleventh Supplemental Subordinate Indenture, will not be deemed to be Outstanding under the provisions of the Master Subordinate Indenture and the Eleventh Supplemental Subordinate Indenture.

Selection of the Series 2016A Subordinate Bonds for Redemption; Series 2016A Subordinate Bonds Redeemed in Part

Redemption of the Series 2016A Subordinate Bonds will only be in Authorized Denominations. The Series 2016A Subordinate Bonds are subject to redemption in such order of maturity and interest rate (except mandatory sinking fund payments on the Series 2016A Subordinate Term Bonds) as the Department may direct and by lot, selected in such manner as the Subordinate Trustee (or DTC, as long as DTC is the securities depository for the Series 2016A Subordinate Bonds) deems appropriate, within a maturity and interest rate. Except as otherwise provided under the procedures of DTC, on or before the 45th day prior to any mandatory sinking fund redemption date, the Subordinate Trustee will proceed to select for redemption (by lot in such manner as the Subordinate Trustee may determine), from the Series 2016A Subordinate Term Bonds an aggregate principal amount of such Series 2016A Subordinate Term Bonds equal to the amount for such year as set forth in the table above and will call such Series 2016A Subordinate Term Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE 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 and the Subordinate 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 the Subordinate Indenture and has instructed the City Treasurer that all such LAX Revenues are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Department or the City.

The Master Senior Indenture generally defines "LAX Revenues" to mean, except to the extent specifically excluded therefrom, all income, receipts, earnings and revenues received by the Department from LAX, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to: (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at LAX; and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at LAX, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of LAX (or any LAX Airport Facilities or activities or undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto. LAX Revenues include all income, receipts and earnings from the investment of amounts held in the LAX Revenue Account, any senior construction fund or Subordinate Construction Fund allowed to be pledged by the terms of a supplemental senior indenture or Supplemental Subordinate Indenture, 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 Subordinate Obligations (including the Series 2016A Subordinate Bonds) are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues, and (ii) certain funds and accounts held by the Subordinate Trustee.

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

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

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

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

SECOND, to the payment of amounts required to be deposited in any senior debt service funds for the Senior Bonds pursuant to the Master Senior Indenture and any supplemental senior indenture;

THIRD, to the payment of amounts required to be deposited in any senior debt service reserve fund pursuant to the Master Senior Indenture and any supplemental senior indenture;

FOURTH, to the payment of Subordinate Obligations (including the Series 2016A Subordinate Bonds), pursuant to the Master Subordinate Indenture and any Supplemental Subordinate Indenture;

FIFTH, to the payment of amounts required to be deposited in the Subordinate Reserve Fund and any other debt service reserve fund established for the Subordinate Obligations pursuant to any Supplemental Subordinate Indenture;

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

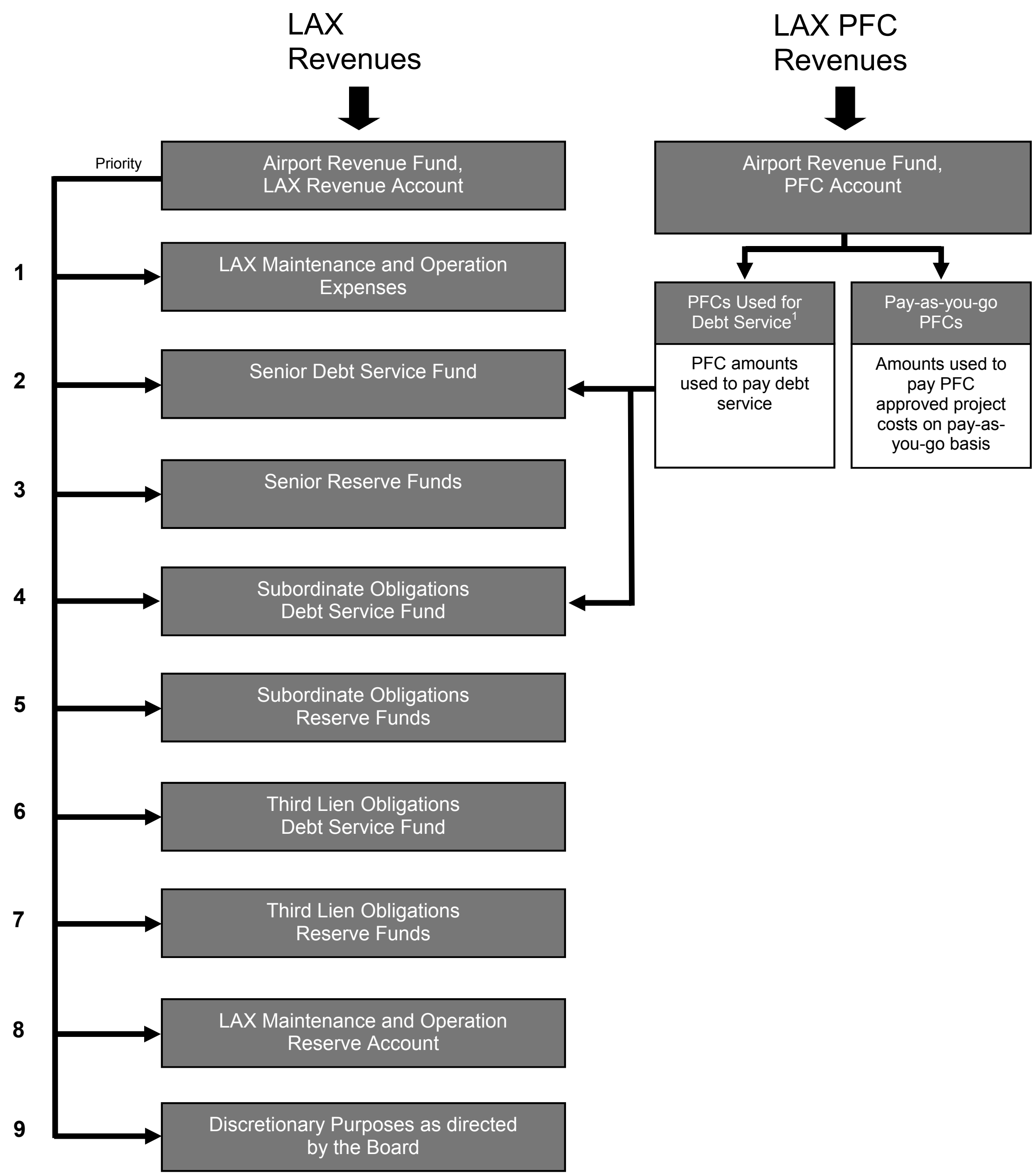
SEVENTH, to the payment of any reserve requirement for the Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such Third Lien Obligations;

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

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

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

FLOW OF LAX REVENUES AND LAX PFC REVENUES



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

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

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

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

Pledge of Subordinate Pledged Revenues

The Series 2016A Subordinate Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Subordinate Pledged Revenues. The Series 2016A Subordinate Bonds are also secured by a pledge of and first lien on amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

THE SERIES 2016A SUBORDINATE BONDS DO NOT CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2016A SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. THE SERIES 2016A SUBORDINATE BONDS CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2016A SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2016A SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE.

The Series 2016A 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 Agreements, the Existing Subordinate Bonds, any Additional Subordinate Bonds and any Additional Subordinate Obligations. See "—Pledge of Subordinate Pledged Revenues" and "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes." The Series 2016A Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture.

Subordinate Rate Covenant

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

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

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

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

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

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

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

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

(b) The Department has further agreed that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that during each Fiscal Year the Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations. For purposes of this paragraph (b), the amount of any Transfer taken into account may not exceed 15% of Subordinate Aggregate Annual Debt Service on the Outstanding Subordinate Obligations in such Fiscal Year. "Transfer" means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH, as described under "Flow of Funds" above, have been made as of the last day of the immediately preceding Fiscal Year),

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

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

Pursuant to the Master Subordinate Indenture, the Department may exclude from its calculation of Subordinate Aggregate Annual Debt Service, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Subordinate Obligations whose debt service is payable from amounts not included in Subordinate Pledged Revenues (including, but not limited to PFC revenues) which have been irrevocably deposited with the Subordinate Trustee for the payment of debt service on such Subordinate Obligations. The Department does not currently expect to use any PFC revenues to pay debt service on the Series 2016A Subordinate Bonds, or the Existing Subordinate Bonds or the Subordinate Commercial Paper Notes as the foregoing are not PFC Eligible Obligations (as defined below). In the event that any such Subordinate Obligations become PFC Eligible Obligations the Department may use PFC revenues to pay debt service on such PFC Eligible Obligations. See "—Passenger Facility Charges," "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges" and "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues" for additional information about the Department's expected use of PFC revenues.

Subordinate Debt Service Deposits

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

Subordinate Reserve Fund

Pursuant to the Fourth Supplemental Subordinate Indenture, a Subordinate Debt Service Reserve Fund (the "Subordinate Reserve Fund") was established for the Existing Subordinate Bonds and any Additional Subordinate Bonds which the Department elects to have participate in the Subordinate Reserve Fund. Pursuant to the Eleventh Supplemental Subordinate Indenture, the Department intends to elect to have the Series 2016A Subordinate Bonds participate in the Subordinate Reserve Fund.

Except as otherwise described below, the Subordinate Reserve Fund is required to be funded at all times in an amount equal to the Subordinate Reserve Requirement. The "Subordinate Reserve Requirement" equals the least of (i) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to all of the Subordinate Obligations participating in the Subordinate Reserve Fund, (ii) 10% of the principal amount of all of the Subordinate Obligations participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to the Subordinate Obligations participating in the Subordinate Reserve Fund if such original issue discount exceeded 2% on such Subordinate Obligations at the time of its original sale, and (iii) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement with respect to all of the Subordinate Obligations participating in the Subordinate Reserve Fund. In the event the Department issues any Additional Subordinate Obligations pursuant to a Supplemental Subordinate Indenture under which the Department elects to have such Additional Subordinate Obligations participate in the Subordinate Reserve Fund, the Department will be required to deposit an amount in the Subordinate Reserve Fund sufficient to cause the amount on deposit in the Subordinate Reserve Fund to equal the Subordinate Reserve Requirement. Such deposit to the Subordinate Reserve Fund can be made at the time of issuance of the Additional Subordinate Obligations participating in the Subordinate Reserve Fund or over 12 months following the date of issuance of the Additional Subordinate Obligations participating in the Subordinate Reserve Fund. At the time of issuance of the Series 2016A Subordinate Bonds, the Subordinate Reserve Requirement will equal $84,877,034 and will be fully funded with cash and securities.

Moneys or investments held in the Subordinate Reserve Fund may be used only to pay the principal of and interest on the Subordinate Obligations participating in the Subordinate Reserve Fund (including the Series 2016A Subordinate Bonds). Moneys and investments held in the Subordinate Reserve Fund are not available to pay debt service on the Senior Bonds, the Subordinate Commercial Paper Notes, any Subordinate Obligations for which the Department has decided will not participate in the Subordinate Reserve Fund or any Third Lien Obligations. The Subordinate Reserve Fund may be drawn upon if the amounts in the respective Subordinate Debt Service Funds for the Series 2016A Subordinate Bonds, and the other Subordinate Bonds participating in the Subordinate Reserve Fund are insufficient to pay in full any principal or interest then due on such Subordinate Bonds. In the event any amounts are required to be withdrawn from the Subordinate Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Subordinate Debt Service Funds for the Subordinate Bonds secured by the Subordinate Reserve Fund.

The Department may fund all or a portion of the Subordinate Reserve Requirement with a Subordinate Debt Service Reserve Fund Surety Policy. A Subordinate Debt Service Reserve Fund Surety Policy may be an insurance policy or surety bond, or a letter of credit, deposited in the Subordinate Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Subordinate Debt Service Reserve Fund Surety Policy must either extend to the final maturity of the Series of Subordinate Obligations for which the Subordinate Debt Service Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Subordinate Indenture, that the Department will replace such Subordinate Debt Service Reserve Fund Surety Policy prior to its expiration with another Subordinate Debt Service Reserve Fund Surety Policy, or with cash, and the face amount of the Subordinate Reserve Fund Surety Policy, together with amounts on deposit in the Subordinate Reserve Fund, including the face amount of any other Subordinate Debt Service Reserve Fund Surety Policy, are at least equal to the Subordinate Reserve Requirement. Any such Subordinate Debt Service Reserve Fund Surety Policy deposited to the Subordinate Reserve Fund must secure all of the Subordinate Obligations participating in the Subordinate Reserve Fund. As of the date of this Official Statement and at the time of the issuance of the Series 2016A Subordinate Bonds, there are no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund and there will be no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund. See APPENDIX D-1 — "AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE" for amendments being made to the definition of Subordinate Debt Service Reserve Fund Surety Policy.

Additional Subordinate Obligations

The Master Subordinate Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Subordinate Obligations hereafter issued with a lien and charge on Subordinate Pledged Revenues on parity with the Series 2016A Subordinate Bonds and the other Subordinate Obligations.

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

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

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

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

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

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

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

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

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

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

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

(3) if the Subordinate Obligations being issued are to pay costs of completing a Specified LAX Project for which Subordinate Obligations have previously been issued and the principal amount of such Subordinate Obligations being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Subordinate Obligations originally issued for such Specified LAX Project and reasonably allocable to the Specified LAX Project to be completed as shown in a written certificate of an Authorized Representative and there is delivered to the Subordinate Trustee (i) a Consultant's certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (ii) a certificate of an Authorized Representative to the effect that (A) all of the proceeds (including investment earnings on amounts in the construction fund allocable to such Specified LAX Project) of the original Subordinate Obligations issued to finance such Specified LAX Project have been or will be used to pay costs of the Specified LAX Project, (B) the then estimated costs of the Specified LAX Project exceed the sum of the costs of the Specified LAX Project already paid plus moneys available in the construction fund established for the Specified LAX Project (including unspent proceeds of the Subordinate Obligations previously issued for such purpose), and (C) the proceeds to be received from the issuance of such Subordinate Obligations plus moneys available in the construction fund established for the Specified LAX Project (including unspent proceeds of the Subordinate Obligations previously issued for such purpose) will be sufficient to pay the remaining estimated costs of the Specified LAX Project.

The certificate described in subparagraph (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2016A Subordinate Bonds.

Passenger Facility Charges

Passenger Facility Charges – Pledged Revenues

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a supplemental senior indenture. The Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues. The Department has not pledged PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations, and the Department has no current plans to pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. Although PFC revenues are not included in Pledged Revenues and have not been pledged to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations, the Department expects to (to the extent approved by the FAA) use PFC revenues to pay a portion of the debt service on certain Senior Bonds and/or certain Subordinate Obligations which are or become PFC Eligible Obligations. For additional information regarding PFC revenues and the Department's expected use of PFC revenues, see "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Passenger Facility Charges," "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues" for additional information about the Department's expected use of PFC revenues.

Passenger Facility Charges – Exclusion from Rate Covenant and Additional Bonds Tests

Debt service paid with PFC revenues is not included in the calculation of the rate covenants set forth in the Master Senior Indenture and the Master Subordinate Indenture. Debt service on Additional Senior Bonds and Additional Subordinate Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds tests set forth in the Master Senior Indenture and the Master Subordinate Indenture. As of the date of this Official Statement, the Department has not irrevocably committed any PFC revenues to the payment of debt service on PFC Eligible Obligations.

Permitted Investments

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

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

Amendments to the Master Subordinate Indenture and Master Senior Indenture

Pursuant to the Eleventh Supplemental Subordinate Indenture, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Subordinate Indenture. Such amendments are more particularly described in APPENDIX D-1 — "AMENDMENTS TO THE MASTER

SUBORDINATE INDENTURE." Certain of the amendments do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds), or any other parties, and will go into effect on the date of issuance of the Series 2016A Subordinate Bonds (the "Amendments Not Requiring Bondholder Consent"). Certain of the other amendments also do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds), but cannot become effective until the Department receives the written consent of the CP Banks (the "Amendments Requiring CP Bank Consent"). Finally, certain of the amendments cannot become effective until the earlier of the following dates occurs: (a) the date none of the Existing Subordinate Bonds remain Outstanding, or (b) the date the Department receives the written consent of 51% or more of the Bondholders of the then-Outstanding Subordinate Obligations (the "Amendments Requiring Bondholder Consent," and collectively with the Amendments Not Requiring Bondholder Consent and the Amendments Requiring CP Bank Consent, the "Master Subordinate Indenture Amendments"). *Any purchaser of the Series 2016A Subordinate Bonds will be purchasing the Series 2016A Subordinate Bonds subject to all the Master Subordinate Indenture Amendments, and the Department will not be requesting a separate written consent from the purchasers of the Series 2016A Subordinate Bonds for the Master Subordinate Indenture Amendments.* The Department does not expect to seek the written consent of the CP Banks for the Amendments Requiring CP Bank Consent until the CP Letters of Credit are extended and/or replaced (the CP Letters of Credit are scheduled to expire on October 3, 2017 and January 16, 2018, respectively, as described under "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE—Subordinate Bonds and Subordinate Commercial Paper Notes" below); and therefore, in all likelihood, the Amendments Requiring CP Bank Consent will not become effective until the expiration and/or replacement date(s) of the CP Letters of Credit. Additionally, as of the date of this Official Statement, the Department has no plans to solicit the written consent of Bondholders of the Existing Subordinate Bonds or any other Subordinate Obligations, and therefore, in all likelihood, the Amendments Requiring Bondholder Consent will not become effective until the date the Existing Subordinate Bonds are no longer Outstanding.

In addition to the Master Subordinate Indenture Amendments, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Senior Indenture. See APPENDIX D-2 — "AMENDMENTS TO THE MASTER SENIOR INDENTURE" for a description of those amendments. The amendments to Master Senior Indenture do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds) and are provided in this Official Statement for informational purposes only.

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and, as of April 1, 2016 there were outstanding $3,634,010,000 aggregate principal amount of Existing Senior Bonds. The Existing Senior Bonds are secured by a pledge of and lien on Net Pledged Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Flow of Funds." The following table sets forth information about the Existing Senior Bonds that were outstanding as of April 1, 2016.

TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SENIOR BONDS
AS OF APRIL 1, 2016

Series	Original Principal Amount	Principal Amount Outstanding[1]	Final Maturity (May 15)
2008A	$ 602,075,000	$ 518,115,000	2038
2009A	310,410,000	284,770,000	2039
2010A	930,155,000	905,090,000	2040
2010D	875,805,000	854,555,000	2040
2012A	105,610,000	94,380,000	2029
2012B	145,630,000	139,180,000	2037
2012C	27,870,000	27,460,000	2019
2013A	170,685,000	170,685,000	2043
2015A	267,525,000	267,525,000	2045
2015B	47,925,000	47,925,000	2045
2015D	296,475,000	296,475,000	2041
2015E	27,850,000	27,850,000	2041
Total	$ 3,808,015,000	$ 3,634,010,000	

(1) Does not reflect the May 15, 2016 principal payments in the aggregate amount of $61,900,000 with respect to the Existing 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 April 1, 2016, there were outstanding $797,275,000 aggregate principal amount of the Existing Subordinate Bonds. Additionally, pursuant to the Subordinate Indenture, the Department is authorized to issue and to have outstanding, from time to time, up to $500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. As of April 1, 2016, there were Subordinate Commercial Paper Notes outstanding with a maturity value of approximately $50,266,000. The Subordinate Bonds and the Subordinate Commercial Paper Notes are and will be secured by a pledge and lien on Subordinate Pledged Revenues. The following table sets forth information about the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes that were outstanding as of April 1, 2016.

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 APRIL 1, 2016

Subordinate Obligations	Original Principal Amount	Principal Amount Outstanding(1)	Final Maturity Date
Existing Subordinate Bonds			
- Series 2008C	$ 243,350,000	$ 22,100,000	May 15, 2019
- Series 2009C	307,350,000	307,350,000	May 15, 2039
- Series 2009E	39,750,000	20,805,000	May 15, 2020
- Series 2010B	134,680,000	134,680,000	May 15, 2040
- Series 2010C	59,360,000	59,360,000	May 15, 2040
- Series 2013B	71,175,000	71,175,000	May 15, 2038
- Series 2015C	181,805,000	181,805,000	May 15, 2038
Total Existing Subordinate Bonds	$ 1,037,470,000	$ 797,275,000	
Subordinate Commercial Paper Notes			
- Series A(2)	--(6)	--(7)	Various
- Series B(3)	--(6)	--(7)	Various
- Series C(4)	--(6)	50,266,000(7)	Various
- Series D(5)	--(6)	--(7)	Various
Total Subordinate Commercial Paper Notes		$ 50,266,000	
Total outstanding Existing Subordinate Bonds and Subordinate Commercial Paper Notes		$ 847,541,000	

(1) Does not reflect the May 15, 2016 principal payments in the aggregate amount of $19,800,000 with respect to the Existing Subordinate Bonds.
(2) The Subordinate Commercial Paper Notes Series A (Governmental – Non AMT) may be issued in various Subseries designated Subseries A-1 through A-4.
(3) The Subordinate Commercial Paper Notes Series B (Private Activity - AMT) may be issued in various Subseries designated Subseries B-1 through B-4.
(4) The Subordinate Commercial Paper Notes Series C (Federally Taxable) may be issued in various Subseries designated Subseries C-1 through C-4.
(5) The Subordinate Commercial Paper Notes Series D (Private Activity – Non AMT) may be issued in various Subseries designated Subseries D-1 through D-4.
(6) Original Principal Amount of Subordinate Commercial Paper Notes varies.
(7) The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.
Source: Department of Airports of the City of Los Angeles

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

To provide credit support for the Subordinate Commercial Paper Notes, the Department entered into four separate reimbursement agreements (collectively, the "CP Reimbursement Agreements") with Bank of the West, Sumitomo Mitsui Banking Corporation, acting through its New York Branch, Barclays Bank PLC and Wells Fargo Bank, National Association, respectively (collectively, the "CP Banks"), pursuant to which each CP Bank issued a separate irrevocable transferable direct-pay letter of credit (collectively, the "CP Letters of Credit"). Each CP Letter of Credit provides credit support for the timely payment of the principal of and interest on certain specified Subseries of the Subordinate Commercial Paper Notes as described in more detail in the following table.

CP Bank	Subseries of Subordinate Commercial Paper Notes Supported by CP Letter of Credit	Principal Amount of Subordinate Commercial Paper Notes Supported by CP Letter of Credit	Total Stated Amount of CP Letter of Credit[(1)]	CP Letter of Credit Termination Date[(2)]
Bank of the West	A-1, B-1, C-1 , D-1	$ 50,000,000	$ 54,500,000	October 3, 2017
Sumitomo Mitsui Banking Corporation, acting through its New York Branch	A-2, B-2, C-2, D-2	$ 100,000,000	$ 109,000,000	October 3, 2017
Barclays Bank PLC	A-3, B-3, C-3, D-3	$ 150,000,000	$ 163,500,000	January 16, 2018
Wells Fargo Bank, National Association	A-4, B-4, C-4, D-4	$ 200,000,000	$ 218,000,000	October 3, 2017

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

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

In the event the Department does not immediately reimburse a CP Bank for a drawing under the applicable CP Letter of Credit, the Department is required pursuant to the applicable CP Reimbursement Agreement to pay all principal of and interest due to the applicable CP Bank as a result of such drawing within five years of the applicable date of the original drawing. Upon the happening of an event of default under a CP Reimbursement Agreement the obligations of the Department to the applicable CP Bank may become immediately due and payable. Events of default under the CP Reimbursement Agreements include, but are not limited to (i) failure to pay principal of or interest on any drawing, advance or other obligations under the applicable CP Reimbursement Agreement, (ii) failure to perform the terms of the applicable CP Reimbursement Agreement, (iii) defaults in any payment of any debt secured by a charge, lien or encumbrance on the Net Pledged Revenues or the Subordinate Pledged Revenues and (iv) certain downgrades of the Senior Bonds. Any obligations of the Department incurred pursuant to the CP Reimbursement Agreements are secured by Subordinate Pledged Revenues on parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes. Redacted copies of the CP Reimbursement Agreements are available on the MSRB's Electronic Municipal Market Access ("EMMA") website.

Debt Service Requirements

The following table sets forth debt service requirements on the Existing Senior Bonds, the Existing Subordinate Bonds and the Series 2016A Subordinate Bonds:

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

Fiscal Year	Total Debt Service on Existing Senior Bonds	Total Debt Service on Existing Subordinate Bonds[(2)]	Principal Requirements on Series 2016A Subordinate Bonds	Interest Requirements on Series 2016A Subordinate Bonds	Total Debt Service on Series 2016A Subordinate Bonds	Total Debt Service on Outstanding Subordinate Bonds[(2)]	Total Debt Service[(2)]
2016[(3)]	$ 235,959,259	$ 64,870,002	-	-	-	$ 64,870,002	$ 300,829,261
2017	253,782,638	64,730,469	$ 1,605,000	$ 13,510,457	$ 15,115,457	79,845,926	333,628,564
2018	253,784,863	64,579,474	6,340,000	14,090,700	20,430,700	85,010,174	338,795,037
2019	254,461,038	64,415,390	6,660,000	13,773,700	20,433,700	84,849,090	339,310,128
2020	254,473,338	64,233,965	6,990,000	13,440,700	20,430,700	84,664,665	339,138,003
2021	254,459,013	60,939,996	7,340,000	13,091,200	20,431,200	81,371,196	335,830,209
2022	254,466,263	60,940,090	7,710,000	12,724,200	20,434,200	81,374,290	335,840,553
2023	254,459,950	59,363,435	8,090,000	12,338,700	20,428,700	79,792,135	334,252,085
2024	261,086,100	59,364,898	8,500,000	11,934,200	20,434,200	79,799,098	340,885,198
2025	261,094,713	59,365,505	8,925,000	11,509,200	20,434,200	79,799,705	340,894,418
2026	261,090,994	59,361,440	9,370,000	11,062,950	20,432,950	79,794,390	340,885,384
2027	261,083,113	59,368,964	9,835,000	10,594,450	20,429,450	79,798,414	340,881,527
2028	261,076,088	59,363,262	10,325,000	10,102,700	20,427,700	79,790,962	340,867,050
2029	261,082,794	59,360,438	10,845,000	9,586,450	20,431,450	79,791,888	340,874,682
2030	261,077,663	59,360,517	11,390,000	9,044,200	20,434,200	79,794,717	340,872,380
2031	261,091,894	59,361,373	11,960,000	8,474,700	20,434,700	79,796,073	340,887,967
2032	261,088,738	59,366,869	12,550,000	7,876,700	20,426,700	79,793,569	340,882,307
2033	261,069,881	59,366,361	13,175,000	7,249,200	20,424,200	79,790,561	340,860,442
2034	261,095,913	59,364,532	13,835,000	6,590,450	20,425,450	79,789,982	340,885,895
2035	261,087,688	59,365,486	14,395,000	6,037,050	20,432,050	79,797,536	340,885,224
2036	261,073,944	59,363,340	15,120,000	5,317,300	20,437,300	79,800,640	340,874,584
2037	262,305,019	59,098,918	15,720,000	4,712,500	20,432,500	79,531,418	341,836,437
2038	247,176,150	58,814,222	15,200,000	3,926,500	19,126,500	77,940,722	325,116,872
2039	238,750,188	54,832,000	15,960,000	3,166,500	19,126,500	73,958,500	312,708,688
2040	244,355,750	49,222,319	16,760,000	2,368,500	19,128,500	68,350,819	312,706,569
2041	59,969,750	-	17,595,000	1,530,500	19,125,500	19,125,500	79,095,250
2042	27,122,250	-	13,015,000	650,750	13,665,750	13,665,750	40,788,000
2043	27,124,500	-	-	-	-	-	27,124,500
2044	20,694,500	-	-	-	-	-	20,694,500
2045	20,706,000	-	-	-	-	-	20,706,000
Total	$ 6,558,149,984	$1,497,773,264	$ 289,210,000	$ 224,704,457	$ 513,914,457	$2,011,687,722	$8,569,837,706

(1) Totals may not add due to individual rounding. Debt service on the Subordinate Commercial Paper Notes (which may be outstanding from time to time up to $500 million aggregate principal amount) and payment obligations under the CP Reimbursement Agreements are not reflected in this table. Approximately $50.3 million of Subordinate Commercial Paper Notes are expected to be outstanding following the issuance of the Series 2016A Subordinate Bonds. For additional information on these obligations, see "—Subordinate Bonds and Subordinate Commercial Paper Notes" above.
(2) Interest on the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds does not reflect the application of the cash subsidy payments the Department expects to receive from the United States Treasury.
(3) Fiscal Year 2016 debt service payments have been made by the Department.
Source: Department of Airports of the City of Los Angeles.

Future Financings

As discussed in the Report of the Airport Consultant, the Department is currently reviewing plans to issue Additional Senior Bonds the proceeds of which would be approximately $2.7 billion and Additional Subordinate Obligations (exclusive of the Series 2016A Subordinate Bonds) the proceeds of which would be approximately $165.9 million through Fiscal Year 2021 to, among other things, complete the Series 2016A Subordinate Bonds Projects and Other Planned and Incorporated Projects. The Airport Consultant's forecast period continues through Fiscal Year 2022, one year beyond the Fiscal Year in which the last series of Additional Senior Bonds or Additional Subordinate Obligations to fund costs of the Capital Program is assumed to be issued.

During the Airport Consultant's forecast period (through Fiscal Year 2022), the Department may pursue additional capital projects and acquisitions beyond those described in the preceding paragraph. Generally, such projects and acquisitions are referred to in this Official Statement and the Report of the Airport Consultant as Other Projects (as defined below). The largest component of the Other Projects is the Landside Access Modernization Program (as defined below). Any Other Projects and the funding therefor are not included in the forecasts included in the Report of the Airport Consultant, however, funding for such Other Projects may include, among other things the net proceeds from Additional Senior Bonds and/or Additional Subordinate Obligations.

See "CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness," "AIRPORT AND CAPITAL PLANNING" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM" for a discussion of certain projects the Department is considering undertaking and the Landside Access Modernization Program.

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 general obligation bonds of the City on a senior lien basis There are currently no outstanding general obligation bonds of the City for Department purposes issued or authorized but unissued.

Other Repayment Obligations

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

If a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Senior Bonds, all or a portion of the Department's 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 interest on or to purchase Subordinate Obligations as applicable, all or a portion of the Department's Repayment Obligations may be afforded the status of a Subordinate Obligation under the Master Subordinate Indenture. The Department currently does not have any Senior Repayment Obligations outstanding. See APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE ELEVENTH SUPPLEMENTAL SUBORDINATE INDENTURE – SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Repayment Obligations Afforded Status of Subordinate Bonds."

Credits

The Department from time to time has provided credits to its Aeronautical Users (as defined below) that may be applied as an offset against amounts otherwise due to the Department by such Aeronautical Users as charges for use of LAX facilities, including amounts owed pursuant to the Airport Terminal Tariff or landing fees. Because these credits are applied as an offset to amounts owed to the Department by such Aeronautical Users, the Department receives less money from these Aeronautical Users than such Aeronautical User would otherwise provide absent the credit. Thus, although the credits are not secured by any pledge of or lien on the Department's revenues, the effect of using such credits is the creation of a higher payment priority for such credits than for the Senior Bonds and Subordinate Obligations, including the Series 2016A Subordinate Bonds. Credits are discussed in greater detail under "USE OF AIRPORT FACILITIES – Department Acquisition of Certain Terminal Improvements; Credits." See also "SPECIAL FACILITY FINANCINGS – Conduit Financings."

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2016A Subordinate Bonds involve investment risk and may not be suitable for all investors. Prospective investors are urged to read this Official Statement, including the appendices hereto, in its entirety. The factors set forth herein, among others, may affect the security for and/or trading value of the Series 2016A Subordinate Bonds. The information herein does not purport to be a comprehensive or exhaustive discussion of all risks or other considerations that may be relevant to an investment in the Series 2016A Subordinate Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other risks or considerations not discussed herein are or will not become material in the future.

Demand for Air Travel, Aviation Activity and Related Matters

The Senior Bonds are payable solely from Net Pledged Revenues and other available funds. The Subordinate Obligations are payable solely from Subordinate Pledged Revenues and other available funds. Net Pledged Revenues, Subordinate Pledged Revenues and PFC revenues depend significantly on the level of aviation activity, enplaned passenger traffic at LAX and passenger spending at airport facilities.

Air travel demand has historically correlated to the national economy, generally, and consumer income and business profits in particular. The long term implications of recent economic and political conditions are unclear. A lack of sustainable economic growth could negatively affect, among other things, financial markets, commercial activity and consumer spending. There can be no assurance that economic and political turmoil or lack of sustainable economic growth will not adversely affect demand for travel.

The level of aviation activity and enplaned passenger traffic at LAX depend upon a number of factors including those discussed above and other economic and political conditions; international hostilities; world health concerns; aviation security concerns including incidents of terrorism; federal government mandated security measures that result in additional taxes and fees and longer passenger processing and wait times as discussed in more detail under "—Security Concerns" below; accidents involving commercial passenger aircraft; airline service and routes; airline airfares and competition; airline industry economics, including labor relations, fuel prices, aging aircraft fleets and other factors discussed in more detail under "—Financial Condition of the Airlines" below; capacity of the national air traffic control and airport systems; competition from other airports; reliability of air service; business travel substitutes, including teleconferencing, videoconferencing and web-casting; consumer price sensitivity; and the capacity, availability and convenience of service at LAX, among others.

In addition to revenues from airlines, the Department derives a substantial portion of its revenues from concessionaires including parking operations, terminal commercial manager concessions, duty free concessions, food and beverage concessions, retail concessions and rental cars. See "USE OF AIRPORT FACILITIES – Concession and Parking Agreements." Declines in passenger traffic or changes in the way passengers transact with concessionaires may adversely affect the commercial operation of concessionaries and alter the mix of revenues at LAX. While the Department's many agreements with concessionaires require the concessionaires to pay a minimum annual guarantee, severe financial difficulties could lead to a failure by one or more concessionaires and consequently, create risk for the required payments and interruption of such concessionaires operations. See also "— Financial Condition of the Airlines and Aviation-Related Industry; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

Many of these factors are outside the Department's control. Changes in demand, decreases in aviation activity, changes in passenger consumer behavior and their potential effects on enplaned passenger traffic and revenues at LAX may result in reduced Net Pledged Revenues, Subordinate Pledged Revenues and PFC revenues. A number of these factors are discussed in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC."

Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies

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

Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are influenced by the state of the national economy (see the factors discussed in "—Demand for Air Travel and Aviation Activity" above), other regional and world economies, business profitability, security concerns and other factors. Significant structural changes to the airline industry have occurred in recent years, including reducing or eliminating service on unprofitable routes, reducing airline work forces, implementing pay cuts, streamlining operations and merging with other airlines. Airfares have become easier to compare, which has made pricing and marketing among airlines more competitive. The price of fuel has been a significant cost factor for the airline industry and affects airline earnings. Fuel prices are particularly sensitive to worldwide political instability, economic uncertainties and increased demand from developing economies, production disruption, regulations and weather. Material and prolonged changes in the costs of aviation fuel may have an adverse impact on air transportation industry profitability.

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 and Aviation Activity." Airline debt levels fluctuate. The airlines are vulnerable to fuel price spikes, labor activity, recession and external shocks (such as terrorism, pandemics, military conflicts and natural disasters). As a result, aviation industry-related financial performance, including those concessionaires that rely on airline passenger traffic and revenues for profitability, can fluctuate dramatically from one reporting period to the next.

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

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

On April 1, 2016, Alaska Air Group, Inc. ("Alaska Air Group"), Virgin America Inc. ("Virgin America"), and Alpine Acquisition Corp., a wholly-owned subsidiary of Alaska Air Group ("Merger Sub"), entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which, subject to satisfaction or waiver of the conditions therein, Alaska Air Group will acquire Virgin America by means of a merger of Merger Sub with and into Virgin America (the "Merger"), with Virgin America surviving the Merger as a direct wholly-owned subsidiary of Alaska Air Group. Alaska Air Group indicates that the completion of the Merger is subject to certain conditions, including certain shareholder approvals, the absence of any material adverse effect on Virgin America's business, expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and receipt of any required approvals from the FAA and the U.S. Department of Transportation ("U.S. DOT"). Alaska Airlines represented a market share of approximately 4.6% of enplanements at LAX in Fiscal Year 2015. Virgin America represented a market share of approximately 4.2% of enplanements at LAX in Fiscal Year 2015.

Effect of Airline and Concessionaire Bankruptcies. A number of airlines and concessionaires (i.e., rental car companies) that served or are currently serving LAX have filed for bankruptcy in the past, and may do so in the future. Historically, bankruptcies of airlines operating at LAX have resulted in transitory reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. Future bankruptcies, liquidations or major restructurings of other airlines and/or concessionaires may occur. While it is not possible to predict the impact on LAX of future bankruptcies, liquidations or major restructurings of airlines and concessionaires, if an airline or concessionaire has significant operations at LAX, its bankruptcy, liquidation or a major restructuring, could have a material adverse effect on revenues of the Department, operations at LAX, the costs to other airlines or concessionaires to operate at LAX (as certain costs allocated to any such airline or concessionaire may be passed on to the remaining airlines or concessionaires under their respective agreements; there can be no assurance that such other airlines or concessionaires would be financially able to absorb the additional costs) and may result in delays or reductions in payments on Senior Bonds and Subordinate Obligations (including the Series 2016A Subordinate Bonds).

In the event of a bankruptcy by an airline or concessionaire operating at LAX, the automatic stay provisions of the United States Bankruptcy Code (the "Bankruptcy Code") could prevent (unless approval of the bankruptcy court was obtained) an action to collect amounts owing by the airline or concessionaire to the Department or other actions to enforce the obligations of the airline or concessionaire to Department and/or the City (e.g., requirements to make capital investments under the applicable agreements). With the authorization of the Bankruptcy Court, the airline or concessionaire may be able to repudiate some or all of its agreements with the Department and/or the City and stop performing its obligations (including payment obligations) under such agreements. The airline or concessionaire may be able, without the consent and over the objection of the Department and/or the City, the Senior Trustee, the Subordinate Trustee, and the holders of the Senior Bonds and the Subordinate Obligations (including the Series 2016A Subordinate Bonds), to alter the terms, including the payment terms, of its agreements with the Department and/or the City, as long as the Bankruptcy Court determines that the alterations are fair and equitable. In addition, with the authorization of the Bankruptcy Court, the airline or concessionaire may be able to assign its rights and obligations under any of its agreements with the Department and/or the City to another entity, despite any contractual provisions prohibiting such an assignment. The Senior Trustee, the Subordinate Trustee, and the holders of the Senior Bonds and the Subordinate Obligations (including the Series 2016A Subordinate Bonds), as applicable, may be required under the Bankruptcy Code to return to the airline or concessionaire as preferential transfers any money that was used to make payments on the Senior Bonds or the Subordinate Obligations (including the Series 2016A Subordinate Bonds) and that was received by the Department from the airline or concessionaire during the 90 days immediately preceding the filing of the bankruptcy petition. Claims by the Department and/or the City under any agreement with such airline or concessionaire may be subject to further limitations under the Bankruptcy Code.

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

AIRPORT CAPITAL PROGRAM – PFC Revenues" for additional information about the Department's expected use of PFC revenues.

With respect to an airline or concessionaire 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.

Other possible effects of a bankruptcy of an airline or concessionaire include, but may not be limited to, delays or reductions in revenues received by the Department and potentially in delays or reductions in payments on the Series 2016A Subordinate Bonds. Regardless of any specific adverse determinations in an airline or concessionaire bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2016A Subordinate Bonds. The Department has not incurred any material losses from recent airline bankruptcies. See also "USE OF AIRPORT FACILITIES" regarding performance guaranties required by the Department.

The Department makes no representation with respect to the continued viability of any of the carriers or concessionaire serving LAX, airline service patterns, or the impact of any airline failures on the Net Pledged Revenues, Subordinate Pledged Revenues and passenger facility charge collections.

See also "AIRLINE INDUSTRY INFORMATION," "LOS ANGELES INTERNATIONAL AIRPORT – Air Carriers Serving LAX" – Table 6, "—Aviation Activity" – Table 9 and Table 10 and "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Top Revenue Providers and Sources" – Table 15.

Security Concerns

Concerns about the safety of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in light of existing international hostilities, potential terrorist attacks and world health concerns. As a result of terrorist activities certain international hostilities and risk of violent crime, the Department has implemented enhanced security measures mandated by the FAA, the Transportation Security Administration ("TSA"), the Department of Homeland Security and Airport management. Current and future security measures may create significantly increased inconvenience, costs and delays at LAX which may give rise to the avoidance of air travel generally and the switching from air to ground travel modes and may adversely affect the Department's operations, expenditures and revenues.

LAX has been the target of a foiled terrorist bombing plot and has been recognized as a potential terrorist target. In November 2013, a shooting occurred at LAX in which a TSA officer was killed and several other people were injured in an apparent attack against TSA officers. The Department cannot predict whether LAX or any of the Department's other airports will be actual targets of terrorists or other violent acts in the future.

Computer networks and data transmission and collection are vital to the efficient operation of the airline industry. Air travel industry participants, including airlines, the FAA, the TSA, the Department, concessionaires and others collect and store sensitive data, including intellectual property, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to air travel industry operations. Despite security measures, information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise networks and the information stored there could be disrupted, accessed, publicly disclosed, lost or stolen. Any such disruption, access, disclosure or other loss of information could result in disruptions in the efficiency of the air travel industry, legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, operations and the services provided, and cause a loss of confidence in the air travel industry, which could ultimately adversely affect Department revenues.

Regulations and Restrictions Affecting LAX

The operations of LAX are affected by a variety of contractual, statutory and regulatory restrictions and limitations including extensive federal legislation and regulations, including, without limitation, the provisions of the Airport Terminal Tariff, terminal leases, the Rate Agreement (as defined herein), various grant assurances, the federal acts authorizing the imposition, collection and use of PFC revenues and extensive federal legislation and regulations applicable to all airports in the United States.

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

The Internal Revenue Service ("IRS") includes a Tax Exempt and Government Entities Division (the "TE/GE Division"), which has a subdivision that is specifically devoted to tax-exempt bond compliance. The Department can provide no assurance that, if an IRS examination of the Series 2016A Subordinate Bonds was undertaken, it would not adversely affect the market value of the Series 2016A Subordinate Bonds.

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

In addition to these regulatory actions, other laws and regulations limiting GHG emissions have been adopted by a number of states, including California, and have been proposed on the federal level. California passed Assembly Bill 32, the California Global Warming Solutions Act of 2006 ("AB 32"), which requires the statewide level of GHGs to be reduced to 1990 levels by 2020. On October 20, 2011, the California Air Resources Board ("CARB") made the final adjustments to its implementation of AB 32: the California cap-and-trade program (the "California Cap-and-Trade Program"). The Department's annual metric tons of carbon dioxide equivalent ("MtCO2e") emissions exceed 25,000 metric tons and therefore the Department is required to participate in the California Cap-and-Trade Program. California Cap-and-Trade Program credits are market based, thus, the annual costs for participation in the program may vary. The California Cap-and-Trade Program may result in rising electricity and fuel costs, which may adversely affect the airlines serving LAX and the Department's operations.

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

See "AIRPORT SYSTEM ENVIRONMENTAL MATTERS."

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

Federal Funding; Impact of Federal Sequestration

On February 6, 2012, Congress passed a four-year reauthorization bill for the FAA, the FAA Modernization and Reform Act of 2012, which was signed into law on February 14, 2012 by the President. This was the first long-term FAA authorization since the last such authorization expired in 2007. Between 2007 and the 2012 reauthorization, there were 23 short-term extensions of the FAA's authority and a two-week partial shutdown of the FAA in the summer of 2011. On March 21, 2016, Congress passed another short-term extension of the FAA's authority that extended funding to July 15, 2016, the Airport and Airway Extension Act of 2016, which was signed into law on March 30, 2016 by the President. As reauthorized, the Airport and Airway Extension Act of 2016 retained the federal cap on passenger facility charges at $4.50 and continued funding for the Airport Improvement Program ("AIP") through Federal fiscal year 2016. The AIP provides federal capital grants to support airport infrastructure, including entitlement grants (determined by formulas based on passenger, cargo, and general aviation activity levels) and discretionary grants (allocated on the basis of specific set-asides and the national priority ranking system). There can be no assurance that the FAA will receive spending authority beyond the recent six month extension. In addition, the AIP could be affected by the automatic across-the-board spending cuts, known as sequestration, described in more detail below. The Department is unable to predict the level of available AIP funding it may receive. If there is a reduction in the amount of AIP grants awarded to the Department for LAX, such reduction could (i) increase by a corresponding amount the capital expenditures that the Department would need to fund from other sources (including operating revenues, Additional Senior Bonds or Additional Subordinate Obligations), (ii) result in decreases to the Department's Capital Improvement Plan or (iii) extend the timing for completion of certain projects. See "AIRPORT AND CAPITAL PLANNING –Financing the Capital Program – Grants."

Federal funding received by the Department and aviation operations could be adversely affected by the implementation of sequestration – a unique budgetary feature first introduced in the Budget Control Act of 2011, which among other things, reduced subsidy payments to be made to issuers of "direct-pay" bonds, such as Build America Bonds, including the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds. The Department is unable to predict by what percentage, if any, reductions would be made to Build America Bonds subsidy payments in the future.

Sequestration could also adversely affect FAA and TSA budgets, operations and the availability of certain federal grant funds typically received annually by the Department which may cause the FAA or TSA to implement furloughs of its employees and hiring freezes, including air traffic controllers, and result in flight delays and flight cancellations, implement hiring freezes.

The Department is unable to predict future sequestration funding cuts or furloughs of federal employees responsible for federal airport security screening, air traffic control and CBP or the impact of such actions on airline traffic at LAX or the Department's revenues.

Considerations Regarding Passenger Facility Charges

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

Debt service to be paid with PFC revenues is not included in the coverage calculations described in "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Passenger Facility Charges," "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of the Airport Consultant; Projected Debt Service Coverage" and in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues."

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

In addition, the FAA may terminate the Department's ability to impose PFC revenues, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA's approval, the PFC Acts or the regulations promulgated thereunder, or (b) the Department otherwise violates the PFC Acts or regulations. The Department's authority to impose passenger facility charges may also be terminated if the Department violates certain AIP grant assurances and certain provisions of the Airport Noise and Capacity Act of 1990 ("ANCA") and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the Department's authority to impose passenger facility charges would not be summarily terminated. No assurance can be given that the Department's authority to impose passenger facility charges will not be terminated by Congress or the FAA, that the passenger facility charge program will not be modified or restricted by Congress or by the FAA so as to reduce PFC revenues available to the Department or that the Department will not seek to decrease the amount of the passenger facility charges to be collected.

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

The overall capital program funding plan, projected airline payments and other financial results reflected in the Report of the Airport Consultant are based on an assumption by the Airport Consultant that the current $4.50 passenger facility charge level will remain the same during the forecast period (through Fiscal Year 2022).

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

Delays and Cost Increases; Future Capital Projects; Additional Indebtedness

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

In addition, certain funding sources are assumed to be available for the Department's projects. For example, the Report of the Airport Consultant assumes that the Department will receive AIP grant funding and TSA funding for various projects referenced under "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program – Grants" and described in greater detail in the Report of the Airport Consultant. See also "—Considerations Regarding Passenger Facility Charges" above. No assurances can be given that such funding will, in fact, be available. If such funding sources or other funding sources incorporated in the Report of the Airport Consultant are not available, the Department may need to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds and/or Additional Subordinate Obligations, to finance such projects. Such changes could result in actual results differing materially from the forecasts in the Report of the Airport Consultant.

In addition, the Department intends to undertake future capital projects at LAX. The Department may pursue capital projects and acquisitions beyond the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects (as defined below), including but not limited to the Other Projects. The largest component of the Other Projects is the Landside Access Modernization Program. The Department's initial estimates of total costs of the Landside Access Modernization Program are in the range of $4.5 to $5.5 billion. See "AIRPORT AND

CAPITAL PLANNING" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM" for a discussion of certain projects the Department is considering undertaking and the Landside Access Modernization Program.

Because the cost, scope and timing for undertaking certain future projects and acquisitions beyond the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects (including the Landside Access Modernization Program) is uncertain, associated financial impacts are not included in the financial forecasts in the Report of the Airport Consultant. The costs of any such projects are not known at this time. If additional projects are undertaken and other financing sources are not available, the Department may issue Additional Senior Bonds and/or Additional Subordinate Obligations to finance such projects, and may elect to divert financial and other resources to such projects. As a result, actual results could differ materially from forecasts.

Department management intends to implement certain capital projects using a modular and phased approach, so that future projects (or project phases) can be deferred if unanticipated events occur (such as lower than anticipated growth or declines in aviation activity at LAX). The Department may ultimately decide not to proceed with certain capital projects or may proceed with them on a different schedule, resulting in different results than those included in the forecasts. The Department's ability to finance its Capital Improvement Plan also depends upon the orderly function of the capital markets which experienced substantial disruptions in late 2008. Another such disruption may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short or long term funding. No assurance can be given that this source of funding will actually be available in the amounts or at the times desired by the Department.

See "AIRPORT AND CAPITAL PLANNING" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM" for a discussion of certain projects the Department is considering undertaking and the Landside Access Modernization Program and "LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT – Runway 25L Construction Litigation" regarding recently constructed portions of Runway 25L, the centerline taxiway and other southside airfield improvements.

Seismic Risks; Other Force Majeure Events

The City is located in a seismically active region of the State. During the past 150 years, the Los Angeles area has experienced several major and minor earthquakes. On January 17, 1994, the Los Angeles area experienced an earthquake that measured 6.7 on the Richter Scale. LAX experienced no disruption of service following that incident. Damage in excess of $11 million was sustained at VNY and LAX. The Department received funds from the Federal Emergency Management Agency ("FEMA") and from its insurance carrier as a result of the earthquake damage at VNY.

In March 2015, the Uniform California Earthquake Rupture Forecast (the "2015 Earthquake Forecast") was issued by the Working Group on California Earthquake Probabilities. Organizations sponsoring the Working Group on California Earthquake Probabilities include the U.S. Geological Survey, the California Geological Survey, the Southern California Earthquake Center and the California Earthquake Authority. According to the 2015 Earthquake Forecast, the probability of the Southern California region experiencing an earthquake measuring 6 or larger on the Richter Scale by 2044 is approximately 100%, measuring 6.7 or larger on the Richter Scale by 2044 is approximately 95%, measuring 7 or larger on the Richter Scale by 2044 is approximately 76%, measuring 7.5 or larger on the Richter Scale by 2044 is approximately 36%, and measuring 8 or larger on the Richter Scale by 2044 is approximately 7%, and the likelihood of the Los Angeles region experiencing an earthquake measuring 6 or larger on the Richter Scale by 2044 is approximately 96%, measuring 6.7 or larger on the Richter Scale by 2044 is approximately 60%, measuring 7 or larger on the Richter Scale by 2044 is approximately 46%, measuring 7.5 or larger on the Richter Scale by 2044 is approximately 31%, and measuring 8 or larger on the Richter Scale by 2044 is approximately 7%. 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.

The Department's ability to generate revenues is also at risk from other force majeure events, such as extreme weather events, droughts, and other natural occurrences, fires, explosions, spills of hazardous substances, strikes and lockouts, sabotage, or wars, blockades or riots. No assurance can be given that such events will not occur while the Series 2016A Subordinate Bonds are outstanding. Although the Department has attempted to mitigate the risk of loss from many of these occurrences by purchasing commercial property and casualty insurance, no assurance can be given that such insurance will always be available in sufficient amounts at a reasonable cost or available at all or that insurers will pay claims in a timely manner or 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 or other force majeure event 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 or other force majeure event.

Capacity of the National Air Traffic Control System; Capacity of LAX

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing enhanced air traffic management programs, air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations, but, as airline travel increases in the future, flight delays and restrictions may be expected. In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at LAX will depend on the capacity at LAX itself. In the Southern California Association of Governments ("SCAG") Regional Transportation Plan, the overall practical capacity of LAX was described as a range of 78.9 to 96.6 million annual passengers. The forecasts of the Airport Consultant is conditioned on the assumption that, during the forecast period, neither available airfield or terminal capacity, nor demand management initiatives, will constrain traffic growth at LAX.

Enforceability of Remedies; Limitation on Remedies

As discussed above under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Events of Default and Remedies; No Acceleration," except as described in the following sentence, the occurrence of a Subordinate Event of Default does not grant any right to accelerate payment of the Subordinate Obligations or the Senior Bonds to any of the Subordinate Trustee, the Senior Trustee, or the Holders of the Subordinate Obligations or Senior Bonds. Pursuant to the CP Reimbursement Agreements, the Department granted to the CP Banks the right to accelerate any payments due to the CP Banks upon an event of default under the CP Reimbursement Agreements. The Subordinate Trustee is authorized to take certain actions upon the occurrence of a Subordinate Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture.

The rights and remedies available to the owners of the Series 2016A Subordinate Bonds, and the obligations incurred by the Department, may become subject to, among other things, the federal bankruptcy code; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting creditors' rights generally, now or hereinafter in effect; equity principles; limitations on the specific enforcement of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain circumstances, of the police powers inherent in the sovereignty of the State and its governmental bodies having an interest in serving a significant and legitimate public purpose; and regulatory and judicial actions that are subject to discretion and delay. The foregoing could subject the owners of the Series 2016A Subordinate Bonds to, among other things, judicial discretion and interpretation of rights; the automatic stay provisions of the federal bankruptcy code; rejection of significant agreements; avoidance of certain payments to the owners of the Series 2016A Subordinate Bonds as preferential payments; assignments of certain obligations, including those in favor of the owners of the Series 2016A Subordinate Bonds; significant delays, reductions in payments and other losses to the owners of the Series 2016A Subordinate Bonds; an adverse effect on the liquidity and values of the Series 2016A Subordinate Bonds; additional borrowing, which borrowing may have priority over the lien of the Master Subordinate Indenture; alterations to the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants) and other terms or provisions of the Master Subordinate Indenture or the Series 2016A Subordinate Bonds, and other obligations.

Legal opinions to be delivered concurrently with the delivery of the Series 2016A Subordinate Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2016A Subordinate Bonds may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, as well as limitations on legal remedies against cities in the State of California.

See also APPENDIX C – "CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE ELEVENTH SUPPLEMENTAL SUBORDINATE INDENTURE – SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of Default and Remedies – Application of Moneys." See also "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes."

Rate Covenant Limitations

As described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Subordinate Rate Covenant," the Subordinate Indenture includes covenants with respect to the establishment of rates and charges. However, the Subordinate Indenture provides that so long as the Department is taking specified steps to meet the applicable rate covenant, an event of default will not be triggered until the end of the second subsequent Fiscal Year. The ability of the Department to increase rates and charges and to reduce expenses is limited by, among other things, federal law (including the provisions thereof described under "—Regulations and Restrictions Affecting LAX") and certain agreements with airlines and other users of LAX facilities. See "USE OF AIRPORT FACILITIES."

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant included as APPENDIX A incorporates numerous assumptions regarding the utilization of LAX and other matters and states that the forecasts in the Report of the Airport Consultant 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 are 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 and adverse. Further, the Report of the Airport Consultant does not cover the entire period through maturity of the Series 2016A Subordinate Bonds. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness."

Retirement Plan Funding

As described under "THE DEPARTMENT OF AIRPORTS – Retirement Plan," Department employees, including Airport Police, participate in the Los Angeles City Employees' Retirement System ("LACERS"). The LACERS Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015 ("LACERS Valuation Report" and together with the Los Angeles City Employees' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015, the "LACERS Reports") has reported unfunded actuarial accrued liabilities ("UAAL") for retirement benefits and for health subsidy benefits as described in more detail in APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES." LACERS UAALs and sustained increases in the costs of providing retirement and health subsidy benefits may require the Department to make substantial contributions to LACERS in the future and may adversely affect the Department's financial condition. Factors beyond the Department's control, including but not limited to, returns on LACERS plan assets, may affect the Department's retirement and health subsidy benefit expenses and may increase the Department's related funding obligations. The Department expects to be required to make substantial contributions to LACERS in the future to fund LACERS UAALs attributable to LAX. See "THE DEPARTMENT OF AIRPORTS – Retirement Plan" and APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES."

AIRLINE INDUSTRY INFORMATION

General

Many of the major scheduled domestic airlines serving LAX, or their respective parent corporations, and many of the foreign airlines serving LAX with American Depository Receipts ("ADRs") registered on a national exchange, are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, concerning such domestic airlines, or their respective parent corporations, and such foreign airlines is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected and copied at the public reference facilities maintained by the SEC, which can be located by calling the SEC at 1-800-SEC-0330. The SEC maintains a web site containing reports, proxy statements and other information regarding registrants that file electronically with the SEC. In addition, each airline is required to file periodic reports of financial aid and operating statistics with the 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, 1200 New Jersey Avenue, S.E., Washington, D.C. 20590, and copies of such reports can be obtained from U.S. DOT at prescribed rates.

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

The Department undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or U.S. DOT as described in this section or (ii) any material contained on the SEC's website as described in this section, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC's website. Any such information is not part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in deciding whether to invest in the Series 2016A Subordinate Bonds.

SPECIAL FACILITY FINANCINGS

LAX Special Facility Obligations

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

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

Conduit Financings

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

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

THE DEPARTMENT OF AIRPORTS

General Description

The City, acting through the Department, currently operates three airports in LAX's Service Region. The airports are LAX, VNY and LA/ONT. The Department voluntarily returned the certificate relating to LA/PMD to the FAA, but may, upon compliance with certain requirements, request to have the LA/PMD certificate reissued. The Airport System is operated as a financially self-sufficient enterprise, without City General Fund support.

LAX is described under "LOS ANGELES INTERNATIONAL AIRPORT."

VNY is a general aviation airport located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is one of the busiest general aviation airports in the United States with over 220,000 operating movements in Fiscal Year 2015 as reported by the FAA. More than 100 businesses are located at the airport, including five fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs.

LA/PMD is located in the Antelope Valley approximately 60 miles north of LAX. Currently, there is no scheduled service at LA/PMD. The Department owns approximately 17,500 acres of land at and around LA/PMD. The Department has transferred operation, management, and control of the LA/PMD terminal facility from the Department to the City of Palmdale, but has retained certain rights for future development of the adjoining 17,500 acres.

LA/ONT is a medium-hub, full-service airport with commercial jet service to many major cities in the United States and connecting service to many international destinations. LA/ONT is located approximately 35 miles east of downtown Los Angeles and approximately 50 miles east of LAX and occupies approximately 1,463 acres. LA/ONT served approximately 4.2 million enplaned and deplaned passengers in Fiscal Year 2015, representing approximately 5.0% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2015. As of August 1, 2015, LA/ONT was served by eight scheduled passenger carriers and cargo carriers and approximately 14 unscheduled passenger and cargo carriers.

Subject to conditions described in this Official Statement including approval by the FAA, sponsorship, ownership and control of LA/ONT may be transferred to Ontario International Airport Authority ("OIAA"), a joint powers authority of the County of San Bernardino and the City of Ontario. Such transfer, should it occur, is pursuant to the terms of a settlement agreement (the "ONT Settlement Agreement") among the City, the Department, the Board, City of Ontario, and OIAA, relating to litigation filed by the City of Ontario in June 2013 (the "Ontario Litigation") against the City, the Department, and the Board. The ONT Settlement Agreement provides, generally, for: (I) the City to transfer, assign and deliver to OIAA the City's right, title and interest in and to certain of the assets, properties, rights and interests solely used or held solely for use in connection with the Department's operation of LA/ONT, including: (a) certain real property, improvements and equipment comprising LA/ONT and certain surrounding parcels; (b) certain contractual or entitlement rights, comprised of leases, contracts, grant agreements and entitlements; (c) certain accounts receivable and cash remaining in the accounts of LA/ONT after the (i) transfer of certain passenger facility charges, (ii) transfer of $40 million from LA/ONT accounts to other Department non-LA/ONT accounts, and (iii) use of the funds in the reserve fund established for the $90,155,000 aggregate principal amount of Ontario International Airport Refunding Revenue Bonds Series 2006A and Series 2006B (the "LA/ONT Bonds") to discharge the outstanding LA/ONT Bonds, all as provided in the ONT Settlement Agreement; (II) the development of a Staff Augmentation Agreement and a Department Employee Protection and Transition Plan; (III) termination and rescission of the joint powers agreement of the City and the City of Ontario; (IV) dismissal with prejudice of the Ontario Litigation and other related litigation; and (V) certain reimbursement payments and transfers of funds to the Department, including: (a) $30 million from the City of Ontario to the City for the benefit of the Department to be used for the capital and operating expenses of the airport system owned and operated by the Department (other than LA/ONT); (b) $40 million from the unrestricted cash LA/ONT accounts to other Department non-LA/ONT accounts (as described above) to be used for the capital and operating expenses of the airport system owned and operated by the Department (other than LA/ONT); (c) $120 million from OIAA to the Department, over a period of approximately 10 years and subject to certain conditions and limitations, including that a portion thereof may be paid by the transfer of certain previously collected passenger facility charges; and (d) funds from OIAA sufficient, together with amounts available in the applicable bond reserve fund, to cause the discharge of the LA/ONT Bonds (as described above).

Airports in Airport System Comparison

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

TABLE 4
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
OPERATING RESULTS FOR AIRPORT SYSTEM
FISCAL YEAR 2015[1]

Airport	Net Operating Revenues (000)[2]	Enplanements and Deplanements	Aircraft Arrivals and Departures	Total Landed Weight (000 Lbs.)[3]	Enplaned/Deplaned Cargo (Tons)
LAX	$ 400,402	72,077,619	608,607	54,990,239	2,109,144
LA/ONT	4,263	4,165,442	64,075	4,692,704	483,349
VNY	4,365	--	136	43,856	--
LA/PMD[4]	494	--	--	--	--
Total[5]	$ 409,524	76,243,061	672,818	59,725,339	2,592,493

(1) Derived from unaudited financial statements.
(2) Operating revenues less operating expenses, before depreciation. This definition of Net Operating Revenues varies from the definition of the term "Net Pledged Revenues" as defined in the Senior Indenture.
(3) Reflects landed weight for revenue-generating landings only.
(4) See "—Subsidization within the Airport System" below. Currently there is no scheduled service at LA/PMD. See "—General Description."
(5) Numbers may not add due to rounding.
Source: Department of Airports of the City of Los Angeles.

Subsidization within the Airport System

Previous provisions of the Charter (which have been deleted from the current Charter) required LAX Revenues to be used to make up any deficiencies of any of the other airports in the Airport System, including any operating losses and major catastrophic or other liabilities of such airports. Although the current Charter no longer contains any requirement for subsidization within the Airport System, the Department anticipates that LAX Revenues will continue to be used for subsidizing deficiencies incurred in the Airport System. No assurance can be given that major catastrophic liabilities or other unanticipated events will not occur within the Airport System which would require substantial unanticipated transfers of LAX revenues or that subsidies, if provided to the other airports in the Airport System, will not be substantially higher than they have been in the past.

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

VNY serves as a reliever airport for LAX. Any VNY subsidy, when provided, is recovered by the Department through an increase in landing fees at LAX. Landing fees at LAX are calculated based on LAX's operating costs and amortization of debt as well as certain costs associated with VNY. While no current subsidy is provided, the Department has provided subsidies in the past and may provide subsidies to VNY in the future.

In Fiscal Year 2015, LAX provided a subsidy of approximately $355,000 to LA/PMD. The subsidy for LA/PMD is not incorporated in LAX landing fees but rather is paid from discretionary funds and may increase or decrease in the future. See "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Hazardous Substances."

Board of Airport Commissioners

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

Member	Occupation	Date of Appointment	Current Term Expires
Sean O. Burton, President	Real Estate Investor	August 2013	June 30, 2019
Valeria C. Velasco, Vice President	Attorney	September 2005	June 30, 2017
Gabriel L. Eshaghian	Real Estate Investor	August 2013	June 30, 2019
Nolan V. Rollins	Attorney	August 2015	June 30, 2019
Beatrice C. Hsu	Business Executive	August 2013	June 30, 2016
Jeffery J. Daar	Attorney	August 2015	June 30, 2020
Cynthia A. Telles	Civic Leader	August 2013	June 30, 2018

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

Oversight

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 2016A Subordinate Bonds on April 12, 2016.

Additionally, the Department is subject to periodic audits, reviews, inspections and other inquiries by, among others, the City Controller, the FAA, the U.S. DOT, the Office of the Inspector General, the U.S. and California Environmental Protection Agencies, various water control boards and air quality management districts, the California Coastal Commission and the Department's own auditors. See "CERTAIN FUNDING SOURCES – Grants" and "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Hazardous Substances."

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 various 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 March 1, 2016 there were 3,859 authorized positions for the Airport System. The current principal administrative officers and their positions are named below:

Deborah Flint, Executive Director. Deborah Flint was appointed Executive Director in June 2015, and oversees three airports, LAX, LA/ONT and VNY. Ms. Flint came to the Department from the Port of Oakland where she held the position of aviation director since 2010, being the primary executive responsible for the operation, management and business development of Oakland International Airport ("OAK"). Prior to serving as aviation director at the Port of Oakland, Ms. Flint was the assistant aviation director and led the operation of the airport. Other experiences include leading OAK's Capital Program in which she coordinated the design, financing and implementation of major airport projects, as well as participated in the issuance of hundreds of millions of dollars in revenue bonds. She also served as acting port executive director of the Port of Oakland (maritime). She began her career with the port in 1992 in port finance and advanced through the port's Finance and Aviation divisions. Ms. Flint holds a Bachelor of Science degree in business administration from San Jose State University, and attended the Executive Leadership Institute's Continuing Education in Public Administration program. She was appointed in 2012 to the President's Advisory Committee on Consumer Protection (aviation). She also serves on the Transportation Research Board's Airport Cooperative Research Program and the California Airports Council, and is a regional advisor to the Airports Council International World Board.

Samson Mengistu, Chief Operating Officer. Mr. Mengistu was appointed Chief Operating Officer in January 2016. As Chief Operating Officer Mr. Mengistu is responsible for oversight over the Department's activities involving Operations and Emergency Management, Finance and Budget, Administration, Information Technology and Facilities and Maintenance. Mr. Mengistu joined the City in 1989 after working extensively in the property management field. In an early assignment, he established and managed the Department's soundproofing program. Immediately prior to his current position, he served as the Department's Deputy Executive Director for Finance and Administration and as the Department's Acting Executive Director from February to June 2007. Mr. Mengistu was appointed the Department's Deputy Executive Director of Board Relations and Special Programs in 2003, serving as the Board liaison. In addition, he was in charge of the Department's $500 million Property Acquisition Program and the Risk Management and Procurement Divisions. As Deputy Executive Director for Finance and Administration from 2006 to 2015 he was in charge of the functions of Finance, Comptroller, Board Office, Human Resources, Risk Management and Contract Services. Mr. Mengistu earned a Bachelor of Arts degree in Economics and a Master of Science in Public Administration from California State University, Los Angeles.

Stephen C. Martin, Chief Development Officer. Mr. Martin was appointed Chief Development Officer in January 2016. Mr. Martin has over 35 years of experience in airports and transportation development and finance. Mr. Martin came to the Department in January 2008 and prior to his current position served as Chief Operating Officer. Prior to joining the Department, Mr. Martin served as Executive Vice President and Chief Financial Officer of ACI-North America. Previously, he was a consultant for 10 years with LeighFisher Associates in San Francisco where he specialized in finance, project development and privatization. Mr. Martin also held the position of Director of Financial Development in the Office of the Secretary at the U.S. DOT from 1993 to 1996. Earlier in his career, Mr. Martin was with the Massachusetts Port Authority ("Massport") for twelve years. For six of those years he was the Director of Finance and Business Development for all of Massport's lines of business. Initially at Massport, Mr. Martin worked at Logan International Airport (BOS) as an Assistant Director of Aviation. Mr. Martin has a Master's degree in economics from Northeastern University and a Bachelor's degree in economics from the University of Massachusetts.

Ryan Yakubik, Chief Financial Officer. Mr. Yakubik was appointed Chief Financial Officer in 2014. He served as Director of Capital Development and Budget beginning October 2007. He is responsible for overseeing the Department's rates and charges, grants administration, operating budget, capital budget and all debt-related functions at LAX and LA/ONT. Mr. Yakubik came to the Department after more than eight years in the financial services industry where he most recently served as a fixed income portfolio manager for institutional clients. Mr. Yakubik holds a Bachelor of Arts degree in Economics from the University of California at Los Angeles and is a Chartered Financial Analyst.

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

Patrick M. Gannon, Deputy Executive Director, Homeland Security and Law Enforcement. Airport Police Chief, Patrick Gannon was appointed Deputy Executive Director for Homeland Security and Law Enforcement in June 2014. Chief Gannon also continues to serve as chief of Airport Police. As Deputy Executive Director for Homeland Security and Law Enforcement, Gannon provides leadership, management oversight and policy direction to all law enforcement and security staff at the Department's three airports; coordinates with other law-enforcement agencies; is responsible for counter-terrorism efforts; and oversees firefighting, emergency medical, and fire-prevention services provided by the Los Angeles Fire Department at LAX. He also participates in airport-wide leadership teams and has responsibility for integrating the law enforcement and homeland security functions with Airport Operations and other aviation staff. Mr. Gannon joined the Department as chief of Airport Police in October 2012 after retiring from the Los Angeles Police Department ("LAPD") following 34 years of service, of which 12 years were at the executive management level. At the time of his retirement, he was serving as deputy chief and commanding officer of LAPD's Operations-South Bureau. This bureau serves more than 800,000 residents in South Los Angeles with 1,700 sworn employees and 150 civilian employees. Mr. Gannon successfully completed the Senior Management Institute for Police in Boston and the West Point Leadership Program and holds a bachelor's degree in Public Administration from California State University, Dominguez Hills and a master's degree in Public Administration from the University of Southern California.

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

Cynthia Guidry, Deputy Executive Director, Capital Programming and Planning Group. Cynthia Guidry manages the Capital Programming and Planning Group ("CPPG") for the Department. She was appointed Deputy Executive Director of CPPG on January 31, 2014, and oversees Planning, Engineering, Environmental and Facilities Management divisions. In this position she manages a team of professionals to develop the Department's Capital Improvement Program and plan airside, landside and terminal projects. CPPG also is responsible for preparing environmental, land use compatibility and entitlement documents and coordinating with multiple agencies, tenants and community stakeholders. Ms. Guidry's staff provides technical expertise and support for facility infrastructure improvements and manages critical systems such as the LAX Central Utility Plant. Ms. Guidry joined the Department in August 2001 and during her tenure has held a number of positions. For the past five years, Ms. Guidry held the position of Chief Airport Planner. She is a registered Professional Engineer. Ms. Guidry holds a Bachelor of Science degree in Civil Engineering from the University of California at Irvine and a Master of Business Administration degree from Pepperdine University.

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

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

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

Employees and Labor Relations

The Department is a civil service organization, which as of March 1, 2016 had 3,859 authorized positions, of which 3,589 were authorized at LAX, 208 were authorized at LA/ONT and 62 were authorized at VNY. Department employees are employed in more than 224 different civil service classifications. This wide range of job classifications is grouped into eight job categories, including Officials and Administrators, Professionals, Technicians, Protective Service, Paraprofessionals, Administrative Support, Skilled Craft and Service Maintenance.

As a municipal organization, the Department's employee and labor relations are governed by applicable State and City civil service rules and regulations as well as 23 separate labor agreements between management and unions ("Memoranda of Understanding"). Most of the Department's employees are covered by the Memoranda of Understanding. The following table lists all Memoranda of Understanding between the Department and labor and management unions as of April 15, 2016.

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

Bargaining Unit	Expires
Service Employees International Union, Local 721	
Equipment Operation and Labor Employees Representation Unit No. 4	June 30, 2018
Professional Engineering and Scientific Unit No. 8	June 30, 2018
Service and Craft Representation Unit No. 14	June 30, 2018
Service Employees Representation Unit No. 15	June 30, 2018
Supervisory Professional Engineering and Scientific Unit No. 17	June 30, 2018
Safety/Security Representation Unit No. 18	June 30, 2018
Municipal Construction Inspectors Association, Inc.	
Inspectors Unit No. 5	June 30, 2014*
Los Angeles Professional Managers Association	
Management Employees Unit No. 36	June 30, 2018
American Federation of State, County and Municipal Employees	
Clerical and Support Services Unit No. 3	June 30, 2018
Executive Administrative Assistants Unit No. 37	June 30, 2018
Engineers and Architects Association	
Administrative Unit No. 1	June 22, 2019
Supervisory Technical Unit No. 19	June 22, 2019
Supervisory Administrative Unit No. 20	June 22, 2019
Technical Rank and File Unit No. 21	June 22, 2019
Local No. 501, International Union of Operating Engineers	
Plant Equipment Operation and Repair Representation Unit No. 9	June 30, 2018
Los Angeles City Supervisors and Superintendents Association, Laborer's International Union of North America, Local 777	
Supervisory Blue Collar Unit No. 12	June 30, 2018
Los Angeles/Orange Counties Building and Construction Trades Council	
Building Trades Rank and File Representation Unit No. 2	June 30, 2018
Supervisory Building Trades and Related Employees Representation Unit No. 13	June 30, 2018
Use of Union Hiring Halls for Temporary Use of Craft Workers No. 35	On-going
All City Employees Association, Local 2006, AFSCME, Council 36, AFL-CIO	
Professional Medical Services Unit No. 10	June 30, 2018
Los Angeles Airport Peace Officers Association	
Peace Officers Representation Unit No. 30	June 30, 2014*
Airport Supervisory Police Officers' Association of Los Angeles	
Supervisory Peace Officers' Unit No. 39	June 30, 2018
Airport Police Command Officers Association of Los Angeles	
Management Peace Officers' Unit No. 40	June 30, 2018

* Negotiations pending. The agreement applicable to each employee labor organization remains in effect until a new agreement is reached, subject to termination by either party.
Source: Department of Airports of the City of Los Angeles.

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

Retirement Plan

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

The Department's pension cost varies from year to year depending on, among other things, the annual contribution rate determined by LACERS and its actuaries, the total salaries paid to the Department's covered employees and the retirement benefits accruing to those employees. The Department contributed approximately $69.1 million, $62.1 million, $58.0 million, $54.7 million and $50.2 million to LACERS with respect of LAX in Fiscal Years 2016, 2015, 2014, 2013 and 2012, respectively. For each of these Fiscal Years, the contribution made by the Department equaled 100% of the annual required contribution as calculated by LACERS and its actuaries.

For Fiscal Year 2015, pursuant to GASB 68 (as described below), a proportional allocation of the City's Net Pension Liability (as described below) in the aggregate amount of approximately $566.6 million was allocated to the Department with respect to LAX. In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the Department. GASB 68 revised and established new financial reporting requirements for most governments that provide their employees with pension benefits, including the Department. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' fiduciary net position (the amount held in a trust for paying retirement benefits, generally the market value of assets) and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also revised and implemented new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual employer pension contributions, which continue to be determined actuarially by each plan. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. GASB 68 addresses the disclosure of pension liability only and does not impose any funding requirements.

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

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

For information regarding LACERS-related unfunded actuarial accrued liabilities, LACERS system assets, LACERS funded ratios and certain of the City's projected contributions to LACERS, related assumptions and other LACERS-related information, see APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES." The information in APPENDIX H has been provided by the City (the "City Information"). The LACERS Reports are available on LACERS' website and contain additional information regarding LACERS assumptions, plan details and investment of plan assets. The Department is relying upon, and has not independently confirmed or verified, the accuracy or completeness of this section, Appendix H or the LACERS Reports, or other information incorporated by reference therein. See "CERTAIN INVESTMENT CONSIDERATIONS – Retirement Plan Funding."

See also, APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014" regarding, among other things, certain unaudited information relating to LACERS Schedules of Funding Progress and Prorated Data for the Department prepared on a non-GAAP, unaudited basis.

LOS ANGELES INTERNATIONAL AIRPORT

Introduction

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the City. LAX occupies approximately 3,670 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 95.0% of the total passenger traffic, approximately 81.0% of the air cargo volume and approximately 90.0% of the air carrier operations for the Airport System for Fiscal Year 2015.

No airline dominates in shares of enplaned passengers or provides formal "hubbing" activity at LAX. Approximately 25% of LAX's domestic passenger traffic (and approximately 23% of LAX's total passenger traffic) was connecting for Fiscal Year 2015, and no air carrier accounted for more than approximately 20% of LAX's total enplanements for Fiscal Year 2014 or for Fiscal Year 2015. For Fiscal Year 2015, approximately 77% of passengers at LAX represented originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining approximately 23% of passengers represented connections to or from regional markets as well as domestic connections to or from international markets. The level of connecting passengers at LAX is due primarily to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets along the west coast of the United States; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the alliances among airlines serving LAX. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES."

Facilities

The Department maintains facilities occupying approximately 3,425 acres at LAX, consisting of maintenance yard, warehouse, inspection office, administration offices, police and fire stations, utility services, a telecommunication center and executive offices in the former control tower.

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 5.8 million square feet. Although many of the terminals are physically connected, they function largely as independent terminals with separate ticketing, baggage, security screening checkpoints and passenger processing systems.

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 and from aircraft arrival/departure areas. LAX currently has a total of 112 contact gates in the Central Terminal Area along with a number of remote gate positions for a total of 138 gates. Several of the jet gates accommodate propeller driven aircraft.

The existing airfield consists of four parallel east-west runways configured in two pairs. The north airfield complex includes Runway 6L-24R (8,926 feet) and Runway 6R-24L (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 eight runway ends. The current runway system at LAX can accommodate arrivals and departures of all commercial aircraft currently in service, including the Airbus A380.

Approximately 19,000 public parking spaces are available at LAX in parking lots owned by the Department, including approximately (i) 8,577 parking spaces in eight parking garages in the Central Terminal Area, (ii) 5,300 public parking spaces in parking Lot C, (iii) 2,700 public parking spaces in the Park One surface parking lot located adjacent to Terminal 1, (iv) 2,300 parking spaces in the surface and structured parking lots located adjacent to an office building that the Department acquired in 2013 which is commonly known as Skyview

Center and (v) 21 public parking spaces in a cell phone waiting lot. See “USE OF AIRPORT FACILITIES – Concession and Parking Agreements.”

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

Air Carriers Serving LAX

The following table sets forth the air carriers serving LAX as of March 1, 2016. See "AIRLINE INDUSTRY INFORMATION."

TABLE 6
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR CARRIERS SERVING LAX
AS OF MARCH 1, 2016

Scheduled U.S. Carriers (18)	Foreign Flag Carriers (47)	Nonscheduled Carriers (5)	All-Cargo Carriers (32)
Alaska Airlines[1]	ABC Aerolineas	Clay Lacy Aviation	ABX Air Inc.
Allegiant Air	Aeroflot[*]	Miami Air	Aerologic GmbH
American Airlines[‡]	AeroMexico[*]	Omni Air International	Aerotransporte De Carga Union
Boutique Air	Avianca/TACA[†]	TEM Enterprise (Extra Airways)	Aerotransportes Mas De Carga
Compass	Air Berlin[‡]	Volga-Dnepr	Air Bridge Cargo Airlines
Delta Air Lines[*]	Air Canada[†]		Air China Cargo
Envoy Air	Air China[†]		Air Transport International
Frontier Airlines	Air France[*]		Ameriflight
Great Lakes Aviation	Air New Zealand[†]		Asiana Cargo
Hawaiian Airlines	Air Pacific (Fiji Airways)		Atlas Air Cargo
JetBlue Airways	Air Tahiti Nui		Cargolux
Mesa Airlines	Alitalia[*]		Cathay Pacific Cargo
MN Airlines (Sun Country)	All Nippon[†]		China Airlines Cargo
SkyWest Airlines	Asiana[†]		China Cargo Airlines
Southwest Airlines	British Airways[‡]		China Southern Cargo
Spirit Airlines	Cathay Pacific[3]		Emirates
United Airlines[†]	China Airlines[*]		Eva Airways Cargo
Virgin America[1]	China Eastern[*]		FedEx
	China Southern[*]		Gulf & Caribbean Cargo
	Copa[†]		Kalitta Air LLC
	El Al Israel		Korean Cargo
	Emirates		Lan Cargo
	Etihad Airways		Lufthansa German
	Ethiopian Airlines[†]		National Air Cargo Group
	Eva Airways[†]		Nippon Cargo
	Hainan Airlines		Polar Air Cargo
	Iberia[‡]		Qatar Airways Cargo
	Japan Airlines[‡]		Singapore Airlines Cargo
	KLM Royal Dutch[*]		Sky Lease I
	Korean Airlines[*]		Southern Air
	LATAM		TNT Airways
	Lan Peru[‡]		United Parcel Service
	LACSA		
	Lufthansa German[†]		
	Norwegian Air Shuttle		
	OJSC Transaero Airlines		
	Philippine Airlines		
	Qantas[‡]		
	Qatar		
	Saudi Arabian Airlines		
	Singapore Airlines[†]		
	SWISS[†]		
	Turkish Airlines[†]		
	Virgin Atlantic Airways		
	Virgin Australia		
	Volaris		
	Westjet		

* Member of Sky Team Alliance.
† Member of Star Alliance.
‡ Member of One World Alliance.
1 On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement. The completion of the Merger is subject to certain conditions, including any required approvals from the FAA and the U.S. DOT. See "CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters" and "—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

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

Aviation Activity

According to ACI statistics, in calendar year 2015, LAX ranked as the 7th busiest airport in the world and the 3rd busiest airport in North America in terms of total number of enplaned passengers, and 12th busiest airport in the world and 5th busiest airport in North America in terms of total cargo. According to the United States Department of Transportation Origins and Destinations Survey of Airline Passenger Traffic, for Fiscal Year 2015, LAX ranked 1st nationally in number of domestic origin and destination passengers. The following table shows the air passenger activity, total movements and cargo volume at LAX relative to the world's busiest airports.

TABLE 7
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP 15 WORLDWIDE RANKINGS – CALENDAR YEAR 2015

Rank	Airport	Total Passengers	Airport	Total Movements	Airport	Total Cargo (metric tons)[1]
1	Atlanta (ATL)	101,491,106	Atlanta (ATL)	882,497	Hong Kong (HKG)	4,422,227
2	Beijing (PEK)	89,938,628	Chicago (ORD)	875,136	Memphis (MEM)	4,290,633
3	Dubai (DXB)	78,010,265	Dallas/Fort Worth (DFW)	681,244	Shanghai (PVG)	3,273,732
4	Chicago (ORD)	76,942,493	**Los Angeles (LAX)**	**655,564**	Anchorage (ANC)	2,624,312
5	Tokyo (HND)	75,316,718	Beijing (PEK)	590,169	Incheon (ICN)	2,595,674
6	London Heathrow (LHR)	74,989,914	Denver (DEN)	541,213	Dubai (DXB)	2,505,507
7	**Los Angeles (LAX)**	**74,937,004**	Charlotte (CLT)	540,944	Louisville (SDF)	2,350,656
8	Hong Kong (HKG)	68,342,785	Las Vegas (LAS)	530,330	Tokyo (NRT)	2,122,314
9	Paris (CDG)	65,771,288	Houston (IAH)	502,844	Frankfurt (FRA)	2,076,734
10	Dallas/Fort Worth (DFW)	64,072,468	Paris (CDG)	475,776	Taipei (TPE)	2,025,291
11	Istanbul (IST)	61,836,781	London Heathrow (LHR)	474,102	Miami (MIA)	2,005,171
12	Frankfurt (FRA)	61,032,022	Frankfurt (FRA)	468,153	**Los Angeles (LAX)**	**1,931,583**
13	Shanghai (PVG)	60,053,387	Amsterdam (AMS)	465,521	Beijing (PEK)	1,889,830
14	Amsterdam (AMS)	58,284,848	Istanbul (IST)	464,865	Singapore (SIN)	1,886,800
15	New York (JFK)	56,845,250	Shanghai (PVG)	448,213	Paris (CDG)	1,861,197

(1) ACI cargo statistics do not match those presented elsewhere in this Official Statement because ACI uses a different methodology for calculating.
Source: ACI Preliminary World Airport Traffic and Results for 2015, March 2016.

As seen in Table 8 which follows, from Fiscal Year 2006 through Fiscal Year 2008, total enplaned and deplaned passengers at LAX increased at a compound annual growth rate of approximately 0.45%. Several factors contributed to slow passenger enplanement growth at LAX including decreased demand levels along the West Coast of the United States and systemwide changes in the airlines' routes and structures and seat capacities. Due to the global economic environment and capacity reductions by U.S. and foreign flag carriers, total enplanements and deplanements decreased approximately 9.2% in Fiscal Year 2009 from Fiscal Year 2008. From Fiscal Year 2009 through Fiscal Year 2015, total enplaned and deplaned passengers at LAX increased at a compounded annual growth rate of approximately 3.9%. For further discussion of historical passenger activity and factors affecting aviation demand and the airline industry, see APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC." The fiscal year used for national comparisons is different from the Department's fiscal year. See also "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

The following table presents historical total revenue operations (landings and takeoffs) and total domestic and international enplanements and deplanements at LAX for Fiscal Years 2006 through 2015.

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

	Revenue Operations		Enplanements and Deplanements			
Fiscal Year	**Total Operations**	**Operations Growth (%)**	**Domestic[1]**	**International[1]**	**Total[1]**	**Passenger Growth (%)**
2006	610,386	(1.4)	44,058,954	17,376,983	61,435,937	0.3
2007	618,383	1.3	44,721,685	16,856,505	61,578,190	0.2
2008	631,986	2.2	44,834,824	17,427,929	62,262,753	1.1
2009	541,223	(14.4)	41,245,318	15,301,832	56,547,150	(9.2)
2010	545,752	(0.8)	42,145,783	15,752,062	57,897,845	2.4
2011	555,319	1.8	44,352,913	16,253,725	60,606,638	4.7
2012	578,876	4.2	45,957,814	16,967,262	62,925,076	3.8
2013	570,865	(1.4)	47,641,025	17,328,077	64,969,102	3.2
2014	597,734	4.7	50,158,762	18,623,420	68,782,182	5.9
2015	608,607	1.8	52,478,217	19,599,402	72,077,619	4.8

(1) Enplaned and deplaned passengers.
Source: Department of Airports of the City of Los Angeles.

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

TABLE 9
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE[(1)]
(RANKED BY FISCAL YEAR 2015 RESULTS)

		Fiscal Year 2011		Fiscal Year 2012		Fiscal Year 2013		Fiscal Year 2014		Fiscal Year 2015	
	Airline	Enplanements	Share[(2)]	Enplanements	Share[(2)]	Enplanements	Share[(2)]	Enplanements	Share[(2)]	Enplanements	Share[(2)]
1	United Airlines[(3)†]	6,478,039	21.4%	6,380,963	20.2%	6,544,226	20.1%	6,568,648	19.1%	6,225,103	17.2%
2	Delta Air Lines[(4)*]	3,441,646	11.4	3,231,000	10.3	4,171,972	12.8	5,038,929	14.7	6,020,280	16.7
3	American Airlines[(5)‡§]	4,304,325	14.2	4,598,923	14.6	5,058,105	15.6	5,329,141	15.5	5,556,523	15.4
4	Southwest Airlines	3,512,432	11.6	3,516,770	11.2	3,703,743	11.4	3,796,292	11.1	4,212,706	11.7
5	Alaska Airlines[(6)]	1,656,428	5.5	1,670,524	5.3	1,623,552	5.0	1,741,179	5.1	1,652,816	4.6
6	Virgin America[(6)]	1,085,506	3.6	1,387,310	4.4	1,569,289	4.8	1,657,297	4.8	1,534,368	4.2
7	US Airways[§]	981,885	3.2	964,577	3.1	970,442	3.0	1,035,543	3.0	1,201,325	3.3
8	Qantas Airways[‡]	571,004	1.9	603,170	1.9	575,310	1.8	602,278	1.8	614,333	1.7
9	Air Canada[†]	438,868	1.4	468,793	1.5	459,937	1.4	495,695	1.4	597,050	1.7
10	JetBlue Airways	264,531	0.9	358,326	1.1	424,534	1.3	446,183	1.3	570,938	1.6
11	Spirit Airlines	139,504	0.5	265,973	0.8	225,908	0.7	369,236	1.1	510,478	1.4
12	Hawaiian Airlines	240,006	0.8	235,502	0.7	323,104	1.0	339,177	1.0	422,871	1.2
13	Aeromexico[*]	269,479	0.9	282,415	0.9	282,156	0.9	337,368	1.0	402,416	1.1
14	Cathay Pacific Airways[‡]	254,191	0.8	262,793	0.8	253,131	0.8	284,225	0.8	337,043	0.9
15	Air New Zealand[†]	340,567	1.1	304,228	1.0	324,771	1.0	331,628	1.0	336,537	0.9
16	British Airways[‡]	274,372	0.9	274,882	0.9	275,095	0.8	281,767	0.8	296,368	0.8
17	Korean Airlines[*]	332,593	1.1	335,310	1.1	317,141	1.0	284,466	0.8	293,193	0.8
18	Air France[*]	254,579	0.8	255,054	0.8	266,282	0.8	293,305	0.9	288,789	0.8
19	Lufthansa German Airlines[†]	237,723	0.8	240,780	0.8	245,700	0.8	262,448	0.8	277,103	0.8
20	Eva Airways[†]	203,575	0.7	215,751	0.7	214,341	0.7	237,182	0.7	270,524	0.7
	Other	4,999,318	16.5	5,663,873	18.0	4,695,439	14.4	4,600,538	13.4	4,501,004	12.5
	Airport Total[(2)]	30,280,571	100.0	31,516,917	100.0	32,524,178	100.0	34,332,525	100.0	36,121,768	100.0

* Member of Sky Team Alliance.

† Member of Star Alliance.

‡ Member of One World Alliance.

§ American Airlines together with US Airways and American Eagle/Envoy Air accounted for approximately 6.8 million enplaned passengers (or approximately 18.8% of the enplaned passengers) at LAX in Fiscal Year 2015.

(1) For those airlines that (i) were party to a completed merger or acquisition, (ii) have received a single FAA certificate and (iii) have completed operational integration, only the surviving entity is presented and the activity for the airlines that are now a part of the surviving airline are included in the information presented.

(2) Totals may not add due to rounding.

(3) Includes SkyWest Airlines and Continental Airlines as United.

(4) Includes SkyWest Airlines as Delta.

(5) Includes SkyWest Airlines as American Eagle.

(6) On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement. The completion of the Merger is subject to certain conditions, including any required approvals from the FAA and the U.S. DOT. Alaska Airlines and Virgin America accounted for approximately 3.2 million enplaned passengers (or approximately 8.8% of the enplaned passengers) at LAX in Fiscal Year 2015. See "CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters" and "—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."

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

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

TABLE 10
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOTAL REVENUE LANDED WEIGHT(1)
(RANKED ON FISCAL YEAR 2015 RESULTS)
(000 LBS.)

	Airline	Fiscal Year 2011	Share(2)	Fiscal Year 2012	Share(2)	Fiscal Year 2013	Share(2)	Fiscal Year 2014	Share	Fiscal Year 2015	Share
1	Delta Air Lines(3)*	4,487,225	9.3%	4,641,153	9.3%	5,650,964	11.2%	6,670,030	12.7%	7,479,719	13.6%
2	United Airlines(4)†	8,719,842	18.0	8,475,974	16.9	7,913,761	15.8	7,947,765	15.1	7,447,619	13.5
3	American Airlines(5)‡	5,570,846	11.5	5,886,364	11.8	6,529,038	13.0	7,042,799	13.4	7,184,885	13.1
4	Southwest Airlines	4,737,254	9.8	4,601,662	9.2	4,641,112	9.2	4,637,202	8.8	4,977,130	9.1
5	Virgin America(6)	1,331,658	2.7	1,637,152	3.3	1,905,138	3.8	2,070,384	3.9	1,860,734	3.4
6	Federal Express	1,605,640	3.3	1,628,897	3.3	1,662,347	3.3	1,740,088	3.3	1,795,385	3.3
7	Alaska Airlines(6)	1,727,316	3.6	1,667,686	3.3	1,611,321	3.2	1,718,274	3.3	1,658,662	3.0
8	Qantas Airways‡	1,243,114	2.6	1,331,893	2.7	1,297,898	2.6	1,344,193	2.6	1,373,361	2.5
9	Korean Airlines*	1,219,303	2.5	1,200,835	2.4	1,190,283	2.4	1,179,599	2.2	1,252,622	2.3
10	US Airways	1,023,668	2.1	1,003,778	2.0	987,982	2.0	1,066,394	2.0	1,173,526	2.1
11	Cathay Pacific Airways‡	764,462	1.6	778,532	1.6	783,011	1.6	893,119	1.7	1,113,726	2.0
12	China Airlines*	769,780	1.6	726,682	1.5	665,450	1.3	740,766	1.4	752,462	1.4
13	Eva Airways†	643,079	1.3	607,128	1.2	606,522	1.2	639,446	1.2	741,350	1.3
14	Air Canada†	561,953	1.2	583,479	1.2	559,315	1.1	599,464	1.1	734,164	1.3
15	Hawaiian Airlines	337,020	0.7	335,229	0.7	440,387	0.9	478,332	0.9	662,590	1.2
16	Air New Zealand†	643,814	1.3	589,878	1.2	613,650	1.2	636,972	1.2	660,416	1.2
17	Asiana Airlines†	656,330	1.4	524,490	1.0	554,574	1.1	641,538	1.2	655,670	1.2
18	JetBlue Airways	280,734	0.6	378,430	0.8	454,116	0.9	471,412	0.9	643,914	1.2
19	British Airways‡	621,180	1.3	588,948	1.2	576,432	1.1	594,592	1.1	609,554	1.1
20	Lufthansa German Airlines†	505,985	1.0	522,132	1.0	516,082	1.0	540,673	1.0	585,469	1.1
	Other	12,679,582	26.2	14,193,194	28.4	12,221,595	24.3	10,960,224	20.8	11,627,281	21.1
	Airport Total(2)	48,433,126	100.0	50,009,049	100.0	50,238,306	100.0	52,613,266	100.0	54,990,239	100.0

* Member of Sky Team Alliance.
† Member of Star Alliance.
‡ Member of One World Alliance.
(1) For those airlines that (i) were party to a completed merger or acquisition, (ii) have received a single FAA certificate and (iii) have completed operational integration, only the surviving entity is presented and the activity for the airlines that are now a part of the surviving airline are included in the information presented.
(2) Totals may not add due to rounding.
(3) Includes SkyWest Airlines as Delta.
(4) Includes SkyWest Airlines and Continental Airlines as United.
(5) Includes SkyWest Airlines as American Eagle.
(6) On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement. The completion of the Merger is subject to certain conditions, including any required approvals from the FAA and the U.S. DOT. See "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies."
Source: Department of Airports of the City of Los Angeles.

In Fiscal Year 2015, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 2.1 million tons. The following chart provides information concerning cargo traffic at LAX over the last ten Fiscal Years.

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

Fiscal Year	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
2006	994,637	(5.4)	1,122,527	3.4	2,117,164	(0.9)
2007	975,734	(1.9)	1,105,899	(1.5)	2,081,633	(1.7)
2008	877,455	(10.1)	1,095,273	(1.0)	1,972,728	(5.2)
2009	728,705	(17.0)	886,594	(19.1)	1,615,299	(18.1)
2010	792,005	8.7	1,067,249	20.4	1,859,253	15.1
2011	791,414	(0.1)	1,101,270	3.2	1,892,685	1.8
2012	807,532	2.0	1,107,499	0.6	1,915,032	1.2
2013	814,920	0.9	1,134,220	2.4	1,949,140	1.8
2014	805,423	(1.2)	1,127,263	(0.6)	1,932,685	(0.8)
2015	838,095	4.1	1,271,049	12.8	2,109,144	9.1

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

Cargo volumes at LAX declined from Fiscal Year 2006 to Fiscal Year 2015 but generally have remained stable, averaging approximately 1.9 million tons each Fiscal Year. See "CERTAIN INVESTMENT CONSIDERATIONS" for discussion of some factors that may impact future aviation activity at LAX. See "USE OF AIRPORT FACILITIES" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRLINE TRAFFIC AND ECONOMIC ANALYSES – KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC." for a discussion of the impact of aviation activity on revenues generated at LAX.

Competition

The region served by LAX (the "Airport Service Region") includes primary and secondary areas. The primary geographical area served by LAX consists of the Los Angeles-Long Beach-Riverside Combined Statistical Area ("Los Angeles CSA") as designated by the United States Bureau of the Census and includes the five-county area of Los Angeles, Orange, Riverside, San Bernardino and Ventura counties. There are six air carrier airports within the primary area. According to statistics, LAX is the primary airport in the primary area, with approximately 76% of the total enplaned passengers in Fiscal Year 2015. In Fiscal Year 2015, LAX accounted for approximately 98% of LAX's primary area's international enplaned passengers.

Three other 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 19% of total enplaned passengers in LAX's primary area in Fiscal Year 2015. Two other airports, Long Beach Airport (LGB) and Palm Springs Airport (PSP), provide limited air service to destinations outside of LAX's primary area and accounted for approximately 5% of enplaned passengers in LAX's primary area in Fiscal Year 2015.

The secondary area served by LAX, which includes many of the counties surrounding the Los Angeles CSA, is defined by the location of (and the airline service offered at) other "nearby" air carrier airports. The secondary area comprises seven airports with scheduled air carrier service including Bakersfield's Meadows Field (BFL), Imperial County Airport (IPL), Carlsbad's McClellan-Palomar Airport (CRQ), San Diego International Airport (SAN), San Luis Obispo Regional Airport (SBP), Santa Barbara Municipal Airport (SBA), and Santa Maria Municipal Airport (SMX). In addition, Oxnard Airport (OXR) is a general aviation airport located 63 miles to the northwest of LAX.

Emergency Management

The Department has four core groups that are responsible for emergency management: Fire, Law Enforcement, Airport Operations and Emergency Management Division. These core groups are responsible for the emergency planning for all phases of emergency management: mitigation, preparedness, response and recovery. The roles and responsibilities of each entity within these four groups are defined by Emergency Support Functions in the federal National Incident Management System ("NIMS"), the National Response Framework, the California Standardized Emergency Management System ("SEMS"), FAA Regulation Part 139 ("FAR 139"), the Charter, the Airport Rules and Regulations and other statutes. The "Airport Rules and Regulations" are established pursuant to the Charter in order to, among other things, comply with FAA and TSA regulations which require the Department to establish operational and safety procedures and institute certain secondary measures for airport certification. Emergency management responsibilities for the core groups include: (1) hazard vulnerability analysis, (2) development and maintenance of emergency operations plans, (3) integration with the City's Emergency Operations Organization and the emergency processes of other City departments and agencies, (4) developing, conducting and coordinating training and exercises, (5) planning for continuity of operations/continuity of government for the Airport System, (6) oversight of implementation for new emergency guidelines, mandates, technology, emergency response and preparedness systems at local, state, federal and international levels concerning airport emergency operations and (7) responding to and activating the Department Operations Center, and sending Department representation to the City Emergency Operations Center for emergency activations.

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

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

CERTAIN FUNDING SOURCES

Passenger Facility Charges

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

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

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

Since 1993, the Department has received approval from the FAA to impose and use $3,095,759,661 of PFC revenues (including investment income). Such PFC revenues are expected to be collected in full by October 1, 2023. No assurance can be given that PFC revenues will actually be received in the amounts or at the times contemplated by the Department. The amount and timing of receipt of actual PFC revenues are expected to vary depending on actual levels of qualified passenger enplanements at LAX. If PFC revenues are not available, the Department may be required to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. See "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and "—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness." The following table sets forth a summary of the Department's approved passenger facility charge applications relating to LAX.

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

Passenger Facility Charge Application	Initial Approval Date	Initial Approved Amount	Approval Amount as Amended
1	1993	$ 100,000,000	$ 0
2	1996	167,109,000	116,370,846
3	1996	52,027,000	50,222,938
4	1997	150,000,000	700,000,000
5	2005	267,249,968	697,779,968
6	2007	85,000,000	85,000,000
7	2010	855,000,000	855,000,000
8	2011	34,089,058	27,800,572
9	2014	44,378,659	44,378,659
10	2015	516,091,523	516,091,523
11	2015	3,115,155	3,115,155
Total		$ 2,274,060,363	$ 3,095,759,661
Total collected as of June 30, 2015:		$ 2,162,561,749(1)	

(1) Includes approximately $197,226,209 of interest.
Source: Department of Airports of the City of Los Angeles

The Department expects to submit additional applications to impose and use passenger facility charges for eligible expenditures, including, but not limited to, those expenditures funded with proceeds of the Series 2016A Subordinate Bonds and other PFC Eligible Obligations (as defined below). If such applications to impose and use passenger facility charges for eligible expenditures are approved, such approval may extend the date by which such PFC revenues are expected to be collected.

PFC revenues may also be used for the payment of debt service on certain portions of bonds issued to finance all or a portion of Approved PFC Projects ("PFC Eligible Obligations"). The Department expects to pay a portion of the debt service on the PFC Eligible Obligations with PFC revenues. However, the Department is prohibited from using PFC revenues to pay debt service on PFC Eligible Obligations in excess of the amounts of passenger facility charges approved by the FAA for the Approved PFC Projects. If the actual cost of Approved PFC Projects is less than the amount approved by the FAA, the Department may be required to submit an amendment to the FAA application to reduce the approved amount for applicable projects. The proceeds of the Series 2008A Senior Bonds, the Series 2009A Senior Bonds, the Series 2010A Senior Bonds, the Series 2010D Senior Bonds, the Series 2015 Senior Bonds and the Series 2016A Subordinate Bonds fund Approved PFC Projects and are PFC Eligible Obligations.

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

Pledged Revenues do not include PFC revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. To date, the Department has not elected, and the Department has no current plans to elect, to include PFC revenues in Pledged Revenues nor otherwise pledge PFC revenues to the payment of the Senior Bonds or the Subordinate Obligations. However, the Department expects to use PFC revenues to pay a portion of the debt service on PFC Eligible Obligations. Debt service paid with PFC revenues is not included in the calculation of the rate covenant set forth in the Senior Indenture. Debt service on Additional Senior Bonds expected to be paid from irrevocably committed PFC revenues is not included in the additional bonds test set forth in the Senior Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Subordinate Rate Covenant" and "—Passenger Facility Charges."

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

Grants

Under the AIP the FAA awards grant moneys to airports around the country for capital improvement projects and airport operating costs. AIP grants include entitlement funds, which are apportioned annually based upon the number of enplaned passengers and total landed weight of all-cargo aircraft at the airport, as well as discretionary funds, which are awarded by the FAA based on a national priority system. Generally, federal grants are paid to the Department on a reimbursement basis when the grant agreement is approved and after eligible expenditures are made. The amount and timing of receipt of actual AIP grant moneys may vary and may not be reimbursed for a significant period of time after the eligible expenditure is made. If AIP grant moneys are not available or timely reimbursed, the Department may be required to eliminate or scale down projects or incur additional indebtedness, possibly including issuing Additional Senior Bonds, additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. See "CERTAIN INVESTMENT CONSIDERATIONS – Federal Funding; Impact of Federal Sequestration" and "—Delays and Cost Increases; Future Capital Projects; Additional Indebtedness."

The following is a table of AIP grants authorized for acceptance by the Board from June 30, 2005 through June 30, 2015:

TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
FEDERAL AIRPORT IMPROVEMENT PROGRAM GRANTS
AUTHORIZED FOR ACCEPTANCE BY THE BOARD
FROM JUNE 30, 2005 THROUGH JUNE 30, 2015

Date	Grant Amount[(1)]	Project Funded
August 2005	$ 38.8	Runway 7R/25L project
March 2006	29.5	Runway 7R/25L project
April 2007	29.6	Taxiway improvement projects
June 2008	7.1	Taxiway improvement projects
June 2008	2.0	Taxilane C-10 reconstruction project
February 2009	3.2	Taxiway improvement projects
June 2009	13.5	Crossfield Taxiway improvement project
March 2010	48.5	Taxilane S improvement project
March 2011	17.8	Taxilane T and enabling projects
November 2011	19.9	Taxilane T and enabling projects
September 2013	31.7	Runway 7R/25L Safety Area
August 2014	13.1	TBIT Aprons
September 2014	14.8	Runway 6L-24R Safety Area
Total	$ 269.5	

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

Pursuant to the Aviation and Transportation Security Act, the Department has been awarded approximately $256 million of reimbursements from the Department of Homeland Security for the installation of in-line baggage screening systems at LAX and LA/ONT; as of September 2014, the Department had received approximately $235 million for LAX and approximately $21.4 million for LA/ONT from this in-line baggage screening systems grant. In June 2011, the Board approved the award of approximately $13.4 million from the TSA for the Department's Closed Circuit Television Security System at LAX. During Fiscal Year 2015, the Department received approximately $2.9 million for security-related reimbursements at LAX.

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

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

USE OF AIRPORT FACILITIES

General

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

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

Operating Permits – Landing and Apron Facilities and Landing Fees

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

For Fiscal Year 2015, revenues to the Department at LAX from landing fees were approximately $221.5 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015." See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES – Airline Revenues."

Airport Terminal Tariff

Airlines and businesses involved in aeronautical activities other than governmental activities or concessions (each, an "Aeronautical User") use terminal space at LAX under the terms of the LAX Passenger Terminal Tariff (the "Airport Terminal Tariff"). The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. After consultation with airline representatives regarding the Department's rates and charges, on September 17, 2012, the Board approved certain changes to the Airport Terminal Tariff, as described below, which became effective on January 1, 2013, in all terminals at LAX; provided, however, the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. The Department has entered into a lease for the use of terminal space in Terminal 4 with American Airlines that expires in December 2024. Under this lease, rental rates are not charged pursuant to the Airport Terminal Tariff, rather rental rates on terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. American Airlines is required to pay operation and maintenance charges based on the methodology of the Airport Terminal Tariff. American Airlines is a party to a Rate Agreement (described below); however, the Rate Agreement rates do not apply to the space leased by American Airlines in Terminal 4.

Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space used by Aeronautical Users. Under the Airport Terminal Tariff, Aeronautical Users are required to pay to the Department:

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

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

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

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

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

For Fiscal Year 2015, revenues to the Department at LAX from terminal rentals were approximately $305.4 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015." See also APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES."

Rate Agreement

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

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

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

Beginning in calendar year 2014, the Department provided Signatory Airlines a credit for a portion of the concession revenues generated in the terminals at LAX. The amount of these credits in Fiscal Year 2015 was approximately \$22.7 million. This credit results in a reduced Terminal Building Rate (and a corresponding reduction in rates derived from the Terminal Building Rate) and a reduced FIS rate paid by the Signatory Airlines.

Under the Rate Agreement, the Department is required to establish a Terminal Renewal and Improvement Fund (the "TRIF"). The TRIF is required to be funded from annual net revenues from the application of the Airport Terminal Tariff. Amounts deposited in the TRIF are required to be used by the Department to fund, together with debt and grant funding, terminal related capital improvements. Deposits into the TRIF may not exceed \$125 million annually or a maximum unused fund balance amount of \$500 million. These limits are subject to annual consumer price index increases. The Department is permitted to collect and amortize charges associated with capital projects funded from TRIF deposits, however, such collection and amortization is required to be deferred for five years after the projects are placed in service. Prior to June 22, 2015 the amount in the TRIF was approximately \$30.2 million. On June 22, 2015, in accordance with the Rate Agreement, the Department transferred approximately \$30.2 million (the entire balance of the TRIF) to the LAX Revenue Fund to be used to partially fund the Bradley West Interior Enhancements Project which consists of the redevelopment, reconfiguration or demolition of building areas remaining from the original TBIT building, enlargement and reconfiguration of original main terminal space, demolition of concourses and aprons, enlargement of original FIS space and reconfiguration of the passenger screening checkpoint. As of June 30, 2015, there were no amounts in the TRIF.

Under the Rate Agreement, beginning in calendar year 2014, 50% of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above are required to be deposited in a Revenue Sharing Fund. As of June 30, 2015, funds in the TRIF were not in excess of the TRIF limits described above and no amounts were on deposit in the Revenue Sharing Fund. The remaining excess funds may be used by the Department for any lawful purpose. Amounts deposited in the Revenue Sharing Fund are required to be distributed to the Signatory Airlines as a credit against any amount due in the following priority: first, against Terminal rents and second, against landing fees. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES."

Land and Other Non-Terminal Building Rentals

In addition to terminal leases, under a variety of leases, permits and other use agreements, the Department rents certain cargo, maintenance and other building facilities ("Land Rentals") and ancillary land facilities at LAX ("Other Building Rentals"). The rental rates and other terms for Land Rentals and Other Building Rentals vary. See "—Facilities Use Terms and Conditions."

In Fiscal Year 2015, revenues to the Department from Land Rentals were approximately \$90.5 million and revenues to the Department from Other Building Rentals were approximately \$59.9 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015."

Department Acquisition of Certain Terminal Improvements; Credits

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

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

Department could exercise the option to purchase the Terminal Improvements through the end of the Terminal lease. The Department retains the option to purchase the Terminal Improvements at any time during the term of the Terminal lease.

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

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

The Department is in negotiations with certain Aeronautical Users regarding new Terminal leases that may contain terms similar to those described above. If the Department enters into any such new leases, the Department may agree to be obligated or have the right to purchase from such Aeronautical Users the applicable Aeronautical User Improvements, the cost of which purchase may be material and financed with the issuance of Additional Senior Bonds and/or Additional Subordinate Obligations when such acquisition is made.

The acquisition of certain Aeronautical User Improvements and Terminal Improvements under Terminal leases are part of the Department's Capital Program (as defined below), and those terminal acquisition projects identified in the Report of the Airport Consultant, including their capital and operating costs, financing and estimated revenue impacts, have been included in the financial analysis included in the Report of the Airport Consultant. See "AIRPORT AND CAPITAL PLANNING – Capital Development" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – CAPITAL PROGRAM."

Facilities Use Terms and Conditions

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

Concession and Parking Agreements

The Department has entered into numerous concession agreements with terminal commercial managers, duty free concessionaires, food and beverage concessionaries, retail concessionaires and others. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – PLEDGED REVENUES."

Parking

The Department has entered into various parking operation and management agreements with ABM Onsite Services-West, Inc., LAZ Parking California, LLC ("LAZ"), Colliers International Real Estate Management Services (CA) and Parking Concepts Inc. (together, the "Parking Management Companies"), whereby the Parking Management Companies will provide parking facility management and operational services with respect to Department-owned parking structures and parking lots. Under these agreements the Parking Management Companies are compensated for the provision of services through various monthly management and service fees and, where applicable, are required to remit the gross revenues from the parking facilities, on a daily basis, to the

Department. These agreements may be terminated by the Department upon 90 days' notice. The parking operation and management agreement with LAZ remains subject to City Council approval.

In July 2009, the Department purchased the property adjacent to Terminal 1, which is operated as the Park One parking lot (the "Park One Property"). In connection with the purchase, the Department assumed an operating lease with PNF-LAX, Inc. (the "PNF Lease") which, subject to the terms thereof, may be extended at the option of PNF-LAX, Inc. on a periodic basis through December 2028. PNF-LAX exercised an option to extend the term of the PNF Lease to December 31, 2017. Under the PNF Lease, the Department receives escalating annual revenues. In Fiscal Year 2015, the Department received approximately $9 million, inclusive of base rent and percentage rent on gross revenues after certain thresholds are met.

For Fiscal Year 2015, parking revenues to the Department at LAX were approximately $85.8 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015."

Rental Cars and Customer Facility Charges

Approximately 40 rental car companies operate at LAX, with vehicle rental sites located off-airport. Thirteen rental car companies (the "Concessionaire Rental Car Companies") operating at LAX provide free shuttle services between LAX and their respective locations and are permitted to pick up and drop off their customers directly from the airline terminals. The Concessionaire Rental Car Companies are each required to pay annually to the Department either a minimum annual guaranty or a concession fee, as set forth in the agreements with the Concessionaire Rental Car Companies. The agreements with the Concessionaire Rental Car Companies are scheduled to expire in January 2018. The Department in its sole discretion may extend the term of such agreements for two additional one-year periods. The agreements also permit a Concessionaire Rental Car Company to terminate its agreement at various intervals after January 1, 2017 in the event that the Department and the Concessionaire Rental Car Companies are unable to agree on certain terms related to the planning, programming, financing and other matters related to a consolidated rental car facility ("CONRAC") or if certain other events related to environmental approvals related to the CONRAC and Customer Facility Charge collections do not occur. The Department also collects a rental car customer facility charge to, as permitted by applicable law, finance, design and construct the CONRAC and a common-use transportation system that moves passengers between airport terminals and the CONRAC in the form of an automated conveyance (the "Automated People Mover").

For Fiscal Year 2015, the Approved Rental Car Companies paid approximately $78.6 million in concession fees to the Department, although their total minimum annual guaranties were only slightly above approximately $68 million. The Department collected rental car customer facility charges for Fiscal Year 2015 of approximately $29.3 million at LAX. Pledged Revenues do not include customer facility charge revenues unless otherwise included in Pledged Revenues pursuant to a Supplemental Senior Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Subordinate Rate Covenant."

The Department requires non-Concessionaire Rental Car Companies that service LAX to enter into a non-exclusive license agreement. Subject to the terms of the non-exclusive license agreement non-Concessionaire Rental Car Companies are required to have their customers transported on LAX buses to and from a non-concessionaire rental car site located on West Century Boulevard, near Airport Boulevard. The non-exclusive license agreements expire on January 31, 2018 and are subject to termination by the Department upon 90 days' notice. Non-Concessionaire Rental Car Companies are required to pay $6,000 per month, which fees may be adjusted twice each year upon 30 days' notice.

Duty Free Concessions

The Department entered into a duty free merchandise concession agreement with DFS Group L.P. ("DFS) for the design, construction, development and operation of duty free and duty paid merchandise concession at all Terminals at LAX (the "DFS Concession Agreement"). The initial term of the DFS Concession Agreement is scheduled to expire in September 2024. Under certain circumstances, the Department has the right to extend the DFS Concession Agreement for three one year extension terms. Under the DFS Concession Agreement, DFS is required to make initial capital investments for initial improvements to its premises of approximately $25 million and make mid-term capital investments for refurbishment of its premises of approximately $17 million. The DFS Concession Agreement provides that the Department will receive from DFS the greater of a minimum annual guarantee or performance rent comprised of percentage rent (based on the application of certain percentages to gross sales of various categories of products) and contingent rent (10% of gross sales in excess of $175 million). Under the DFS Concession Agreement, the minimum annual guaranty is the greater of (i) $30 million, provided that in the second year of the DFS Concession Agreement, such amount will be increased based on the consumer price index, (ii) a percentage of the prior year's rent payment, unless, in certain circumstances, international enplaned passengers at LAX have decreased below certain thresholds, and (iii) commencing in the third year of the DFS Concession Agreement, $6.25 per international enplaned passenger, subject to annual consumer price index increases. DFS is required to provide a performance guaranty in an amount equal to 25% of its minimum annual guaranty.

For Fiscal Year 2015, revenues to the Department at LAX from duty free sales were approximately $66.3 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015."

Terminal Commercial Manager Concessions

The Department has entered into terminal commercial manager concession agreements with Westfield Airports, LLC ("Westfield"), for concession development in TBIT and Terminals 1, 2, 3 and 6 (the "Westfield Concession Agreements"). Pursuant to the Westfield Concession Agreements, Westfield serves as a developer and manager of retail, specialty retail, food and beverage and other passenger services in the applicable terminals and space, including selecting concessionaires, subject to Department approval. Under the Westfield Concession Agreements, Westfield is required to develop concession and related spaces, market and promote the concessionaires, negotiate and administer contracts with each concessionaire, and monitor and manage concessionaire performance. The term of each Westfield Concession Agreement is 17 years, comprised of a development period and an operational period. The Westfield Agreement for Terminal 2 is scheduled to expire in July 2029 and for TBIT in January 2032. The Westfield Agreement for Terminals 1, 3 and 6 is scheduled to expire in June 2029. On April 12, 2016, the Board approved amendments to the Westfield Agreements to provide new termination dates as follows: Terminal 1 – June 2032; Terminal 2 – January 2032 and Terminal 6 – January 2031. These amendments remain subject to City Council approval.

Under the Westfield Concession Agreements, Westfield and its concessionaires are required to make initial capital investments in initial premises improvements in an aggregate amount of approximately $160.5 million, initial capital investments in initial non-premises improvements in an aggregate amount of approximately $74.5 million and capital investments in mid-term premises improvements in an aggregate amount of approximately $32.1 million. When all of the terminal space has been delivered to Westfield, the Department is to receive from Westfield the greater of an aggregate minimum annual guarantee of approximately $34.7 million (for Calendar Year 2015 the minimum annual guaranty was approximately $18.2 million) or percentage rent comprised of base percentage rent (a percentage of Westfield's revenues less certain allowances for improvements and management fees) and contingent percentage rent (a certain percentage of Westfield's revenues in excess of certain benchmarks). Beginning in January 2014, each minimum annual guaranty is subject to increase based on the consumer price index and a percentage of the prior year's percentage rent and to decrease based on certain reductions in passenger enplanements. Under the Westfield Concession Agreements, Westfield is required to provide performance guaranties in the initial aggregate amounts of $2 million, which amounts are required to increase to two months minimum annual guaranty, but not less than $3 million. The Department may terminate (a) Westfield Agreement No.1 in the thirteenth year of operation and (b) Westfield Agreement No. 2 in the tenth year of operation, in each case if Westfield does not meet certain performance targets, subject to certain buy-out payments for Westfield's investment in improvements.

For Fiscal Year 2015, revenues to the Department at LAX from the terminal commercial managers were approximately $28.7 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015."

Food and Beverage Concessions

The Department has entered into concession agreements with a number of food and beverage concessionaires for concessions at Terminals 4, 5, 7, 8 and the commuter facilities at LAX (the "Food and Beverage Concession Agreements"). The Food and Beverage Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Food and Beverage Concession Agreements is approximately $13.8 million. Under the Food and Beverage Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire's premises, aggregating approximately $37.9 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately $7.5 million. Each food and beverage concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Food and Beverage Concession Agreements are scheduled to expire in June 2021 and 2023.

For Fiscal Year 2015, revenues to the Department at LAX for food and beverage concessions were approximately $25.6 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015."

Advertising Sponsorship and New Media Concession

The Department entered into a Terminal Media Operator Concession Agreement ("TMO Agreement") with JCDecaux Airport, Inc. ("JCDecaux"), effective February 2014. Pursuant to the TMO Agreement, JCDecaux serves as terminal media operator for the development and operation of certain advertising, sponsorship and other media concession locations within LAX. Under the TMO Agreement JCDecaux is granted the right to, among other things, market certain advertising and digital activation opportunities, develop and manage advertising displays, sponsorship activations and other media elements display locations at LAX. Under the TMO Agreement, JCDecaux is, subject to Department review, required to undertake certain development activities relating to advertising displays and other media elements in TBIT and in other portions of the Airport. The TMO Agreement is scheduled to expire in December 2020. The Department, under certain circumstances and in its sole discretion, may extend the term of the TMO Agreement for one additional period of three years. Subject to certain conditions provided in the TMO Agreement, JCDecaux is required to make an initial investment in certain improvements for the purpose of its sponsorship activations, advertising displays or other media elements equal to $18.5 million. Additionally, JCDecaux is also required to make additional investments in certain improvements for the purpose of its sponsorship activations, advertising displays or other media elements equal to $3.5 million over the remainder of the initial term of the TMO Agreement. The annual concession fees payable from JCDecaux to the Department under the TMO Agreement are based on a series of formulas set forth in the TMO Agreement and consist of, among other things, certain fees derived from certain minimum guarantees and/or certain fees derived from a percentage of gross revenues from advertising, media and sponsorship activities. For Fiscal Year 2015, JCDecaux was required to pay to the Department not less than an advertising minimum annual guaranty in the amount of $21 million and a sponsorship minimum annual guaranty in the amount of $5 million. Each of these minimum annual guarantees is subject to increases on an annual basis.

In Fiscal Year 2015, revenues to the Department at LAX from the TMO Agreement were approximately $22.5 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion for Fiscal Year 2015."

Retail Concessions

The Department has entered into concession agreements with a number of retail concessionaires for concessions at Terminals 4, 5, 7 and 8 at LAX (the "Retail Concession Agreements"). The Retail Concession Agreements provide that the Department will receive from each concessionaire a concession fee equal to the greater of a minimum annual guaranty or a percentage of gross receipts. The aggregate minimum annual guaranty under the Retail Concession Agreements is approximately $7.5 million. Under the Retail Concession Agreements, each concessionaire is required to make initial capital investments for initial improvements to such concessionaire's premises, aggregating approximately $10.8 million, and additional mid-term capital investments for refurbishment of the applicable premises, aggregating approximately $2.1 million. Each concessionaire is required to provide a performance guaranty in an amount equal to 25% of the applicable minimum annual guaranty. The Retail Concession Agreements are scheduled to expire in June 2021.

For Fiscal Year 2015, revenues to the Department at LAX from Retail Concession Agreements were approximately $11.1 million. See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Management Discussion of Fiscal Year 2015."

FINANCIAL AND OPERATING INFORMATION CONCERNING LAX

Summary of Operating Statements

The following table summarizes the financial results from operations for LAX for Fiscal Years 2011 through 2015. See APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014."

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

			Fiscal Year		
	2011[2]	2012[2]	2013[2]	2014[2]	2015
Operating revenues:					
Aviation revenue					
Landing fees	$ 191,307	$ 205,568	$ 216,359	$ 222,608	$ 227,518
Building rentals[3]	220,940	247,939	257,251	315,764	365,296
Other aviation revenue[3][4]	88,989	86,402	84,934	90,154	95,042
Concession revenue[5]	263,195	278,767	304,139	331,311	354,082
Airport sales and services	1,916	2,190	808	853	765
Other operating revenue	1,497	1,224	1,982	1,039	3,097
Total operating revenue	$ 767,844	$ 822,090	$ 865,473	$ 961,729	$ 1,045,800
Operating expenses:					
Salaries and benefits	$ 323,522	$ 339,551	$ 338,004	$ 356,726	$ 374,018
Contractual services	143,684	162,071	162,661	161,771	174,745
Administrative expense	3,197	5,895	1,126	(1,768)[6]	2,890
Materials and supplies	32,699	35,986	47,908	45,726	46,102
Utilities	29,606	30,664	32,472	39,089	38,355
Advertising and public relations	6,219	3,186	3,421	3,915	4,606
Other operating expenses	2,301	2,807	3,838	4,567	4,682
Total operating expenses before depreciation and amortization	$ 541,228	$ 580,160	$ 589,430	$ 610,027	$ 645,398
Income from operations before depreciation and amortization	$ 226,616	$ 241,930	$ 276,043	$ 351,702	$ 400,402
Depreciation and amortization	(103,300)	(123,941)	(134,500)	(141,795)	(178,035)
Operating Income	$ 123,316	$ 117,989	$ 141,543	$ 209,907	$ 222,367
Non-Operating revenues/(expenses):					
Passenger facility charges	$ 117,821	$ 121,443	$ 124,610	$ 132,809	$ 137,855
Customer facility charges[5]	24,250	26,002	27,295	28,675	29,347
Interest income	29,896	27,553	25,231	20,413	20,327
Change in fair value of investments	(832)	5,249	(22,793)[7]	1,799	(2,021)
Other non-operating revenue[3]	13,380	13,910	12,067	11,122	8,618
Interest expense	(78,740)	(83,068)	(93,610)	(133,694)	(166,919)
Bond expense	(902)	(993)	(2,003)	(1,703)	(2,488)
Other non-operating expenses	(981)	(252)	(55)	(225)	(7,071)[8]
Net non-operating revenues / (expenses)	$ 103,892	$ 109,844	$ 70,742	$ 59,196	$ 17,648
Income before capital grant					
Contributions	$ 227,208	$ 227,833	$ 212,285	$ 269,103	$ 240,015
Federal grants	67,939	59,854	12,264	24,674	30,964
Inter-agency transfers	804	3,466	(2,126)	6,329	5,303
Change in net assets	295,951	291,153	222,423	300,106	276,282
Net position, beginning of period	$ 3,241,276	$ 3,537,227	$ 3,828,380	$ 4,044,923	$ 4,345,029
Change in accounting principle and removal of net pension obligation	--	--	(5,880)	--	(567,894)[9]
Net position, end of period	$ 3,537,227	$ 3,828,380	$ 4,044,923	$ 4,345,029	$ 4,053,417

(1) Totals may not add due to rounding.
(2) Restated. Certain reclassifications have been made to conform to fiscal year 2015 presentation.
(3) Terminal use and gate use fees reclassified from other aviation revenue to building rentals revenue.
(4) Includes reimbursement of security-related expenses; TSA revenue pertaining to law enforcement officers and canines reclassified from operating revenue to non-operating revenue.
(5) Customer facility charges were reclassified from concession revenue to non-operating revenue.
(6) Fiscal Year 2014 negative Administrative expenses primarily due to an adjustment of approximately $4.7 million for allowance for uncollectible accounts. See Note 1 to APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014."
(7) The annualized rates of return of the Treasury Pool reserve and core portfolio for Fiscal Year 2013 were approximately 0.15% and approximately 0.23% respectively, compared to prior Fiscal Year rates of approximately 2.38% and approximately 0.21%. The net change in investment rates was translated to the downward year end net adjustment of the fair value of investment securities.
(8) Includes approximately $6.948 million adjustment to Fund Balance.
(9) Primarily comprised of the proportional allocation of the City's Net Pension Liability. See "THE DEPARTMENT OF AIRPORTS – Retirement Plan."

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

See also APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014."

Management Discussion of Fiscal Year 2015

Total operating revenue at LAX for Fiscal Year 2015 was approximately $1.05 billion, an increase of approximately $84.1 million, or approximately 8.7%, from Fiscal Year 2014. The increase was comprised primarily of an increase in building rental revenue of approximately $49.5 million, or approximately 15.7%, from Fiscal Year 2014, and an increase in concession revenues of approximately $22.8 million, or approximately 6.9%, from Fiscal Year 2014.

Landing fee revenue at LAX for Fiscal Year 2015 was approximately $227.5 million, an increase of approximately $4.9 million, or approximately 2.2%, from Fiscal Year 2014. Building rental revenue at LAX for Fiscal Year 2015 was approximately $365.3 million, an increase of approximately $49.5 million, or approximately 15.7%, from Fiscal Year 2014. The increases in building rental revenue were primarily due to recovery of higher terminal operating costs and capital costs that are hitting the rate base after new projects have gone into service. Concession revenue at LAX for Fiscal Year 2015 was approximately $354.1 million, an increase of approximately $22.8 million, or approximately 6.9%, from Fiscal Year 2014. The increases in concession revenue were due to a combination of increased passenger levels and new or redeveloped concession spaces being put into service. Other operating revenue at LAX, including airport sales and services and other aviation and operating revenue, for Fiscal Year 2015 was approximately $98.9 million, an increase of approximately $6.9 million, or approximately 7.5%, from Fiscal Year 2014.

Operating expenses before depreciation and amortization at LAX for Fiscal Year 2015 were approximately $645.4 million, an increase of approximately $35.4 million, or approximately 5.8%, from Fiscal Year 2015. The increase was primarily comprised of an increase in salaries and benefits expenses of approximately $17.3 million, or approximately 4.85%, from Fiscal Year 2014, and an increase in contractual services expenses of approximately $13.0 million, or approximately 8.0%, from Fiscal Year 2014. Salaries and benefit expenses at LAX for Fiscal Year 2015 were approximately $374.0 million, an increase of approximately $17.3 million, or approximately 4.9%, from Fiscal Year 2014. The increases in salaries and benefit expenses were primarily due to cost of living adjustments, increases in pension contributions and increases in allowances for workers compensation claims. Contractual services expenses at LAX for Fiscal Year 2015 were approximately $174.8 million, an increase of approximately $13.0 million, or approximately 8.0%, from Fiscal Year 2014. The increases in contractual services expenses were primarily due to increases in landside busing costs. Materials and supplies expenses at LAX for Fiscal Year 2015 were approximately $46.1 million, an increase of approximately $0.3 million, or approximately 0.8%, from Fiscal Year 2014. Other operating expenses at LAX, including administrative expenses, utilities, advertising and public relations and other operating expense, for Fiscal Year 2015 were approximately $50.5 million, an increase of approximately $4.7 million, or approximately 10.3%, from Fiscal Year 2014.

For Fiscal Year 2015, pursuant to GASB 68, a proportional allocation of the City's Net Pension Liability, together with other pension liability adjustments, in the aggregate amount of approximately $567.9 million were allocated to the Department with respect to LAX. GASB 68 addresses the disclosure of pension liability only and does not impose any funding requirements. The Department expects that its contributions to LACERS will continue to increase, in amounts that may be significant. Prior to the application of the GASB 68 a proportional allocation of the City's Net Pension Liability, the change in net assets of the Department with respect to LAX for Fiscal Year 2015 reflected an increase of approximately $269.6 million. Upon the application of the GASB 68 proportional allocation of the City's Net Pension Liability, the net position of the Department with respect to LAX for Fiscal Year 2015 was approximately $4.1 billion, a decrease of approximately $291.6 million, or approximately 6.7%, from Fiscal Year 2014.

Management Discussion of Fiscal Year 2014

Total operating revenue at LAX for Fiscal Year 2014 was approximately $961.7 million, an increase of approximately $96.3 million, or approximately 11.1%, from Fiscal Year 2013, comprised primarily of an increase in aviation revenue of approximately $69.9 million, or approximately 12.5%, and an increase in non-aviation revenue of approximately $26.3 million, or approximately 8.6%.

Landing fees, net of the reliever fee, at LAX for Fiscal Year 2014 were approximately $222.6 million, an increase of approximately $6.2 million, or approximately 2.9%, from Fiscal Year 2013. The increases in landing fee revenue resulted from higher levels of airfield operating and capital costs recovered through the Department's landing fee. Building rental revenue at LAX for Fiscal Year 2014 increased approximately $58.5 million, or approximately 22.8%, from Fiscal Year 2013. The increase was primarily attributable to the improvements and refurbishments in the Terminals, the adoption of the new rates and charges, as well as the new and renegotiated leases signed with the airlines and other tenants. Building rental revenue from Skyview Center, which was acquired in Fiscal Year 2013, represented approximately $5.2 million of the increase.

Total revenue from concessions at LAX for Fiscal Year 2014 were approximately $331.3 million, an increase of approximately $27.2 million, or approximately 8.9%, from Fiscal Year 2013. The increases were due to a combination of higher levels of gross sales in the terminals and increases in parking revenues and rental car concession payments. In-terminal concession revenue constitutes rentals collected from food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rental cars, bus, limousine and taxi services.

In-terminal concession revenue at LAX for Fiscal Year 2014 increased by approximately $12.7 million, or approximately 9.0%, from Fiscal Year 2013. The increase was attributable to increased passenger traffic and revenue from sales in excess of minimum annual guarantees. Duty free concession revenue at LAX for Fiscal Year 2014 increased by approximately $5.3 million, or approximately 10.5%, from Fiscal Year 2013. The total revenue from food and beverage concessionaires, retail merchants and commercial management concessionaires at LAX for Fiscal Year 2014 increased approximately $8.6 million, or approximately 14.7%, from Fiscal Year 2013. Advertising revenue at LAX for Fiscal Year 2014 decreased by approximately $2.0 million, or approximately 10.1%, from Fiscal Year 2013, as a result of the loss of some advertising locations due to the closure of the old south concourse in TBIT and impacts of construction of in Terminal 4.

Off-terminal concession revenue at LAX for Fiscal Year 2014 was approximately $177.0 million, an increase of approximately $14.5 million, or approximately 8.9%, from Fiscal Year 2013. This increase included increases of approximately $6.0 million in auto parking revenues and approximately $6.0 million in rental car revenues.

Operating expenses before depreciation and amortization at LAX for Fiscal Year 2014 were approximately $610.0 million, an increase of approximately $20.6 million, or approximately 3.5%, from Fiscal Year 2013. Salaries and benefits expenses experienced the most significant growth for Fiscal Year 2014, increasing approximately $18.7 million, or 5.5%, from Fiscal Year 2013, primarily due to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was approximately $4.3 million while workers' compensation decreased by approximately $1.1 million.

Utilities expenses also grew for Fiscal Year 2014, increasing approximately $6.6 million, or approximately 20.4%, from Fiscal Year 2013, attributable to a combination of higher electricity rates and consumption as a result of the opening of the Bradley West Project. Contractual services and materials and supplies at LAX for Fiscal Year 2014 decreased by nearly $6.0 million, or approximately 2.8%, from Fiscal Year 2013, attributable to, among other things, lower environmental consultant expenses and lower equipment maintenance and operations expenditures.

Top Revenue Providers and Sources

The following table sets forth the top ten revenue providers at LAX for Fiscal Year 2015.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FISCAL YEAR 2015
(DOLLARS IN THOUSANDS)[(1) (2)]

1.	United Air Lines[(3)†]	$ 123,175
2.	American Airlines[(4)‡]	107,167
3.	Delta Air Lines[*]	100,929
4.	DFS Group	66,267
5.	Southwest Airlines	43,697
6.	Alaska Airlines[(5)]	29,138
7.	The Hertz Corporation[(6)]	28,320
8.	Westfield	27,983
9.	Virgin America[(5)]	26,059
10.	Avis Rent A Car System[(6)]	25,561

* Member of Sky Team Alliance.
† Member of Star Alliance.
‡ Member of One World Alliance.
(1) Excludes revenue from the federal government. The amounts in this table reflect those amounts billed by the Department to the applicable revenue providers as of June 30, 2015.
(2) For airlines that (i) were party to a completed merger or acquisition, (ii) have received a single FAA certificate and (iii) have completed operational integration, only the surviving entity is presented and the activities for the airlines that are now a part of the surviving airline are included in the information presented.
(3) Includes Continental Airlines and SkyWest Airlines.
(4) Includes American Eagle Airlines.
(5) On April 1, 2016, Alaska Air Group, Virgin America, and Merger Sub, entered into the Merger Agreement. The completion of the Merger is subject to certain conditions, including any required approvals from the FAA and the U.S. DOT. See “CERTAIN INVESTMENT CONSIDERATIONS – Demand for Air Travel, Aviation Activity and Related Matters” and “—Financial Condition of the Airlines; Effect of Airline Industry Consolidation; Effect of Airline and Concessionaire Bankruptcies.”
(6) Includes approximately $6.7 million (Hertz) and $4.6 million (Avis) of Customer Facility Charges. Customer Facility Charges are not included in Pledged Revenues.

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

The following table sets forth top ten revenue sources at LAX for Fiscal Year 2015.

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FISCAL YEAR 2015[1]
(DOLLARS IN THOUSANDS)

1.	Terminal Rentals	$ 305,430
2.	Landing Fees	227,518
3.	Land Rentals[2]	90,478
4.	Auto Parking	85,803
5.	Rental Cars[3]	78,556
6.	Food, Beverage, Gift, News and Terminal Commercial Managers	65,367
7.	Duty Free Sales	63,983
8.	Other Building Rentals[4]	59,866
9.	Advertising	22,552
10.	Bus, Limousine and Taxi	11,901

(1) The amounts in this table reflect those amounts received by the Department from the applicable revenue sources as of June 30, 2015.
(2) Consists primarily of rental revenue derived from the ancillary land facilities at LAX.
(3) Customer Facility Charges for Fiscal Year 2015 amounted to approximately $29.3 million; however, Customer Facility Charges are not included in Pledged Revenues.
(4) Consists primarily of rental revenue derived from cargo, maintenance and other building facilities at LAX.

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

Budgeting Process

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

Fiscal Year 2016 Budget

Department management developed the Fiscal Year 2016 LAX Operating Budget after considering a number of factors including recent years' operating revenue and expense trends, LAX passenger traffic projections, the Department's capital projects, including the issuance of additional debt to finance the Department's capital projects, and other Departmental goals. Staff from each of LAX's divisions prepared and submitted their preliminary budgets within the constraints defined by budget staff and submitted additional requests for review in January and February 2015. Budget hearings were conducted in February 2015 with Operating Budget staff and the Department's deputy executive directors to discuss past trends and changes in future needs. The Department's executive management reviewed the resulting budget and additional requests and made adjustments based on expenditure priority and operational need. The Board formally adopted the Fiscal Year 2016 Operating Budget in June 2015.

The Fiscal Year 2016 LAX Operating Budget projects operating revenues of approximately $1.2 billion, approximately 9.7% higher than budgeted in the Fiscal Year 2015 LAX Operating Budget. The Department projects LAX aviation revenues of approximately $791.8 million, approximately 11.1% higher than budgeted in the Fiscal Year 2015 LAX Operating Budget. The Department has projected that LAX aviation revenues will increase due primarily to increased cost recovery from airline passenger terminal tenants at LAX. The Fiscal Year 2016 LAX Operating Budget projects non-aviation operating revenues of approximately $375.2 million, approximately 6.7% higher than budgeted in the Fiscal Year 2015 LAX Operating Budget, as redeveloped terminal concessions and increased levels of passenger traffic contribute to greater terminal concession and ground transportation revenues. The Fiscal Year 2016 LAX Operating Budget projects operating expenses of approximately $711.0 million, approximately 3.8% higher than the Fiscal Year 2015 LAX Operating Budget. The Fiscal Year 2016 LAX Operating Budget does not include appropriations for the Series 2016A Subordinate Bonds Projects or other capital improvement projects. See "AIRPORT AND CAPITAL PLANNING." Under the Fiscal Year 2016 LAX Operating Budget, the Department has budgeted approximately $395.7 million for salaries, benefits and other payroll expenses for the Department's employees at LAX (representing an increase of approximately 3.7% from the Fiscal Year 2015 LAX Operating Budget) and approximately $56.0 million for payments to the City for fire service, supplemental police assistance and other support services and personnel costs at LAX. Amounts budgeted for these expenses represent approximately 63.5% of the Department's operating budget at LAX. Contractual services, including payments for services provided by the City, as discussed above, are budgeted in the Fiscal Year 2016 LAX Operating Budget at approximately $200.0 million (representing an increase of approximately 1.5% from the Fiscal Year 2015 LAX Operating Budget). See also "THE DEPARTMENT OF AIRPORTS – Employees and Labor Relations" and "—Retirement Plan."

The following table sets forth a summary of the operating budget at LAX for Fiscal Year 2016.

TABLE 17
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
SUMMARY OF OPERATING BUDGET
FISCAL YEAR 2016[(1)]
(DOLLARS IN MILLIONS)

	Fiscal Year
Operating revenues:	
Aviation revenue	
Landing fees	$ 245.2
Building rentals	449.9
Land rentals	88.1
Other aviation revenue	8.6
Concession revenue	373.1
Airport sales and services	0.7
Miscellaneous revenue	1.3
Total operating revenue	$ 1,167.0
Operating expenses:	
Salaries and benefits	$ 395.7
Contractual services	200.0
Administrative expense	4.5
Materials and supplies	50.5
Utilities	46.6
Advertising and public relations	5.1
Other operating expenses	8.7
Total operating expenses	$ 711.0
Income from operations before depreciation and amortization	$ 456.0

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

Debt Service Coverage

The following table shows historical debt service coverage on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes for Fiscal Years 2011 through 2015.

TABLE 18
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2011-2015[1]
(DOLLARS IN THOUSANDS)

	2011	2012	2013	2014	2015
Pledged Revenues[2]					
Total Operating Revenues[3][4]	$ 767,844	$ 822,090	$ 865,473	$ 961,729	$ 1,045,800
Interest Income	16,296	20,042	1,400	10,189	9,700
Build America Bonds Subsidy[4]	7,640	8,328	7,965	7,728	7,719
Non- Operating TSA Revenue[3]	4,027	4,876	1,253	5,012	2,895
Total Pledged Revenues	$ 795,807	$ 855,336	$ 876,091	$ 984,658	$ 1,066,114
LAX Maintenance and Operations Expenses[5]	(539,534)	(578,099)	(587,948)	(608,722)	(645,091)
Net Pledged Revenues[6]	$ 256,273	$ 277,237	$ 288,143	$ 375,936	$ 421,023
Senior Bond Aggregate Annual Debt Service	$ 60,095[7]	$ 60,577[7]	$ 45,486[7]	$ 62,560[7]	$ 110,237[7]
Senior Bond Debt Service Coverage Ratio	4.26x	4.58x	6.33x	6.01x	3.82x
Subordinate Bond Debt Service[8]	$ 40,649	$ 45,508	$ 49,904	$ 52,067	$ 55,439
Subordinate Bond Debt Service Coverage Ratio	4.83x	4.76x	4.86x	6.02x	5.61x
Total Debt Service Coverage Ratio	2.54x	2.61x	3.02x	3.28x	2.54x

(1) Derived from unaudited financial statements.
(2) As defined in the Senior Indenture.
(3) TSA Revenue – Law Enforcement Officers and Canine reclassified from Operating Revenue to Non-Operating Revenue. Interest income is net of rent credits of approximately $10 thousand for Fiscal Year 2011; excludes passenger facility charges, Customer Facility Charges and construction funds.
(4) Represents cash subsidy payments from the United States Treasury received in connection with the Series 2009C Subordinate Bonds and the Series 2010C Subordinate Bonds. See "CERTAIN INVESTMENT CONSIDERATIONS – Federal Funding; Impact of Federal Sequestration."
(5) As defined in the Senior Indenture. Excludes depreciation and expenses of LAX payable from sources other than Pledged Revenues.
(6) As defined in the Senior Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.
(7) Net of approximately $19 million, approximately $25.2 million, approximately $34.4 million, approximately $96.5 million and approximately $91.0 million passenger facility charge reimbursements for Fiscal Years 2011, 2012, 2013, 2014 and 2015 debt service payments, respectively, pursuant to the Senior Indenture. Presentations of PFC reimbursements in this table differ from those in the audited financial statements of the Department due to differences in accounting practices.
(8) Also includes actual debt service with respect to the Subordinate Commercial Paper Notes.

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

In November 2015 (Fiscal Year 2016), the Department issued $324,325,000 aggregate principal amount of the Series 2015D Senior Bonds and the Series 2015E Senior Bonds. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – FINANCIAL PERFORMANCE – FLOW OF FUNDS AND DEBT SERVICE COVERAGE" for calculations of revenues, expenses, debt service and debt service coverage on the Senior Bonds, the Subordinate Bonds and combined coverage for Fiscal Years 2016 through 2022 as forecast by 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. Below is a summary of assets of the Pool as of June 30, 2015:

TABLE 19
CITY OF LOS ANGELES POOLED INVESTMENT FUND[(1)]
ASSETS AS OF JUNE 30, 2015
(Dollars in Millions)

Description	Market Value[(2)]	% of Total	Department Market Value[(3)]	LAX Market Value[(4)]
Bank Deposits	$ 90	1.1%	$ 18	$ 16
CDARS	11	0.1	2	2
Commercial Paper	1,155	13.7	225	205
Corporate Notes	242	2.9	47	43
U.S. Federal Agencies/Munic/Supras	88	1.0	17	16
Total Short-Term Core Portfolio:	$ 1,586	18.8	$ 309	$ 282
Corporate Notes	1,403	16.6	274	249
U.S. Federal Agencies/Munic/Supras	807	9.6	158	144
U.S. Treasuries	4,650	55.1	907	827
Total Long-Term Reserve Portfolio	$ 6,860	81.2	$ 1,339	$ 1,220
Total Cash & Pooled Investments	$ 8,446	100.0%	$ 1,648	$ 1,502

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

The average life of the investment portfolio in the Pool as of June 30, 2015 was approximately 2.3 years.

The City's treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. The City Treasurer indicates that the City does not invest in structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments and mortgage-derived interest or principal-only strips. See also Note 3 – APPENDIX B – "ANNUAL FINANCIAL REPORT OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014."

Risk Management and Insurance

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

The Department carries commercial aviation general liability insurance with coverage limits of $1.3 billion for losses arising out of liability for airport operations. The deductible on the commercial aviation liability coverage is $10,000 per occurrence with an annual $500,000 aggregate deductible. This aviation liability coverage incorporates a foundation of comprehensive in-house claims management program, incremental claims analysts and adjustors and both outside and inside defense counsel. The liability coverage has endorsements of coverage for all third-party claims and suits, on premises automobile coverage, employment personal injury coverage, errors and omissions coverage and hangar and aircraft owner's liability coverage.

The Department carries general all-risk property insurance with coverage limits of $2.5 billion for all Department properties. The deductible on this coverage is $100,000 per occurrence, no aggregate. The

Department's insurance also incorporates a property insurance special endorsement that provides coverage for property losses resulting from acts of terrorism for declared foreign acts of terrorism. Coverage under this endorsement parallels the general all-risk limits of $2.5 billion. The Department's insurance coverage also incorporates a property insurance special endorsement that provides for coverage for "boiler and machinery" losses up to a covered limit of $250 million and property insurance special endorsement that provides coverage for "business interruption" losses to the Airport System resulting from a covered property peril. Coverage for business interruption is included with full policy limits of $525 million and the deductible is 6 hours from initial declared interruption.

The Department has also purchased a war and allied perils (also referred to as terrorism insurance) endorsement with coverage of up to $1.0 billion with a deductible of $10,000 per occurrence and an annual $500,000 aggregate deductible. War and allied perils coverage extends to both foreign acts of terrorism and domestic acts of terrorism. Coverage under the War and Allied Perils endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force.

The Department maintains an insurance reserve fund, pursuant to Board policy. This fund has been established to fund uninsured or under-insured losses or where insurance capacity is unavailable or excessive in cost relative to coverage. This reserve fund would provide primary funding for catastrophic losses with respect to all four airports in the Airport System. As of June 30, 2015, there was approximately $117.2 million in this fund.

Pursuant to the State Labor Code, the State Department of Industrial Relations has provided the City a Certificate of Consent to Self-Insure in connection with its workers' compensation liability. See Note 10 "AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014." Additionally, the Department employs an active loss prevention program for both general liability and property/casualty perils. This on-going program seeks to identify, eliminate or mitigate the loss or peril before it becomes a loss or claim.

AIRPORT AND CAPITAL PLANNING

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

Capital Development

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

The Department manages its capital development planning with a variety of tools, including a multi-year comprehensive planning tool (the "Capital Improvement Program"), which, among other things, is a list of capital development projects compiled based on prioritized needs and affordability, is used to inform decision makers and stakeholders of proposed capital expenditures and opportunity costs, and is designed to assist with the development of long term funding plans. The Capital Improvement Program is designed to be updated periodically as capital projects are planned. The Board's periodic review of the Capital Improvement Program does not constitute project or program approval of appropriations for their funding. Capital development projects require specific Board action and may require environmental review.

The Department's capital development projects include various terminal projects, airfield and apron projects, landside projects and other projects, to, among other things, modernize terminals, make long-term improvements to passenger access, and accommodate contemporary and future aircraft designs, all to address forecasted passenger growth.

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

- "Series 2016A Subordinate Bonds Projects" which include projects to be funded, in part, with the net proceeds of the Series 2016A Subordinate Bonds. See APPENDIX A "REPORT OF THE AIRPORT CONSULTANT" and "PLAN OF FINANCE – The Series 2016A Subordinate Bonds Projects."

- "Other Planned and Incorporated Projects" which includes (1) projects already underway but not yet completed at LAX, and (2) future projects other than the Series 2016A Subordinate Bonds Projects forecasted to be completed during the forecast period contained in the Report of the Airport Consultant (through Fiscal Year 2022). Other Planned and Incorporated Projects are those projects that are certain enough in terms of their scopes, costs, and timing of implementation to be included in the forecasts of the Airport Consultant. Certain Other Planned and Incorporated Projects have not received all necessary planning, environmental, Board or other required approvals. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT" for a comprehensive description of Other Planned and Incorporated Projects.

- "Other Projects" includes projects that are needed for the long term effective operation of LAX, but the specific scopes, costs, implementation timing and funding sources of which are yet to be determined by the Department. The largest component of the Other Projects is the Landside Access Modernization Program. See "—Landside Access Modernization Program" below.

The Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects are referred to in this Official Statement and in the Report of the Airport Consultant as the "Capital Program." The "Capital Program" for the purposes of this Official Statement and in the Report of the Airport Consultant does not include any Other Projects, particularly the Landside Access Modernization Program (described below).

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

The Report of the Airport Consultant indicates that the Other Projects (including the Landside Access Modernization Program) are not included in the financial forecasts of the Report of the Airport Consultant because the timing, scope, costs or approvals of such Other Projects are too uncertain as of the date of the Report of the Airport Consultant. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT."

Landside Access Modernization Program

The largest component of the Other Projects (and thus not part of the Capital Program described in this Official Statement and the Report of the Airport Consultant) is comprised of proposed landside projects at LAX including the CONRAC, Intermodal Transportation Facilities (the "Intermodal Transportation Facilities"), an Automated People Mover, and certain parking projects to support these potential projects (collectively, the "Landside Access Modernization Program"). The Automated People Mover would be configured to connect the Central Terminal Area with the Intermodal Transportation Facilities, the Los Angeles County Metropolitan Transportation Authority's light rail line (Crenshaw/LAX Transit Project), the CONRAC and certain parking projects to support the Landside Access Modernization Program. The Department is in the process of defining and undertaking environmental review of the Landside Access Modernization Program. Subject to obtaining the required environmental and other approvals, it is expected that construction of one or more of these projects could begin prior to the end of Airport Consultant's forecast period (Fiscal Year 2022); however, the Department does not expect that any of these projects, if undertaken, will be operational during the Airport Consultant's forecast period. See "USE OF AIRPORT FACILITIES – Concession and Parking Agreements – Rental Cars and Customer Facility Charges."

The Department's initial estimates of total costs of the Landside Access Modernization Program are in the range of \$4.5 billion to \$5.5 billion, approximately \$1 billion of which is attributable to the CONRAC project. Potential sources of funding for Landside Access Modernization Program projects may include some or all of the following: (i) Federal funds, (ii) PFC revenues (for any portion of the Landside Access Modernization Program that may become an Approved PFC Project), (iii) Customer Facility Charges or debt supported by Customer Facility Charges (see "USE OF AIRPORT FACILITIES – Concession and Parking Agreements – Rental Cars and Customer Facility Charges" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS – Flow of Funds"), (iv) net proceeds of LAX Special Facility Obligations, (iv) net proceeds of Additional

Senior Bonds and/or Additional Subordinate Obligations, (vi) Department funds, (vii) funds from developers and/or derived from a design-build-finance-operate-maintain arrangement or variant thereof, and/or (viii) other sources.

Until the permitting, design and procurement process is complete, the scope, timing of implementation, cost, funding and approvals related to the potential Landside Access Modernization Program, are subject to substantial revisions and while sufficiently developed for the environmental review and design process, have not advanced sufficiently to permit the Department to fully estimate the costs for these potential projects for purposes of the Airport Consultant's forecasts.

Financing the Capital Program

Capital Program Costs

The projects in the Capital Program which includes the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects, but excludes Other Projects such as the Landside Access Modernization Program) are expected to cost approximately $5.9 billion in the aggregate (comprised of approximately $1.7 billion for the Series 2016A Subordinate Bonds Projects and approximately $4.2 billion for the Other Planned and Incorporated Projects).

Cost estimates include design, engineering, construction, escalation for inflation and contingency amounts. The Capital Program is expected to be financed with a combination of grants, passenger facility charges, Department and other funds, the proceeds of the Series 2016A Subordinate Bonds, Existing Senior Bonds and Existing Subordinate Obligations and Additional Senior Bonds and/or Additional Subordinate Obligations. Some or all of the funding sources for certain Ongoing and Committed Projects have already been secured, although certain TSA and AIP grants and approvals for passenger facility charge collections have not yet been realized. The estimated costs of, and the projected schedule for, the Capital Program are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the Capital Program. The Department may ultimately decide not to proceed with the projects described above, including portions of the Series 2016A Subordinate Bonds Projects not financed with the proceeds of the Series 2016A Subordinate Bonds, or may proceed with them on a different schedule, resulting in different results than those included in the forecasts. See "CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness" and "PLAN OF FINANCE." See also "USE OF AIRPORT FACILITIES – Airport Terminal Tariff."

Grants

A portion of the Capital Program is expected to be financed with federal and other grants. Projects included in the Capital Program are expected to be financed from AIP and TSA grants in the amount of approximately $319.0 million (comprised of approximately $74.7 million for the Series 2016A Subordinate Bonds Projects and approximately $244.3 million for the Other Planned and Incorporated Projects). See "CERTAIN FUNDING SOURCES – Grants."

Passenger Facility Charges

A portion of the Capital Program is expected to be financed with PFC revenues on a pay-as-you-go basis in the amount of approximately $296.8 million (comprised of approximately $77.4 million for the Series 2016A Subordinate Bonds Projects and approximately $219.4 million for the Other Planned and Incorporated Projects). See "CERTAIN FUNDING SOURCES – Passenger Facility Charges" and APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT – AIRPORT FACILITIES AND CAPITAL PROGRAM – FUNDING THE AIRPORT CAPITAL PROGRAM – PFC Revenues" for additional information about the Department's expected use of PFC revenues.

Department and Other Funds

A portion of the Capital Program is expected to be financed with Department funds including funds deposited in the TRIF pursuant to the Rate Agreements with the airlines and certain other funds including grants other than AIP and TSA grants. Projects included in the Capital Program are expected to be financed from Department funds and other funds including grants other than AIP and TSA grants in the amount of approximately $1.7 billion (comprised of approximately $310.1 million for the Series 2016A Subordinate Bonds Projects and approximately $1.4 billion for the Other Planned and Incorporated Projects). See "FINANCIAL AND OPERATING INFORMATION CONCERNING LAX" regarding Department funds and revenues. See also "USE OF AIRPORT FACILITIES – Rate Agreement" regarding the TRIF.

Debt Financing

A portion of the Capital Program is expected to be financed with approximately $3.6 billion of proceeds of Senior Bonds and Subordinate Obligations (including the Series 2016A Subordinate Bonds), as described below:

- For the Series 2016A Subordinate Bonds Projects, approximately:
    - $315.7 million of proceeds of the Series 2016A Subordinate Bonds;
    - $302.0 million of proceeds of previously issued Senior Bonds and Subordinate Obligations; and
    - $575.1 million of proceeds of Additional Senior Bonds.
- For the Other Planned and Incorporated Projects, approximately:
    - $1.7 billion of proceeds of Additional Senior Bonds;
    - $144.7 million of proceeds of Additional Subordinate Obligations; and
    - $566.6 million of proceeds of previously issued Senior Bonds and Subordinate Obligations.

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

AIRPORT SYSTEM ENVIRONMENTAL MATTERS

Several significant environmental matters have direct and indirect impacts on the Department and LAX, some of which are described below. These include mitigation of aircraft noise impacts and wildlife hazards, hazardous substance cleanup and clean air requirements. In accordance with Department policy, generally the Department's tenant leases and/or applicable laws provide that tenants are responsible for the costs of remediation of hazardous or other regulated material from Department property and for compliance with applicable laws. However, if a tenant does not comply with these lease requirements and/or applicable laws, and under certain circumstances, the Department could ultimately become responsible for the costs of compliance and/or required environmental cleanup. The timing and aggregate costs of such cleanups cannot be determined at this time, but could be material.

Aircraft Noise Impacts

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

Compliance measures include sound insulation of certain 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 was granted a three-year noise variance effective February 13, 2011. Since the Department timely submitted an application for a new variance, it continues to operate under the existing variance until Caltrans acts on the Department's application.

In support of a Noise Mitigation Program, the Department provides funding for land acquisition, residential sound insulation programs, and school sound insulation programs. The goal of these programs is to reduce the number of residences in areas impacted by noise from airport operations through voluntary acquisition of properties and relocation assistance for certain residential neighbors near LAX and acoustic treatment and air conditioning or positive ventilation system improvements to certain other residential dwelling units and targeted school districts. Acoustic treatment generally includes replacing doors and windows, caulking, weather-stripping and installing central air ventilation so that the windows can be kept closed (only if the structure does not already have a central air ventilation system).

The FAA has approved the collection and use of PFC revenues in the amount of approximately $785 million for the residential Noise Mitigation Program, in the amount of approximately $34.1 million for reimbursement of eligible expenditures related to the Lennox Schools and in the amount of approximately $44.4 million for Inglewood Unified School District's sound insulation programs. As of June 30, 2015, the Department has expended approximately $665 million of PFC revenues in connection with the residential Noise Mitigation Program and for funding of eligible expenditures related to the Lennox Schools' sound mitigation program. See "CERTAIN FUNDING SOURCES – Passenger Facility Charges" and "AIRPORT AND CAPITAL PLANNING – Financing the Capital Program."

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

Hazardous Substances

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

The Department has an Environmental Programs Group tasked with performing soil and groundwater investigations, site remediation monitoring, storm water pollution prevention, Endangered Species Act compliance, wildlife hazard mitigation programs, air quality compliance and managing other environmental compliance programs and projects. The Environmental Programs Group also monitors underground and above-ground storage tanks and hazardous substances, and performs the mandated regulatory reporting on these programs. In the course of such investigations and monitoring, the Department may discover previously unknown contamination. No assurance can be given that the remediation costs for any such contamination will not be material.

The Department conducts annual inspections of tenant and Department operations, regarding compliance with the Department's National Pollutant Discharge Elimination System Storm Water Permit for Industrial Facilities (the "Storm Water Discharge Permit"), issued by the State Water Resources Control Board ("SWRCB"), Los Angeles Regional Water Quality Control Board ("LARWQCB") at LAX. These inspections seek to confirm compliance with the Storm Water Discharge Permit. The Department is also subject to regulation under the Construction Storm Water Permit, the Municipal Separate Storm Sewer System (MS4) Permit, storm water City ordinances, and Industrial Waste Permits for certain sewer discharges. The Department maintains records of all known areas where hazardous materials have been accidentally discharged. The Department works cooperatively with the relevant regulatory agencies to confirm that the responsible tenants are remediating contamination caused by their operations. There are, currently, two major remediation programs in place at LAX. One program involves the release of jet fuel to ground water underlying LAX. The tenant at the time of the release, Continental Airlines (now merged with and into United Airlines), has accepted responsibility for the remediation and active remediation systems are in place at the direction of the LARWQCB. Other ongoing investigations and assessments are being performed by the Department related to, among other things, fueling assets acquired from bankruptcy of tenants or other means where petroleum may have been released. Smaller scale clean-ups are conducted when hazardous substances are released.

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

The Department is in a dispute with the Los Angeles County Sanitation District No. 20 ("LACSD 20") regarding a nitrate plume in the groundwater underlying the Department's and LACSD 20's property in Palmdale, which contamination allegedly was caused by the discharge of effluent from the LACSD 20's Palmdale Water Reclamation Plant ("Palmdale WRP"). The Lahontan Regional Water Quality Control Board ("LRWQCB") has issued a Cleanup and Abatement Order in 2003 and subsequently in 2012 issued an Investigative Order to LACSD 20 and the Department. Required reporting to the LRWQCB include technical reports for discharge from the Palmdale WRP and other reports including, among other items, a report addressing feasibility and costs to remove nitrate from water to more stringent levels of 3 mg/l or less, which if required could substantially increase the overall remediation costs. The full extent of the remediation actions that the LACSD 20 and the Department may have to take with respect to the groundwater and the costs that may be incurred or contributions that will ultimately need to be made by the Department, however, cannot be determined at this time. No assurance can be given that such costs will not be material.

On December 14, 2011, the LARWQCB issued the Department a Notice of Violation ("Notice"), generally alleging violations of underground storage tank construction, monitoring and testing laws and regulations at facilities where the Department owns and/or operates underground storage tanks. Upon the approval of the Board's action becoming final pursuant to the City Charter, the Board has approved the terms of a Consent Judgment settlement to resolve the matter. The Consent Judgment will provide that the Department will pay up to \$2.3 million, without any admission of liability. The settlement terms include payment of \$1.2 million within thirty days following entry of the final Consent Judgment. \$1.1 million of such stipulated settlement amount shall be suspended on condition that the Department complies with the terms of the Consent Judgment and undertakes enhanced compliance actions.

Emission Standards

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

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

The Department has conducted an extensive air quality analysis and adopted numerous mitigation measures designed to reduce the air quality impacts associated with implementation of the Department's Capital Program. For each project undertaken, the Department must disclose project level air quality environmental impacts under a project specific CEQA study.

AB 32 specifically regulates the release of certain GHG emissions from stationary sources within the State. The Mandatory Reporting requirement under AB 32 requires facilities that generate greater than 10,000 MtCO2e per year to report their GHG emissions. The Department owns and operates a cogeneration plant at LAX along with other stationary sources in the facility (e.g., natural gas boilers and heaters). This facility complies in all material respects with all requirements under AB 32. In addition to the AB 32 Mandatory Reporting requirement, the Department must also report its GHG emissions to the United States Environmental Protection Agency. Since 2011, the Department has reported its GHG emissions from these sources in substantial compliance with applicable requirements. The State Attorney General's Office has been using CEQA aggressively to apply the provisions of AB 32 to local and regional plans as well as to projects. Project level CEQA analysis prepared projects at LAX must include an analysis of the project's potential GHG emissions and impacts. Since January 2013, facilities such as LAX that are subject to the Mandatory Reporting requirement under AB 32 are required to comply with the California Cap-and-Trade Program applicable to certain sources of GHG emissions in the State such as refineries, power plants, industrial facilities and transportation fuels. The California Cap-and-Trade Program includes an enforceable GHG cap that will decline over time. Under the California Cap-and-Trade Program, CARB distributes GHG allowances, which are tradable permits, equal to the emission allowed under the cap. The Department is required to obtain emission allowances for annual emissions at LAX. These emission allowances can be obtained by way of free allocation from CARB, through purchase from the secondary market and CARB auction, and reserve sale. The cost to the Department of obtaining required emissions allowances is dependent on the actual emissions generated at LAX and the price fluctuations through the course of the program, and are expected to be recouped through landing fees at LAX and or LAX terminal rates and charges, as applicable. The impact and consequences of not meeting an annual compliance obligation can include enforcement actions and penalties equivalent to four times the facilities' excess emissions. Various industries throughout the State may seek to purchase emission allowances in order to comply with the Cap-and-Trade Program, which may cause the price of allowances to increase. The emission allowance price has averaged approximately $15 per MtCO2e since January 2013. LAX emits on average approximately 47,000 MtCO2e annually. The Department's purchase of allowances may vary and no assurance can be given that such costs will not be material.

The SCAQMD imposes rules and regulations specifically targeted to various air pollutants and types of operations such as hydrant fueling, private vehicle fueling, power generators, boilers and the use of various volatile organic chemical containing materials. The LAX Central Utilities Plant is a co-generation plant providing electricity and cooling/heating to the Central Terminal Area. As a power generating plant, the SCAQMD requires continuous emissions monitoring and stringent environmental oversight. The Department Environmental Programs Group includes an Air Quality Section with four full-time professional staff assigned to maintain compliance with the various rules and regulations.

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

LITIGATION REGARDING THE AIRPORT SYSTEM AND THE DEPARTMENT

General

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

Runway 25L Construction Litigation

On October 10, 2013, the Department filed a complaint in the Superior Court of California, County of Los Angeles, against Tutor-Saliba Corporation/O&G Industries, Inc., JV, a California joint venture enterprise; R&L Brosamer; HNTB Corporation; and CH2M Hill, Inc. for, among other things, breach of contract, negligence and breach of warranties related to recently constructed portions of Runway 25L, the centerline taxiway and other airfield improvements. The complaint alleges that, among other things, certain of the defendants were negligent in their construction methods and have caused and will cause the Department property damage and economic losses. The amount of Department damages is estimated to be between approximately $150 million to $200 million. The cost of required temporary repairs which were completed in March 2015 was approximately $4.0 million. The Board has approved a $5 million settlement with HNTB Corporation which the court has approved. The Department cannot predict the outcome of this lawsuit.

LITIGATION REGARDING THE SERIES 2016A SUBORDINATE BONDS

There is no litigation now pending or, to the best of the Department's knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2016A Subordinate Bonds or in any way contests the validity of the Series 2016A Subordinate Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2016A Subordinate Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2016A Subordinate Bonds.

TAX MATTERS

General

In the opinion of Kutak Rock LLP, Bond Counsel to the Department, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Subordinate Bonds is excluded from gross income for federal income tax purposes, except for interest on any Series 2016A Subordinate Bond for any period during which such Series 2016A Subordinate Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2016A Subordinate Bonds or by a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Bond Counsel is further of the opinion that interest on the Series 2016A Subordinate Bonds is a specific preference item for purposes of the federal alternative minimum tax. The opinions described in the preceding sentences assume the accuracy of certain representations and compliance by the Department with covenants designed to satisfy the requirements of the Code that must be met subsequent to the issuance of the Series 2016A Subordinate Bonds. Failure to comply with such requirements could cause interest on the Series 2016A Subordinate Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016A Subordinate Bonds. The Department will covenant to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2016A Subordinate Bonds.

Bond Counsel is further of the opinion that interest on the Series 2016A Subordinate Bonds is exempt from present State of California personal income taxes.

Special Considerations

The accrual or receipt of interest on the Series 2016A Subordinate Bonds may otherwise affect the federal income tax liability of the owners of the Series 2016A Subordinate 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 2016A Subordinate Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2016A Subordinate 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 2016A Subordinate Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2016A Subordinate 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 2016A Subordinate 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 2016A Subordinate 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 2016A Subordinate Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2016A Subordinate 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 2016A Subordinate Bonds and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

Tax Treatment of Original Issue Premium

The Series 2016A Subordinate Bonds are being sold at a premium. An amount equal to the excess of the issue price of a Series 2016A Subordinate Bond over its stated redemption price at maturity constitutes premium on such Series 2016A Subordinate Bond. An initial purchaser of a Series 2016A Subordinate Bond must amortize any premium over such Series 2016A Subordinate Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of Series 2016A Subordinate Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser's basis in such Series 2016A Subordinate Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Series 2016A Subordinate Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Series 2016A Subordinate Bonds should consult with their tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Series 2016A Subordinate Bond.

RATINGS

S&P, Moody's and Fitch, have assigned ratings of "AA-," "A1" and "AA-," respectively, to the Series 2016A 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, 38th Floor, New York, New York 10041; Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Department furnished the rating agencies with certain information and materials concerning the Series 2016A Subordinate Bonds and the Department, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2016A Subordinate Bonds.

LEGAL MATTERS

The validity of the Series 2016A Subordinate Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Bond Counsel to the Department. A complete copy of the proposed form of Bond Counsel's opinion is contained in APPENDIX E hereto. Polsinelli LLP serves as Disclosure Counsel to the Department. Bond Counsel and Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain matters will be passed upon for the Department and the City by Michael N. Feuer, Esq., City Attorney. Certain matters will be passed upon for the Underwriters by their counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation.

FINANCIAL ADVISORS

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California, and Public Financial Management, Inc. of San Francisco, California, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2016A Subordinate 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. The Co-Financial Advisors perform other services for the Department.

AIRPORT CONSULTANT

The Report of the Airport Consultant prepared by WJ Advisors LLC has been included as APPENDIX A to this Official Statement with the consent of such consultants. The Report of the Airport Consultant was prepared in conjunction with the issuance of the Series 2016A Subordinate Bonds. The Department has relied upon the analyses and conclusions contained in the Report of the Airport Consultant, as of its date, in preparing this Official Statement. The financial forecasts in the Report of the Airport Consultant are based upon certain information and assumptions that were provided by, or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the financial forecasts set forth in the Report of the Airport Consultant.

WJ Advisors LLC 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 2015 and 2014 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.

The Department has identified the need to reclassify certain amounts presented within the Statements of Cash Flows for the Fiscal Year ended June 30, 2015, contained within the Los Angeles International Airport Annual Financial Report for Fiscal Years ended June 30, 2015 and 2014. The reclassifications, which will be reflected in the Statement of Cash Flows contained within the Fiscal Year 2016 Annual Financial Report, are generally intended to clarify amounts related to the acquisition and construction of capital assets and interest income, as well as to conform other amounts related to revenue bonds under GASB Statement No. 9, in order to properly reflect the presentation of the refunding of the Series 2008C Subordinate Bonds. The Department's auditor has confirmed that there will be no impact on information contained on any other page of the Annual Report and that the reclassifications will not change their unmodified opinion on the audited financial statements of the Department.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2016A Subordinate Bonds, the Department will covenant to provide, or cause to be provided, to the MSRB certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain listed events for purposes of Rule 15c2-12 adopted by the SEC. See APPENDIX G – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." The Department has agreed to provide the foregoing information to MSRB through the Electronic Municipal Market Access (EMMA) website.

UNDERWRITING

The Series 2016A Subordinate Bonds are being purchased from the Department by Loop Capital Markets LLC, on its own behalf and on behalf of Cabrera Capital Markets, LLC and Morgan Stanley & Co. LLC ("Morgan Stanley & Co."), the underwriters of the Series 2016A Subordinate Bonds (collectively, the "Series 2016A Subordinate Bonds Underwriters"), at a price of $343,119,449.06 (consisting of the aggregate principal amount of $289,210,000.00, plus an original issue premium of $54,563,718.40 and less an underwriters' discount of $654,269.34) all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2016A Subordinate Bonds Underwriters (the "Series 2016A Subordinate Bonds Purchase Agreement").

The Series 2016A Subordinate Bonds Purchase Agreement provides that the Series 2016A Subordinate Bonds Underwriters shall purchase all of the Series 2016A Subordinate Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Series 2016A Subordinate Bonds Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The Series 2016A Subordinate Bonds Underwriters may change the initial public offering yields set forth on the inside front cover hereof. The Series 2016A Subordinate Bonds Underwriters may offer and sell the Series 2016A Subordinate Bonds to certain dealers (including dealers depositing the applicable Series 2016A Subordinate Bonds into investment trusts) at prices lower than the public offering prices or at yields higher than the yields stated on the inside front cover hereof.

The following two paragraphs have been provided by the Series 2016A Subordinate Bonds Underwriters for inclusion in this Official Statement and the Department does not make any representation as to their accuracy or completeness.

Certain of the Series 2016A Subordinate Bonds Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Series 2016A Subordinate Bonds Underwriters may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Series 2016A Subordinate Bonds Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Department, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Series 2016A Subordinate Bonds Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Department. The market activities of the Series 2016A Subordinate Bonds Underwriters and other market participants may impact the value of the Series 2016A Subordinate Bonds.

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

Loop Capital Markets LLC, one of the Underwriters of the Series 2016A Subordinate Bonds, has entered into a distribution agreement (the “Distribution Agreement”) with Deutsche Bank Securities Inc. (“DBS”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement (if applicable to this transaction), DBS will purchase Deutsche Bank Securities Inc. from Loop Capital Markets LLC at the original issue prices less a negotiated portion of the selling concession applicable to any Deutsche Bank Securities Inc. that such firm sells.

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

Morgan Stanley, parent company of Morgan Stanley & Co., an underwriter of the Series 2016A Subordinate Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2016A Subordinate Bonds.”

MISCELLANEOUS

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

All references to the Charter, the Senior Indenture, 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 2016A Subordinate 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/ Deborah Flint
Executive Director

APPENDIX A

REPORT OF THE AIRPORT CONSULTANT

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Appendix A

Report of the Airport Consultant

on the proposed issuance of

Los Angeles International Airport
Subordinate Revenue Bonds
2016 Series A

May 4, 2016

Prepared for
Department of Airports of the City of Los Angeles | Los Angeles, California

Prepared by
WJ Advisors LLC | Denver, Colorado

www.wj-advisors.com

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May 4, 2016

Mr. Sean O. Burton, President
Board of Airport Commissioners
Los Angeles World Airports
1 World Way
Los Angeles, California 90045

Re: Report of the Airport Consultant on the Proposed Issuance of Los Angeles International Airport Subordinate Revenue Bonds, 2016 Series A, Alternative Minimum Tax

Dear Mr. Burton:

WJ Advisors LLC is pleased to submit this Report of the Airport Consultant (Report) on the proposed issuance of Los Angeles International Airport Subordinate Revenue Bonds, 2016 Series A (Alternative Minimum Tax) (the Series 2016A Subordinate Bonds), by the Department of Airports (the Department) of the City of Los Angeles (the City). The Series 2016A Subordinate Bonds are to be issued pursuant to the Department's Master Subordinate Trust Indenture, as amended, and the Eleventh Supplemental Subordinate Trust Indenture (referred to collectively as the Subordinate Indenture). The City owns and, through the Department, operates Los Angeles International Airport (the Airport or LAX).

This Report was prepared to determine if forecast Subordinate Pledged Revenues plus any Transfer would be sufficient to meet the requirements of the Rate Covenant of the Subordinate Indenture for Fiscal Year[1] (FY) 2017 through FY 2022 (referred to in this Report as the Forecast Period), taking into account (1) the proposed issuance of the Series 2016A Subordinate Bonds and (2) other Senior and Subordinate Revenue Bonds expected to be issued by the Department during the Forecast Period, which are referred to as Future Bonds.

In preparing this Report, we assisted Department management in identifying key factors affecting the future financial results of the Airport and in formulating assumptions about those factors. The results and key findings of our analyses are summarized in this letter and described more fully in the following three sections of this Report: Airline Traffic and Economic Analyses; Airport Facilities and Capital Program; and Financial Performance. The Report should be read in its entirety for an understanding of the aviation and financial forecasts and the underlying assumptions.

Capitalized terms in this Report are used as defined in the Master Indenture (as amended and supplemented and collectively referred to as the Senior Indenture), the Subordinate Indenture, the Air Carrier Operating Permit for the use of Landing and Apron Facilities at the Airport (the Operating Permit), and/or the Department's agreements with the airlines operating at the Airport for the use and lease of terminal facilities (the Terminal Rate Agreements).

[1] The City's Fiscal Year ends June 30.

AIRLINE TRAFFIC

Los Angeles International Airport has an important role in the international, national, state, and local air transportation systems and is the busiest origin and destination (O&D) airport in the world, and the third busiest airport in the United States, in terms of total passengers (enplaned plus deplaned)[2]. O&D passengers begin and end their journey at the Airport, while connecting passengers are connecting on flights at the Airport to another destination. In FY 2015, approximately 36.1 million passengers were enplaned at the Airport, including an estimated 28.3 million originating passengers and 7.8 million connecting passengers.

From FY 2010 through FY 2015, the number of enplaned passengers at the Airport increased at a rate of approximately 4.5% per year, reflecting strong average rates of growth in domestic enplaned passengers (4.9% per year) and international enplaned passengers (6.8% per year) from FY 2013 through FY 2015. In comparison, the number of enplaned passengers in the United States increased an average of 2.6% per year in calendar years 2010 through 2015 based on information from the U.S. Department of Transportation, Bureau of Transportation Statistics.

From FY 2015 through FY 2022, the number of enplaned passengers at the Airport is forecast to increase an average of 2.5% per year, as discussed in the section of this Report titled "Airline Traffic Forecasts."

AIRPORT CAPITAL PROGRAM

Department management periodically develops and updates a Capital Program for the redevelopment, improvement, and expansion of Airport facilities. The Capital Program is developed based on anticipated facility needs, current and forecast airline traffic, available funding sources, and project priorities.

For purposes of this Report, the Capital Program for the Airport is presented as follows:

- **Series 2016A Subordinate Bonds Projects.** These projects are to be partially funded with the net proceeds of the Series 2016A Subordinate Bonds. The Series 2016A Subordinate Bonds Projects are estimated to cost approximately $1.7 billion ($315.7 million of which is expected to be funded with the Series 2016A Subordinate Bond net proceeds) and are estimated to be completed by FY 2017.

- **Other Planned and Incorporated Projects.** These projects are certain enough in terms of scope, timing, and cost to be included in the financial forecasts in this Report. Some projects in this category have yet to receive all necessary approvals to proceed (including planning, environmental, and Board of Airport Commissioners approvals). Projects in this category are estimated to cost approximately $4.3 billion ($1.9 billion of

[2] Airports Council International, preliminary passenger traffic in 2015.

which is expected to be funded with the net proceeds of Future Bonds) and are estimated to be completed by the end of FY 2021.

Exhibit A, provided at the end of this Report, along with all financial exhibits, presents all anticipated funding sources for the Capital Program, including funding sources for the Series 2016A Subordinate Bonds Projects and Other Planned and Incorporated Projects.

The financial forecasts included in this Report reflect changes in Pledged Revenues, LAX Maintenance and Operation (M&O) Expenses, and Debt Service associated with the financing, construction, and completion of the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects.

The Department is also considering longer-term future projects at the Airport that are not included in the financial forecasts in this Report (referred to as Other Projects) because the timing, scope, cost, and/or approvals are too uncertain as of the date of this Report.

The largest component of the Other Projects is the Landside Access and Modernization Program (LAMP), which is expected to include a consolidated rental car facility (ConRAC), an automated people mover (APM) system, and intermodal transit facilities. The Department currently expects that the ConRAC and APM system will ultimately be designed, built, financed, operated, and maintained by third-party operators (the DBFOM approach); these two projects are estimated to be completed by mid-FY 2024. Current cost estimates for the LAMP range from approximately $4.5 billion to $5.5 billion, assuming a traditional delivery and financing approach compared to a DBFOM delivery and financing approach.

PROPOSED SERIES 2016A SUBORDINATE BONDS

The Department intends to issue the Series 2016A Subordinate Bonds to:

- Finance a portion of the Series 2016A Subordinate Bonds Projects
- Make a deposit to the Subordinate Debt Service Reserve Fund
- Fund capitalized interest on the Series 2016A Subordinate Bonds
- Pay issuance and financing costs associated with the Series 2016A Subordinate Bonds

The Series 2016A Subordinate Bonds Projects include:

- **Terminal 1 Improvement Project.** This project consists of the phased reconstruction of substantially all of Terminal 1 and is estimated to cost $536.5 million; approximately $29.2 million is planned to be funded with the net proceeds from the sale of the Series 2016A Subordinate Bonds.
- **Terminal 2 Improvement Project**. This project consists of the phased redevelopment of portions of Terminal 2 and is estimated to cost $204.9 million; approximately $27.0 million is planned to be funded with the net proceeds from the sale of the Series 2016A Subordinate Bonds.

- **Terminals 6/7/8 Improvement Project**. This project consists of the phased redevelopment of portions of Terminals 6, 7, and 8 and is estimated to cost $548.8 million; approximately $184.4 million is planned to be funded with the net proceeds from the sale of the Series 2016A Subordinate Bonds.
- **Elevators and Escalators Replacements**: This project consists of the replacement of elevators and escalators in the Central Terminal Area and is estimated to cost $263.9 million; approximately $18.0 million is planned to be funded with the net proceeds from the sale of the Series 2016A Subordinate Bonds.
- **West Maintenance Facility Pad and Infrastructure**: This project includes the demolition of existing facilities, grading, and infrastructure associated with 84 acres (known as the West Aircraft Maintenance Area) located west of the Aviation Support area and south of the remote gates. This project is estimated to cost $100.7 million, of which $57.2 million is planned to be funded with the net proceeds from the sale of the Series 2016A Subordinate Bonds.

FINANCIAL PERFORMANCE

The Department accounts for the Airport's financial performance according to generally accepted accounting principles for governmental entities and the requirements of the Senior Indenture and Subordinate Indenture (collectively, the Indentures). Department management makes business and financial decisions in the context of its obligations under the Indentures, among other factors.

Pledged Revenues

Under the Senior Indenture, Pledged Revenues include substantially all rentals, fees, and charges associated with the Airport, but do not include passenger facility charge (PFC) revenues, customer facility charge (CFC) revenues, and certain other revenues. Major sources of Pledged Revenues in FY 2015 are shown on Figure 1. Airline revenues from terminal rentals, landing fees, and apron fees accounted for 50.0% of Pledged Revenues in FY 2015; the second largest source of Pledged Revenues was concession revenues, followed by aviation revenues (other than airline revenues), miscellaneous revenues, investment earnings, and Airport sales and services.

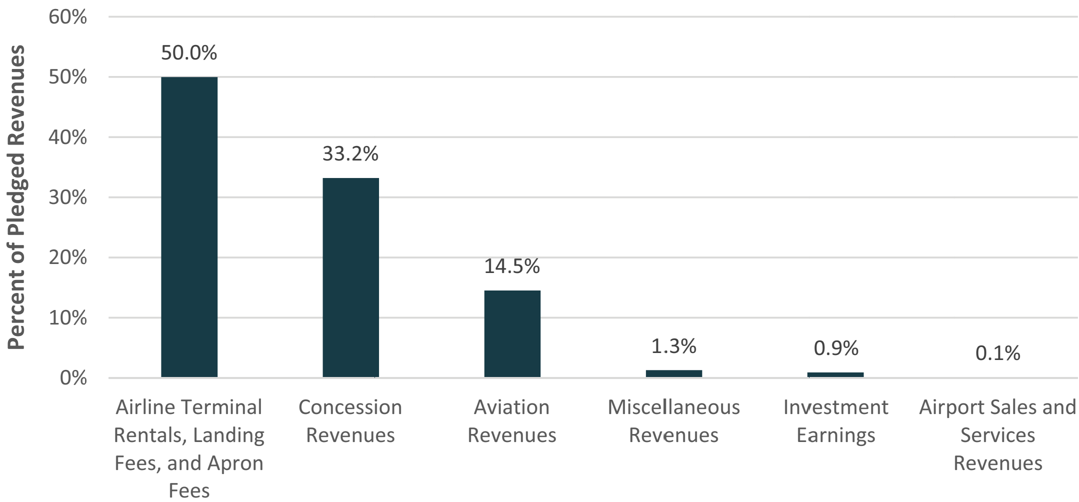
Airline terminal rentals, landing fees, and apron fees are calculated on the basis of: (1) the number of gates and square footage used or leased by the airlines serving the Airport, as well as their number of enplaned passengers and amount of landed weight and (2) the rentals, rates, fees, and charges in effect each year, as calculated by the Department pursuant to the Operating Permits, Passenger Terminal Tariffs, and Terminal Rate Agreements.

Concession revenues include, but are not limited to, public parking fees, rental car privilege fees, and terminal concessions, and are a function of the business strategies and practices developed and implemented by Department management, the terms and conditions of

Mr. Sean O. Burton
May 4, 2016

agreements with the entities providing those services, and the number of passengers enplaned at the Airport each year.

Figure 1
MAJOR SOURCES OF PLEDGED REVENUES IN FY 2015
Los Angeles International Airport



Source: Department records.

Aviation revenues include land rentals, aircraft parking fees, fuel flowage fees, and other miscellaneous revenues.

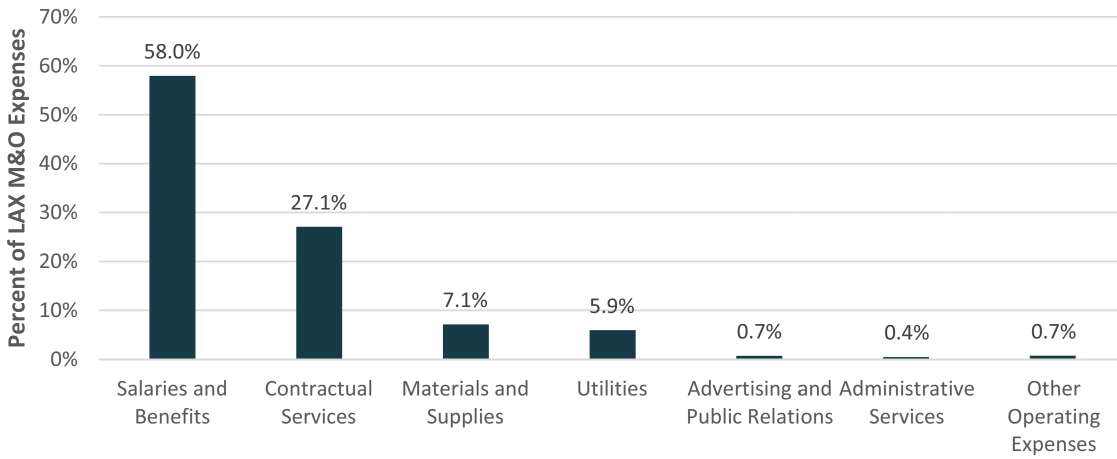
All other sources of Pledged Revenues shown on Figure 1 include (1) miscellaneous revenues, (2) investment earnings generated by the Department based on its policy regarding the investment of unencumbered funds, and (3) revenues earned from the sale of services to Airport customers. A further description of these revenue categories is provided later in this Report.

Pledged Revenues totaled approximately $1.1 billion in FY 2015, and are forecast to increase to approximately $1.9 billion in FY 2022, an average increase of 8.6% per year.

LAX Maintenance and Operation Expenses

Under the Indentures, LAX M&O Expenses are defined as substantially all of the day-to-day expenses of operating LAX under generally accepted accounting principles, but excluding depreciation and expenses paid from sources other than Pledged Revenues. Major categories of LAX M&O Expenses reflecting actual FY 2015 results are shown on Figure 2. Approximately 92.2% of actual FY 2015 LAX M&O Expenses are in the following categories: salaries and benefits, contractual services, and materials and supplies. The remaining 7.8% of LAX M&O Expenses include utilities, advertising and public relations, administrative services, and other expenses.

Figure 2
MAJOR CATEGORIES OF LAX M&O EXPENSES IN FY 2015
Los Angeles International Airport



Source: Department records.

LAX M&O Expenses totaled approximately $645.1 million in FY 2015, after subtracting administrative costs allocated to other airports that are not included in the definition of LAX M&O Expenses. LAX M&O Expenses are forecast to increase from approximately $645.1 million in FY 2015 to approximately $977.1 million in FY 2022, an average of 6.1% per year.

Debt Service

In FY 2015, total debt service on Senior Bonds (net of capitalized interest) was approximately $201.0 million. The Department used approximately $91.0 million of PFC revenues to pay Senior Debt Service in FY 2015, resulting in Senior Aggregate Annual Debt Service of approximately $110.0 million. Under the Senior Indenture, principal of and interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service for purposes of calculating the Senior Rate Covenant. As such, the use of PFC revenues to pay Senior Debt Service reduces the amount of debt service that would otherwise be paid from Net Pledged Revenues.

In FY 2015, Subordinate Aggregate Annual Debt Service (including debt service on the Subordinate Bonds and the Subordinate Commercial Paper Notes) was approximately $55.0 million.

Estimated debt service for the Series 2016A Subordinate Bonds and Future Bonds was provided by Public Resources Advisory Group (the Department's co-financial advisor). Subordinate Aggregate Annual Debt Service (net of capitalized interest) is estimated to increase from $61.8 million in FY 2016 to $97.1 million in FY 2022, largely as a result of bonds the Department expects to issue to fund the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects. The forecast of Subordinate Aggregate Annual Debt Service assumes that no PFC revenues are used to pay debt service on Subordinate Obligations during the Forecast Period.

Senior Aggregate Annual Debt Service is estimated to increase from $95.5 million in FY 2016 to $273.9 million in FY 2022. Increases in Senior Debt Service and Subordinate Debt Service are attributable to (1) the overall structure of outstanding Senior Bonds and Subordinate Obligations and (2) the additional debt service associated with the Series 2016A Subordinate Bonds and Future Bonds. The forecast of Senior Aggregate Annual Debt Service assumes that between $117.9 million and $189.4 million of annual PFC revenues will be used each Fiscal Year to pay Senior Bond debt service. The actual amount of PFC revenues the Department uses to pay debt service during the Forecast Period may vary from year-to-year.

DEBT SERVICE COVERAGE

Senior Bonds are secured by a pledge of Net Pledged Revenues and by certain funds and accounts held by the Senior Trustee. As defined in the Senior Indenture, Net Pledged Revenues equal Pledged Revenues less LAX M&O Expenses.

Subordinate Obligations are secured by a pledge of Subordinate Pledged Revenues and certain other funds and accounts held by the Subordinate Trustee. Under the Subordinate Indenture, Subordinate Pledged Revenues are defined as Pledged Revenues less LAX M&O Expenses less Senior Aggregate Annual Debt Service less any deposits to the senior debt service reserve fund(s). Under the Subordinate Indenture, the Department has covenanted (the Subordinate Rate Covenant) to establish, fix, prescribe, and collect rates, tolls, fees, rentals, and charges for use of the Airport so that, in each Fiscal Year:

- Subordinate Pledged Revenues are at least equal to the amount of required deposits to various funds and accounts during such Fiscal Year, and
- Subordinate Pledged Revenues, together with any Transfer, are equal to at least 115% of the Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations.

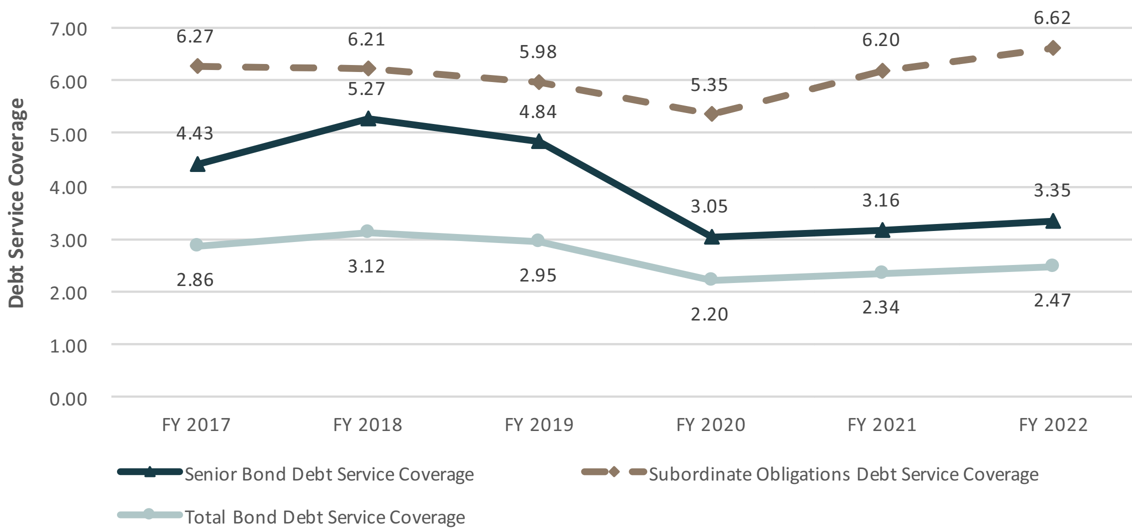
In the Subordinate Indenture, any “Transfer” from the LAX Revenue Account to the Subordinate Debt Service Fund for purposes of meeting the Subordinate Rate Covenant shall not exceed 15% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations. No Transfers were assumed in the Report for the purposes of calculating debt service coverage ratios.

As shown on Figure 3, Subordinate Obligations debt service coverage in each Fiscal Year of the Forecast Period demonstrates compliance with the Subordinate Rate Covenant of 115% of Subordinate Aggregate Annual Debt Service, including the Series 2016A Subordinate Bonds and Future Bonds.

Mr. Sean O. Burton
May 4, 2016

In addition to its Subordinate Obligations, the Department has issued Senior Bonds under the Senior Indenture. The Senior Indenture requires a 125% coverage ratio on senior obligations. As shown on Figure 3, Senior Bond debt service coverage in each Fiscal Year of the Forecast Period exceeds the 125% coverage requirement.

Figure 3
FORECAST DEBT SERVICE COVERAGE
Los Angeles International Airport



Notes: Includes debt service on Senior Bonds, existing Subordinate Obligations, and estimated debt service on the Series 2016A Subordinate Bonds and Future Bonds. Debt service is net of capitalized interest, if any. Debt service coverage on Subordinate Obligations is higher than debt service coverage on Senior Bonds as a result of, among other reasons, significantly less Subordinate Obligation debt service as compared to Senior Bond debt service.
Source of Debt Service: Public Resources Advisory Group.

ASSUMPTIONS UNDERLYING THE FINANCIAL FORECASTS

The financial forecasts presented in this Report are based on information and assumptions provided by, or reviewed with and agreed to by, Department management. The forecasts reflect management's expected course of action during the Forecast Period and, in management's judgment, present fairly the expected financial results of the Airport. Those key factors and assumptions that are significant to the forecasts are set forth in the attachment, "Background, Assumptions, and Rationale for the Financial Forecasts." The attachment should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

In our opinion, the underlying assumptions provide a reasonable basis for the forecasts.

However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, there will be differences between the forecast and actual results, and those differences could be material. Neither WJ Advisors LLC nor any person acting on our behalf makes any warranty, express or implied, with respect to the information, assumptions, forecasts, opinions, or conclusions disclosed in this Report. We have no responsibility to update this Report for events and circumstances occurring after the date of the Report.

We appreciate the opportunity to serve as the Department's Airport Consultant in connection with this proposed financing.

Respectfully submitted,

WJ Advisors LLC

WJ Advisors LLC

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BACKGROUND, ASSUMPTIONS, AND RATIONALE
FOR THE FINANCIAL FORECASTS

Department of Airports, City of Los Angeles

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OVERVIEW OF AIRPORT ROLE

Los Angeles International Airport has an important role in the national, State of California, and local air transportation systems and was the third busiest airport in the United States in terms of total (enplaned and deplaned) passengers in 2015. The Airport is one of six commercial service airports in the greater Los Angeles area and has the most international airline service and connecting passengers in the area.

Large Origin-Destination Passenger Base

The Airport's large O&D passenger base is related to the population of the region served by the Airport, the strength of the local economy, and the attractiveness of the Los Angeles Combined Statistical Area (CSA, defined below), the primary geographic area served by the Airport, as a tourist destination. In FY 2015, an estimated 18.7 million domestic originating passengers enplaned at the Airport, making Los Angeles International Airport the busiest O&D passenger market in the United States (U.S.).

The Los Angeles CSA includes Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties (the Los Angeles Consolidated Statistical Area or Los Angeles CSA). As shown in Table 1, the population of the Los Angeles CSA was approximately 18.7 million in 2015, accounting for approximately 48% of California's total population in 2015. Los Angeles County includes the City of Los Angeles and accounts for about 54.1% of the population of the Los Angeles CSA.

Because economic growth and activity in this area stimulate a significant portion of passenger demand at the Airport, statistics for the Los Angeles CSA were used to evaluate airline traffic trends at the Airport.

Primary Commercial Service Airport in the Los Angeles CSA

As shown on Figure 4, the Los Angeles CSA is served by six airports with scheduled airline service, including the Airport, which is defined as a large-hub airport[1]. The Airport accounts for the majority of short-haul domestic airline service in the CSA, dominates medium- and long-haul domestic service, and is the primary international gateway in Southern California. In FY 2015, the number of enplaned passengers at the Airport accounted for approximately 76% of all enplaned passengers at the six airports in the Los Angeles CSA. The airports in Burbank, Orange County, and Ontario are considered medium-hub airports; the airports in Long Beach and Palm Springs are considered small-hub airports.

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[1] The Federal Aviation Administration (FAA) definition of large-, medium-, and small hub airports are available at the following link: http://www.faa.gov/airports/planning_capacity/passenger_allcargo_stats/categories/.

Table 1
POPULATION OF SOUTHERN CALIFORNIA IN 2015

Area	Population	Percent of total	Percent of Area
Los Angeles CSA			
Los Angeles	10,116,562	42.6%	54.1%
Orange	3,177,611	13.4	17.0
Riverside	2,382,009	10.0	12.7
San Bernardino	2,151,878	9.1	11.5
Ventura	856,618	3.6	4.6
Subtotal—Los Angeles CSA	18,684,678	78.7%	100.0%
Surrounding Counties			
San Diego	3,274,961	13.8%	64.7%
Kern	882,992	3.7	17.4
Santa Barbara	443,393	1.9	8.8
San Luis Obispo	284,035	1.2	5.6
Imperial	180,046	0.8	3.6
Subtotal—Surrounding Counties	5,065,427	21.3	100.0%
Total Southern California	23,750,105	100.0%	

Source: Woods & Poole Economics, Inc., 2015 Complete Economic and Demographic Data Source (CEDDS).
Prepared by Partners for Economic Solutions, March 2016.

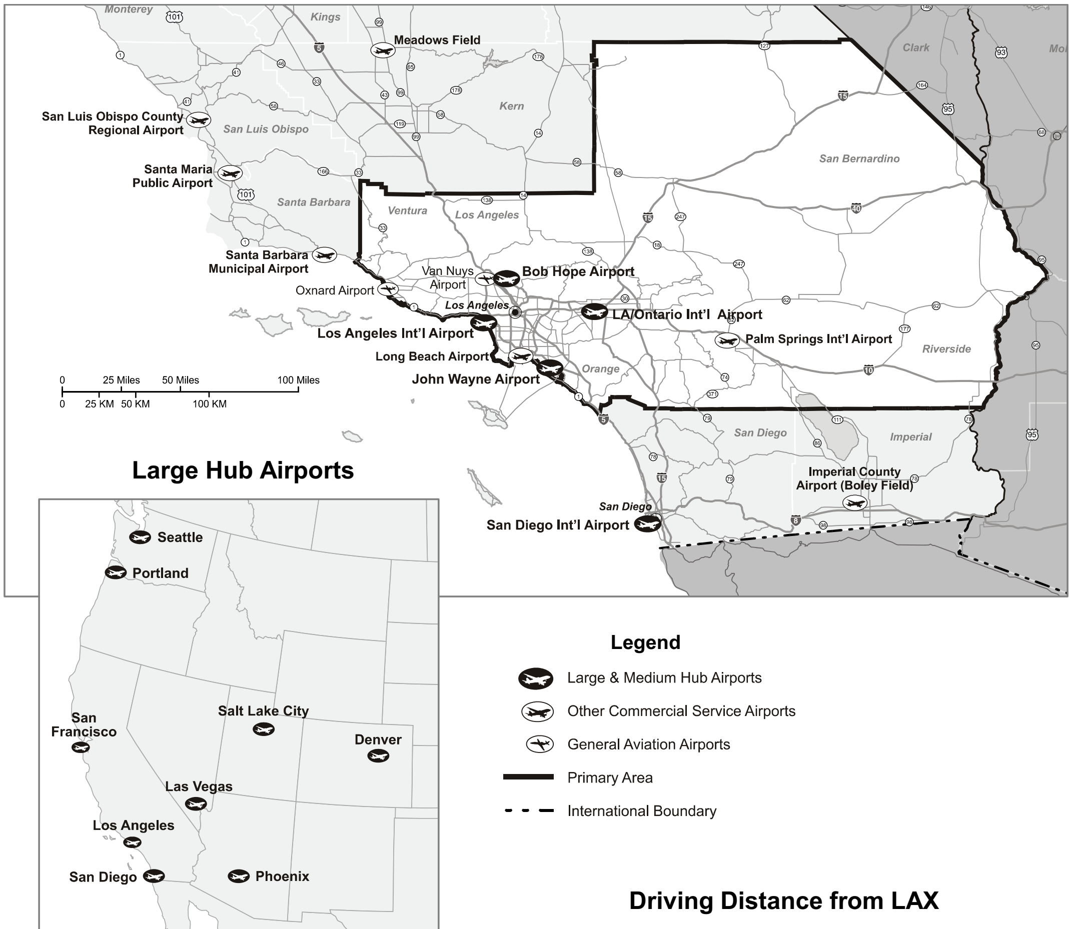
Each airport provides short- and medium-haul domestic airline service and draws passengers largely from its closest surrounding geographical area. Los Angeles International Airport primarily provides longer haul domestic service and international service from the Los Angeles CSA and Southern California.

Van Nuys Airport is the busiest general aviation (GA) airport in California as measured by the number of aircraft operations, with approximately 238,624 GA operations in 2015. Van Nuys Airport is part of the airport system operated by the Department. Subject to certain conditions, including approval by the FAA, sponsorship, ownership and control of LA/ONT may be transferred to Ontario International Airport Authority, a joint powers authority of the County of San Bernardino and the City of Ontario.

The Airport also serves a large secondary area consisting of counties surrounding the Los Angeles CSA. The secondary area, shown lightly shaded on Figure 4, is served by seven airports with scheduled airline service, including San Diego International Airport, a large hub airport with considerable domestic airline service and limited international service. Other airports in the secondary service area, including airports in San Luis Obispo, Santa Barbara, Santa Maria and Imperial Counties, provide limited scheduled domestic service, including service to the Airport.

Figure 4

AIRPORT SERVICE REGION



Note: Hub designation based on FAA's Enplanements at All Commercial Service Airports (by rank), CY 2014.

Driving Distance from LAX

Destination Name	Airport Code	Miles from LAX	Drive Time from LAX
Long Beach	LGB	22.6	29m
Los Angeles Van Nuys	VNY	22.7	33m
Burbank	BUR	27.9	41m
Orange County	SNA	41.8	43m
Ontario	ONT	56.5	59m
Oxnard	OXR	66.5	1h 13m
Santa Barbara	SBA	106.0	1h 45m
San Diego	SAN	125.0	1h 57m
Bakersfield	BFL	122.0	1h 58m
Palm Springs	PSP	124.0	2h 01m
Santa Maria	SMX	157.0	2h 37m
San Luis Obispo	SBP	186.0	3h 03m
Imperial	IPL	223.0	3h 29m

Note: "Drive time" is reported above with no traffic. Times will likely vary based off current traffic flows.

Source: Google Maps

International Gateway

In FY 2015, the Airport was the third busiest international gateway in the United States, with approximately 9.3 million international revenue enplaned passengers. John F. Kennedy International Airport, which had 14.0 million international revenue enplaned passengers in FY 2015, was the busiest international gateway in the United States, followed by Miami International Airport, which had 10.2 million international revenue enplaned passengers in FY 2015.

After the Airport, other international gateway airports ranked by numbers of international revenue enplaned passengers in FY 2015 were Newark Liberty International Airport (5.8 million), Chicago O'Hare International Airport (5.7 million), Hartsfield-Jackson Atlanta International Airport (5.3 million), San Francisco International Airport (5.1 million), Bush Intercontinental Airport/Houston (4.9 million), Dallas Fort Worth International Airport (3.6 million), and Washington Dulles International Airport (3.5 million). As can be seen by the numbers above, the Airport was almost 60% busier than the fourth busiest international gateway airport (Newark Liberty) in the United States in FY 2015.

The international markets for the Airport in FY 2015 as measured by the number of international revenue enplaned passengers were as follows: Asia (27.2%), Europe (20.1%), Mexico (16.3%), the Pacific (13.6%), Canada (11.8%), Latin American and the Caribbean (8.0%), and Africa/Middle East (3.0%). Of the 10 busiest international gateway U.S. airports in FY 2015, Los Angeles International Airport served the largest number of international revenue enplaned passengers to Asia and Mexico, and the second largest number of international revenue passengers to Canada.

Many of the airlines serving the Airport have alliances with foreign-flag airlines that provide, among other benefits, seamless service for passengers to markets that may not have otherwise been served by the same domestic airline. Alliances also provide airlines with strategic, marketing, and operational benefits in terms of coordinated flight schedules, the transfer of baggage between airlines, and use of single terminal buildings and passenger ticketing check-in facilities.

The importance of the Airport as an international gateway can be measured by the number of domestic and foreign-flag airlines serving the Airport, as well as the size and market shares of enplaned passengers of the airline alliances. A comparison of FY 2015 enplaned passenger market shares by individual airlines (including regional affiliates) and by airline alliance is provided immediately below. The airlines that are members of each alliance can be found on the respective corporate websites.

	Airline and Regional Affiliate		Airline, Regional Affiliate, and Alliance Partners		
	Number of FY 2015 enplaned passengers	Percent of total	Alliance Name	Number of FY 2015 enplaned passengers	Percent of total
American Airlines	6,799,109	18.8%	**one**world	8,345,562	22.8%
United Airlines	6,225,103	17.2	Star Alliance	8,788,054	24.3
Delta Air Lines	6,020,280	16.7	SkyTeam	7,726,641	21.4
Subtotal	19,044,492	52.7%		24,860,257	68.5%
All other airlines	17,077,276	47.3		11,261,511	31.5
Total	36,121,768	100.0%		36,121,768	100.0%

Source: Department records.

Currently, American Airlines, United Airlines, and Delta Air Lines operate at individual terminal buildings at the Airport. For American Airlines, which operates at Terminal 4, a passenger connector currently being constructed to the Tom Bradley International Terminal (TBIT) will provide a seamless experience for passengers connecting to or arriving on flights from **one**world alliance partners. A similar connector linking Terminal 3, which currently includes airlines such as Allegiant Air, Boutique Air, Frontier, Spirit, Virgin America, and the departures of Virgin Australia, to the TBIT is expected to be constructed, which will provide similar benefits for Terminal 3 passengers.

ECONOMIC BASIS FOR AIRLINE TRAFFIC

The economy of an airport service region is a major factor affecting long-term airline traffic at the airport(s) serving the region. Generally, regions with large populations, an extensive employment base, and increasing levels of per capita personal income will generate strong demand for airline travel. The demographics and economy of the region—as measured by changes in population, employment, and per capita personal income—as well as airline service and airfares are typically the most important factors affecting O&D passenger demand at airport(s) serving the region.

Historical Population, Employment, and Per Capita Personal Income

This section provides an overview of the Los Angeles regional economy, including current conditions and trends, and presents data that indicate that the Airport's service region has an economic base capable of supporting increased demand for airline travel at the Airport during the Forecast Period (through FY 2022).

As stated earlier, the primary geographical region served by the Airport is the Los Angeles CSA, which includes Los Angeles, Orange, Riverside, San Bernardino and Ventura counties.

As shown in Table 2, the Los Angeles CSA, with approximately 18.7 million residents in 2015, is the second-largest of the 166 CSAs in the United States. Only the New York-Newark CSA, with approximately 23.7 million residents, represents a larger market for airline travel.

Table 2
10 LARGEST COMBINED STATISTICAL AREAS IN THE UNITED STATES
2015

Rank	Combined Statistical Area	Estimated Population
1	New York-Newark	23,685,550
2	Los Angeles	18,684,678
3	Chicago-Naperville	10,017,808
4	Washington-Baltimore-Arlington	9,658,793
5	San Jose-San Francisco-Oakland	8,587,560
6	Boston-Worcester-Providence	8,122,663
7	Dallas-Fort Worth	7,449,152
8	Philadelphia-Reading-Camden	7,209,530
9	Houston-The Woodlands	6,731,131
10	Miami-Fort Lauderdale-Port St. Lucie	6,605,306

(a) CSA = Combined Statistical Area
Source: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*.

Table 3 presents historical and projected population, nonagricultural employment, and per capita personal income for the Los Angeles CSA, the State of California, and the United States in 1990, 1995, 2000, and 2005 through 2015, and projected socioeconomic data for 2022. Data in Table 3 show that, in 2015, the Los Angeles CSA accounted for 47.9% of California's population and 47.9% of the state's nonagricultural employment.

Table 3

HISTORICAL AND PROJECTED SOCIOECONOMIC DATA, 1990-2022

Los Angeles CSA, State of California, and United States

	Population (thousands)			Nonagricultural employment (thousands)			Per capita personal income (in 2015 dollars)		
Year	Los Angeles CSA	State of California	United States	Los Angeles CSA	State of California	United States	Los Angeles CSA	State of California	United States
Historical									
1990	14,598	29,960	249,623	8,170	16,572	135,178	$35,133	$35,154	$32,043
1995	15,346	31,697	266,278	7,960	16,655	144,808	34,191	35,520	34,036
2000	16,426	33,988	282,162	8,943	18,954	162,254	40,106	44,289	40,601
2005	17,396	35,828	295,517	9,618	20,012	169,902	43,996	46,602	42,924
2006	17,455	36,021	298,380	9,831	20,422	173,545	45,921	48,486	44,414
2007	17,499	36,250	301,231	9,999	20,805	177,222	46,177	49,039	45,234
2008	17,613	36,604	304,094	9,843	20,596	177,012	45,546	48,089	45,074
2009	17,750	36,961	306,772	9,446	19,811	171,611	43,594	45,890	43,454
2010	17,913	37,334	309,326	9,336	19,571	170,399	43,352	45,899	43,579
2011	18,069	37,669	311,583	9,546	19,944	173,640	44,246	47,412	44,852
2012	18,214	38,000	313,914	9,732	20,354	176,223	45,949	49,425	45,986
2013	18,352	38,333	316,129	10,160	21,217	179,649	46,103	49,795	46,023
2014	18,513	38,659	318,699	10,330	21,560	182,510	46,811	50,529	46,749
2015	18,685	39,007	321,449	10,500	21,904	185,379	47,519	51,273	47,473
Projected									
2022	19,999	41,675	342,734	11,666	24,247	204,793	52,525	56,501	52,611
	Annual percent increase (decrease)								
2005-2006	0.3%	0.5%	1.0%	2.2%	2.0%	2.1%	4.4%	4.0%	3.5%
2006-2007	0.3	0.6	1.0	1.7	1.9	2.1	0.6	1.1	1.8
2007-2008	0.7	1.0	1.0	(1.6)	(1.0)	(0.1)	(1.4)	(1.9)	(0.4)
2008-2009	0.8	1.0	0.9	(4.0)	(3.8)	(3.1)	(4.3)	(4.6)	(3.6)
2009-2010	0.9	1.0	0.8	(1.2)	(1.2)	(0.7)	(0.6)	0.0	0.3
2010-2011	0.9	0.9	0.7	2.2	1.9	1.9	2.1	3.3	2.9
2011-2012	0.8	0.9	0.7	1.9	2.1	1.5	3.8	4.2	2.5
2012-2013	0.8	0.9	0.7	4.4	4.2	1.9	0.3	0.7	0.1
2013-2014	0.9	0.9	0.8	1.7	1.6	1.6	1.5	1.5	1.6
2014-2015	0.9	0.9	0.9	1.6	1.6	1.6	1.5	1.5	1.5
	Average annual percent increase (decrease)								
Historical									
1990-2000	1.2%	1.3%	1.2%	0.9%	1.4%	1.8%	1.3%	2.3%	2.4%
2000-2015	0.9	0.9	0.9	1.1	1.0	0.9	1.1	1.0	1.0
Projected									
2015-2022	1.0	0.9	0.9	1.5	1.5	1.4	1.4	1.4	1.5

Note: The Los Angeles CSA includes the Los Angeles Combined Statistical Area consisting of Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties.
Source: Woods & Poole Economics, Inc., *2015 Complete Economic and Demographic Data Source (CEDDS)*.

Population. As shown in Table 3, the average annual growth rate for population in the Los Angeles CSA has historically been comparable to those of California and the United States. Population in the Los Angeles CSA increased an average of 1.2% per year between 1990 and 2000, and an average of 0.9% per year between 2000 and 2015. The Los Angeles CSA projected population for 2015 through 2022 reflects an average annual growth rate of 1.0%, which is slightly higher than the projected rate for the United States as a whole (0.9%).

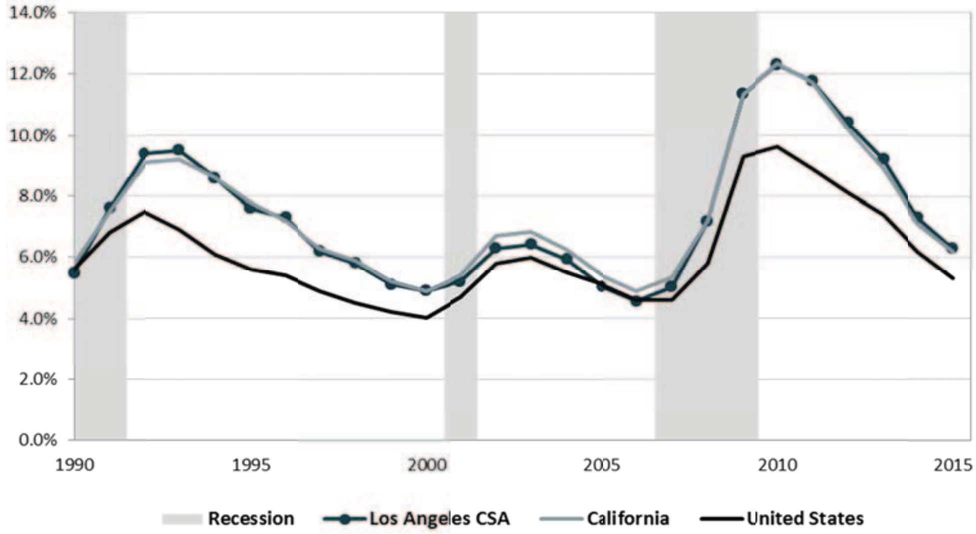
The projected increase in new residents in the Los Angeles CSA (approximately 1,314,000 between 2015 and 2022) is expected to generate additional demand for airline service at the Airport. The U.S. Department of Commerce, Bureau of the Census estimates that net in-migration to the Los Angeles CSA averages approximately 108,000 new residents each year[2]. Continued positive net in-migration to the Los Angeles CSA is expected to contribute to population growth between 2015 and 2022.

Unemployment Rate. The annual unemployment rate in the Los Angeles CSA exceeded that of the United States in each of the past 25 years, except 1990, 2005, and 2006, when the two unemployment rates were generally equal (see Figure 5).

Since 2007, the unemployment rate in the Los Angeles CSA has been higher than that in the United States as a result of labor force growth and lagging job growth in particular industries. The labor force growth rate in the Los Angeles CSA has been higher than the national rate since 2007, but the growth rate in employment has been lower in the Los Angeles CSA than in the nation. Specifically, the job growth rate in construction, manufacturing, retail trade, utilities, management services, and government has been lower in the Los Angeles CSA than in the United States since 2007.

[2] The U.S. Department of Commerce, Bureau of the Census estimates that the Los Angeles CSA has in-migration totaling 489,000 annually and out-migration totaling 381,000 annually, resulting in net annual in-migration of 108,000 new residents; see American Community Survey, http://www.census.gov/acs/www, accessed March 2016.

Figure 5
UNEMPLOYMENT RATES
Los Angeles CSA, State of California, and United States



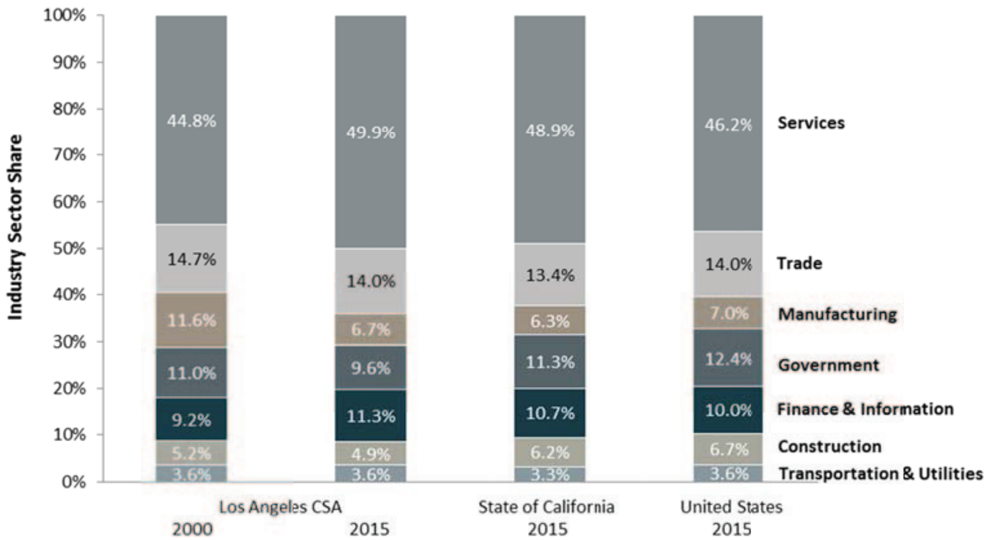
Sources: State of California Employment Development Department, *Labor Market Information*; U.S. Deptment. of Labor, Bureau of Labor Statistics, March 2016.

Nonagricultural Employment by Industry Sector. Figure 6 shows the comparative distribution of nonagricultural employment by industry sector in the Los Angeles CSA in 2000 and 2015, and in California and the United States in 2015. Employment in services (49.9%)—including health, education, professional, business, and other services—and trade (14.0%) accounted for a combined 63.9% of total nonagricultural employment in the Los Angeles CSA in 2015.

Figure 6

COMPARATIVE DISTRIBUTION OF NONAGRICULTURAL EMPLOYMENT BY INDUSTRY SECTOR

Los Angeles CSA, State of California, and United States



Notes: Columns may not total 100% because of rounding.
Source: Woods & Poole Economics, Inc., 2015 Complete Economic and Demographic Data Source (CEDDS).

Major Employers. Table 4 lists the 25 largest private employers in the Los Angeles CSA in 2015. The table reflects the diversity of the companies and industries in the area.

The Los Angeles CSA is the location of headquarters for 20 companies on the list of Fortune 500 firms, which are ranked by annual revenue[3]. These companies operate globally and their activities extend to a network of more than 1,640 overseas offices, manufacturing plants and other facilities[4]. The reliance on face-to-face meetings and conferences of major employers in Fortune 500 headquarters and their suppliers, customers, and partners suggests that the Los Angeles CSA will continue to be a significant source of demand for business airline travel.

Per Capita Personal Income. Historically, per capita personal income (in 2015 dollars) has been consistently lower in the Los Angeles CSA than in California, as shown in Table 3. However, per capita income in the Los Angeles CSA generally equaled that in the United States as a whole from 1990 through 2015.

[3] Fortune 500 2015, http://fortune.com/fortune500/, accessed March 2016.
[4] Uniworld Online, www.uniworldbp.com, accessed March 2016.

Table 4
25 LARGEST PRIVATE EMPLOYERS
Los Angeles CSA

Rank	Company	Industry	Location	Local Employees
1	Northrop Grumman Corp.	Aerospace	Redondo Beach	16,000
2	Bank of America Corp.	Finance	Los Angeles	13,500
3	The Boeing Co.	Aerospace	El Segundo	10,500
4	Walt Disney Co.	Entertainment	Anaheim/Burbank	10,200
5	Wells Fargo	Finance	Los Angeles	10,000
6	United Parcel Service	Transportation	Los Angeles/Ontario	8,984
7	ABM Industries	Facility Services	Commerce	8,400
8	FedEx Corp.	Transportation	Los Angeles	7,600
9	Warner Bros. Entertainment Inc.	Entertainment	Burbank	7,400
10	Raytheon	Aerospace	El Segundo	6,120
11	American Apparel	Apparel	Los Angeles	6,000
12	Amgen	Pharmaceuticals	Thousand Oaks	6,000
13	Universal Services of America	Security Services	Santa Ana	5,960
14	Sony Pictures Entertainment	Entertainment	Culver City	5,700
15	NBCUniversal	Entertainment	Burbank	5,000
16	Paramount Pictures	Entertainment	Hollywood	5,000
17	JP Morgan Chase & Co.	Finance	Los Angeles	4,950
18	Lockheed Martin Corp.	Aerospace	Palmdale	3,800
19	Edwards Lifesciences Corp.	Medical Equipment	Irvine	3,140
20	Allergan Inc.	Pharmaceuticals	Irvine	2,400
21	Broadcom	Semiconductors	Irvine	2,400
22	Toyota Motor Sales U.S.A. Inc. *(a)*	Auto Manufacturer	Torrance	2,140
23	First American Finance Corp.	Title Insurance	Santa Ana	1,980
24	Western Digital Corp.	Computer Equipment	Irvine	1,900
25	Ingram Micro	Semiconductors	Santa Ana	1,000

Note: Excludes retail companies, hospitals, utilities, nonprofits, and government organizations.
(a) Toyota is planning to move this office and its employees to another state over a 3-year period beginning in 2016.
Sources: *Los Angeles Business Journal*, "The Lists 2015;" *Orange County Business Journal*, "2015 Book of Lists."

Real wage and salary income declined in the Los Angeles CSA during the 2007-2009 recession, decreasing 1.4% between 2007-2008, and decreasing 4.3% between 2008-2009. In contrast, population in the Los Angeles CSA's increased nearly 1.0% per year during the recession. Certain factors, including decreasing wage and salary income and increasing population, contributed to the decline in per capita personal income in the Los Angeles CSA between 2007 and 2010.

Data in Table 3 show that, by 2013, per capita personal income in the Los Angeles CSA had nearly reached its pre-recession level of $46,103 in real terms. Projections of per capita personal income in the Los Angeles CSA in 2022 are based on an average annual growth rate of 1.4% between 2015 and 2022. The 2015-2022 growth in total personal income is projected to be partially driven by the growth in earnings for workers in the construction, information, finance, professional and technical services, educational services, and health services industries.

Visitor Activity

Table 5 summarizes visitor data published by the Los Angeles Tourism & Convention Board in 2014 and 2015. Nearly 67% of visitors to Los Angeles County in 2014 and 2015 were overnight visitors. Data in Table 5 show that the majority of overnight visitors to Los Angeles are leisure travelers. However, the highest growth rate in overnight visitors is among international business travelers.

Leisure Travel. Leisure travelers to Los Angeles County accounted for most of the overnight trips (approximately 78.3%). The Los Angeles CSA offers visitors numerous entertainment attractions, cultural institutions, shopping districts, dining selections, recreational options, and scenic parks and vistas. World famous attractions in the Los Angeles CSA include Disneyland, Universal Studios, the Hollywood Walk of Fame, the Getty Center, and many others.

Business Travel. In 2015, visitors traveling to Los Angeles County on business accounted for approximately 21.9% of all overnight trips. Approximately 18% of the 6.6 million business travelers to Los Angeles County in 2015 (1.2 million) were international business travelers. The number of international business travelers to Los Angeles County increased 9.1% between 2014 and 2015, accounting for the highest annual growth rate among overnight visitors to Los Angeles County.

Convention Business. Many business travelers visit the Los Angeles CSA in order to attend conventions and other events. The Los Angeles Convention Center (LACC) is located in downtown Los Angeles and hosts 350 events with 2.0 million visitors annually. The LACC currently has 720,000 square feet of exhibit hall space and 150,000 square feet of meeting room space, for a total of 870,000 square feet. Planned LACC expansion will increase the size of the facility to 1.2 million square feet of exhibit and meeting space. A new 1,000-room hotel to be constructed adjacent to the LACC is also planned. With these improvements, the LACC will be able to attract larger conventions and accommodate multiple, large-scale events.

International Travel. In 2015, Los Angeles County attracted approximately 6.7 million overnight international visitors. Thirty-seven percent these international visitors were from Mexico and Canada, while the majority of international visitors (63.2%) were from overseas. China is home to the most visitors (779,000) from a single country. Viewed on a regional basis, visitors from Australia, Japan, and South Korea—the top three countries in the Asia-Pacific region (excluding China) —accounted for a total of 1,023,000 visitors to Los Angeles County. Similarly, Europe was the second largest regional market, with the top three countries (United Kingdom, France, and Germany) generating 862,000 visitors to Los Angeles County in 2015.

Table 5
2014 AND 2015 VISITOR ACTIVITY
Los Angeles County

	2014	Percent of total	2015	Percent of total	Percent increase/ (decrease) 2014-2015
Overnight visitors	29,500,000	66.7%	30,200,000	66.4%	2.4%
Day visitors	14,700,000	33.3	15,300,000	33.6	4.1
Total visitors	44,202,000	100.0%	45,502,000	100.0%	2.9%
Overnight visitors					
Domestic leisure	17,700,000	60.0%	18,100,000	59.9%	2.3%
International leisure	5,400,000	18.3	5,500,000	18.2	1.9
Domestic business	5,300,000	18.0	5,400,000	17.9	1.9
International business	1,100,000	3.7	1,200,000	4.0	9.1
Total overnight visitors	29,500,000	100.0%	30,200,000	100.0%	2.4%
International visitors					
Brazil	128,000	2.0%	127,000	1.9%	(0.8%)
Germany	234,000	3.6	238,000	3.6	1.7
South Korea	252,000	3.9	280,000	4.2	11.1
France	281,000	4.3	282,000	4.2	0.4
Japan	310,000	4.8	319,000	4.8	2.9
United Kingdom	328,000	5.0	342,000	5.1	4.3
Australia	401,000	6.2	424,000	6.3	5.7
Canada	767,000	11.8	736,000	11.0	(4.0)
China (excludes Hong Kong)	686,000	10.6	779,000	11.6	13.6
Other overseas	1,430,000	22.0	1,441,000	21.5	0.8
Mexico	1,683,000	25.8	1,732,000	25.8	2.9
Total international visitors	6,500,000	100.0%	6,700,000	100.0%	2.9%

Source: Los Angeles Tourism & Convention Board, www.discoverlosangeles.com, accessed March 2016.

Economic Outlook

Economic growth in the United States, California, and the Los Angeles CSA influences the demand for passenger and cargo services at the Airport. In addition, growth in airline traffic at the Airport is directly connected to linkages between the Los Angeles CSA economy and global economies. Consequently, economic assumptions that underlie the forecasts of enplaned passengers prepared for this Report were based on a review of global, national, State, and regional economic projections, as well as analyses of historical socioeconomic trends and airline traffic trends.

Global Economy. The number of international visitors to the Los Angeles CSA, the outlook for world gross domestic product (GDP) growth, and growth within global sub-regions provide insight into the future demand for international leisure and business travel. Data in Table 6 show that real global GDP is projected to increase from an annual average of 2.9% between 2010 and 2015 to an annual average of 3.1% in 2016 through 2022. Although China contributed strongly to global economic growth between 2010 and 2015, a slowdown is expected in 2016 through 2022 as China adjusts its economy towards domestic consumption and an expanding services sector. The projection for weak growth in Latin America is mainly a result of falling commodity prices, fiscal deficits, and ongoing recessions in Brazil and Venezuela. Strong economic growth is expected in Africa, the Middle East, Canada, the United States, and Europe from 2016 through 2022, which will partially offset slower economic growth in major emerging markets. As global economic growth continues in 2016 through 2022, demand for business and leisure travel, including airline travel to the Los Angeles CSA, is expected to increase.

Table 6

HISTORICAL AND PROJECTED GLOBAL GROSS DOMESTIC PRODUCT GROWTH RATES

	Average annual real GDP growth	
Region/Country	Historical 2010-2015	Projected 2016-2022
China	8.2%	5.5%
Asia (including China)	5.3	4.5
Africa	3.7	4.6
Middle East	3.6	4.0
Latin America	2.8	2.4
Canada	2.3	2.4
United States	2.2	2.6
Former Soviet Union	2.1	2.4
Europe	1.1	1.8
World	2.9	3.1

Source: U.S Department of Agriculture, Economic Research Service, *International Macroeconomic Data, Projected Real GDP Values*, updated December 19, 2015.

National Economy. Growth in consumer spending and private sector investment is expected to support U.S. GDP growth in 2016 through 2022[5]. Although the national unemployment rate has declined from its peak in 2010, labor force participation and productivity growth have also decreased, thus constraining potential output[6]. A strong U.S. dollar has resulted in downward pressure on export growth and manufacturing activity[7]. Based on these factors, the Federal Reserve is expected to raise interest rates on a gradual basis[8].

Figure 7 presents trends in U.S. GDP (in 2009 dollars) and numbers of enplaned passengers at the Airport and in the nation in 1988 through 2015 (using 1988 as the index year). Trends in passenger traffic in the United States and at the Airport since 1988 have closely correlated with trends in GDP, including decreases during the 1990-1991 and 2007-2009 recessions. From 1988 through 2015, GDP increased an average of 2.4% per year, while the number of enplaned passengers increased at averages of 1.7% per year in the nation and 2.8% per year at the Airport.

During the most recent national recession (2008-2009), the number of passengers enplaned at the Airport decreased 5.5%. In comparison, the number of enplaned passengers in the United States decreased 7.0% between 2008-2009. As the economy recovered, the number of passengers enplaned at the Airport increased 24.5% between 2010 and 2015. National passenger data indicate that the number of enplaned passengers on the scheduled mainline flights of U.S. airlines increased 11.1% between 2010 and 2015.

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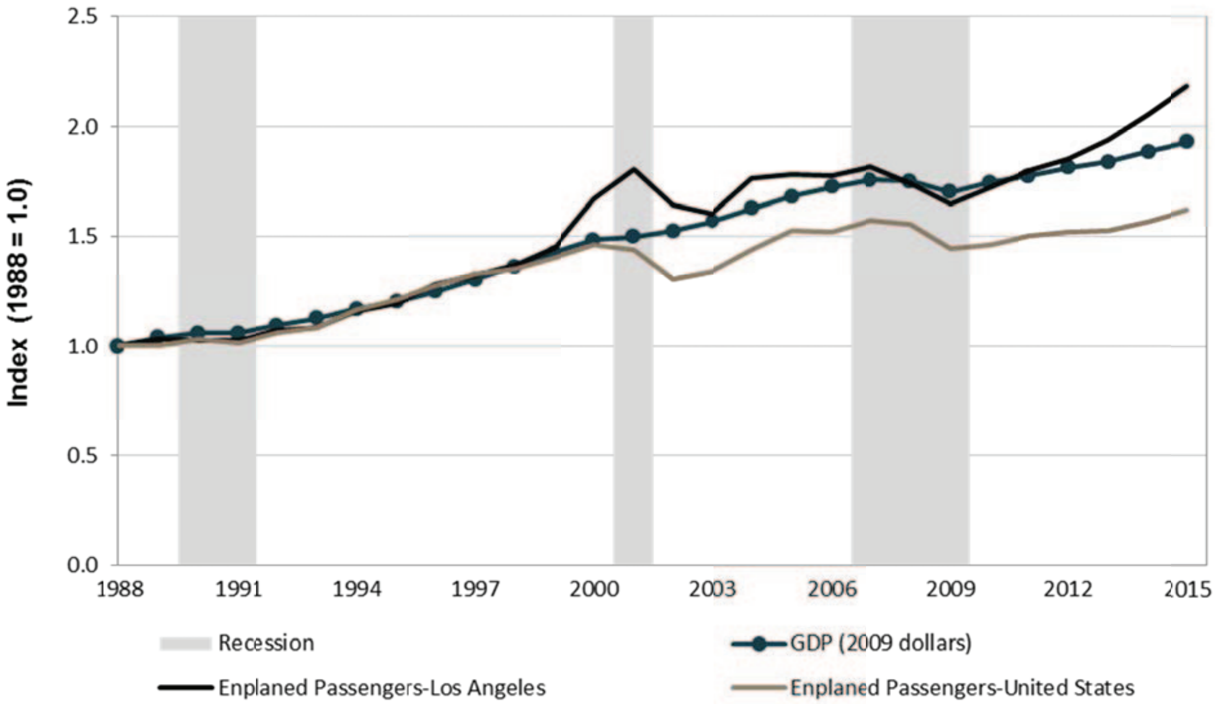
[5] Economic Research, Federal Reserve Bank of St. Louis, 2015-2018 economic projections for personal consumption expenditures, https://research.stlouisfed.org/fred2/release?rid=326; Economic Research, Federal Reserve Bank of St. Louis, 1929-2015 gross private domestic investment, https://research.stlouisfed.org/fred2/series/GPDIA, accessed March 2016.

[6] U.S. Department of Labor, Bureau of Labor Statistics, 1994-2014 civilian labor force participation rates, http://www.bls.gov/emp/ep_table_303.htm; U.S. Department of Labor, Bureau of Labor Statistics, 1990-2015 productivity change in the nonfarm business sector, http://www.bls.gov/lpc/prodybar.htm; Federal Reserve Bank of San Francisco, February 2015 Economic Letter, "The Recent Rise and Fall of Rapid Productivity Growth," http://www.frbsf.org/economic-research/publications/economic-letter/2015/february/economic-growth-information-technology-factor-productivity/, accessed March 2016.

[7] Economic Research, Federal Reserve Bank of St. Louis, 1996-2016 real effective exchange rate for the United States, https://research.stlouisfed.org/fred2/series/RBUSBIS; Federal Reserve Bank of Philadelphia, 2006-2016 Manufacturing Business Outlook Survey, https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2016/bos0216, accessed March 2016.

[8] Board of Governors of the Federal Reserve System, Press Release, 16 December 2015, http://www.federalreserve.gov/newsevents/press/monetary/20151216a.htm, accessed March 2016.

Figure 7
TRENDS IN U.S. GROSS DOMESTIC PRODUCT AND ENPLANED PASSENGERS



Sources: U.S. GDP—U.S. Department of Commerce, Bureau of Economic Analysis, www.bea.gov, accessed March 2016.
LAX enplaned passengers—Airport management records.
U.S. enplaned passengers—U.S. Department of Transportation, Federal Aviation Administration, www.faa.gov, accessed March 2016.

California Economy. California has a diverse and vibrant economy that accounts for 13% of U.S. GDP and ranks as the seventh largest economy globally (between France and Brazil)[9]. Economic growth in California exceeded U.S. GDP growth in 2015 (3.9% vs. 2.4%). In addition, unemployment in California decreased from a peak of 12.4% in 2010 (following the 2008-2009 recession) to 6.2% in 2015, compared with 9.6% and 5.3%, respectively, for the United States. Between 2014 and 2015, California had job gains in major industry sectors, such as professional, scientific, and technical services (74,100 jobs); leisure and hospitality (70,700 jobs); healthcare and social assistance (63,600 jobs); and administrative, support and waste services (48,700 jobs). Combined, these four sectors accounted for 55% of employment gains in California between 2014 and 2015. Continued job growth in these sectors is projected for 2016 and 2017[10].

[9] The World Bank, World Development Indicators, http://data.worldbank.org/data-catalog/GDP-ranking-table, accessed March 2016.
[10] California Employment Development Department, Labor Market Information Division; estimates and forecasts by Los Angeles Economic Development Corporation.; *LAEDC 2016-2017 Economic Forecast and Industry Outlook*, February 2016.

Los Angeles CSA Economy. A recent forecast report from the Los Angeles Economic Development Corporation (LAEDC) shows employment gains in the Los Angeles CSA economy. The LAEDC forecasts employment growth in professional and business services, health care, retail trade, and leisure and hospitality[11].

Economic Growth Factors. Factors expected to contribute to continued economic growth in the Los Angeles CSA and associated increases in airline travel include (1) a diverse economic base that is less vulnerable to a downturn in any particular industry sector, (2) a large population base with growing income, (3) continued growth in the leisure and hospitality industry sectors, and (4) continued public and private sector investment to support tourism, conventions, and general business development.

PASSENGER TRAFFIC AND AIRLINE SERVICE TRENDS

Trends in the numbers of enplaned passengers and airline service at the Airport are discussed in this section. The airlines serving the Airport, airline shares of passengers, top origin-destination markets, and airline fares and yields are also discussed.

Airlines Serving the Airport

Table 7 lists the passenger airlines that served the Airport as of March 2016. A total of 18 U.S. – flag airlines provided scheduled passenger service, including 5 network airlines, 6 regional airlines, and 7 low cost airlines. Scheduled international passenger service was provided by 47 foreign-flag airlines, including 13 Asian airlines, 12 European airlines, 7 Middle Eastern/African airlines, 5 South Pacific airlines, 5 Latin American/Caribbean airlines, 3 Mexican airlines, and 2 Canadian airlines. In addition, 32 airlines provided all-cargo service.

Enplaned Passenger Trends

Table 8 shows domestic and international enplaned passengers at the Airport in FY 2000 through FY 2015. In FY 2015, 36.1 million passengers enplaned at the Airport, which represented an increase of 5.2% compared with the number enplaned in FY 2014 and a historical peak for the Airport. The Airport has experienced strong passenger traffic growth in the past 5 years, recovering from the events of September 11, 2001, and the 2008-2009 national economic and financial crises. Overall, the number of domestic and international passengers enplaned at the Airport increased at average annual rates of 1.8% and 1.4%, respectively, between FY 2005 and FY 2015. In FY 2015, domestic passengers accounted for 72.6% (26.3 million) of total enplaned passengers, while international passengers represented 27.4% (9.9 million) of total enplaned passengers at the Airport.

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[11] Los Angeles Economic Development Corporation., *LAEDC 2016-2017 Economic Forecast and Industry Outlook*, February 2016.

Table 7

PASSENGER AIRLINES SERVING LOS ANGELES

March 2016

U.S.-flag airlines	Foreign-flag airlines		
Network Airlines	***Asia***	***Middle East/Africa***	***Latin America***
Alaska Airlines *(a)*	Air China	El Al Israel Airlines	Avianca/Taca
American Airlines *(b)*	All Nippon Airways	Emirates	Copa
Delta Air Lines	Asiana	Ethiopian Airlines	LAN Peru
Hawaiian Airlines	Cathay Pacific	Etihad Airways	LACSA
United Airlines	China Airlines	Qatar Airways	LATAM
	China Eastern	Saudi Arabian Airlines	
Regional Airlines	China Southern	Turkish Airlines	***Mexico***
Boutique Air	Eva Airways		ABC Aerolineas
Compass *(c)*	Hainan Airlines	***Europe***	Aeromexico
Envoy *(d)*	Japan Airlines	Aeroflot	Volaris
Great Lakes Airlines	Korean Air	Air Berlin	
Mesa *(e)*	Philippine Airlines	Air France	***Canada***
SkyWest *(f)*	Singapore Airlines	Alitalia	Air Canada
		British Airways	WestJet
Low Cost Carriers	***South Pacific***	Iberia	
Allegiant Air	Air New Zealand	KLM Royal Dutch	
Frontier Airlines	Air Tahiti Nui	Lufthansa German	
JetBlue	Air Pacific (Fiji Airways)	Norwegian Air Shuttle	
Southwest *(g)*	Qantas Airways	Swiss	
Spirit Airlines	Virgin Australia	OJSC Transaero Airlines	
Sun Country Airlines		Virgin Atlantic Airways	
Virgin America *(a)*			

Note: Scheduled service shown.

(a) In April 2016, Alaska Airlines and Virgin America reported that they had entered into a merger agreement, which is subject to certain conditions, including any required approvals from the FAA and the U.S. Department of Transportation.

(b) Includes US Airways.

(c) Compass Airlines flies for American and Delta.

(d) Envoy Air flies for American.

(e) Mesa Airlines flies for American.

(f) SkyWest Airlines flies for American, Delta and United.

(g) Includes AirTran Airways.

Source: Department records.

Table 8

HISTORICAL DOMESTIC AND INTERNATIONAL ENPLANED PASSENGERS

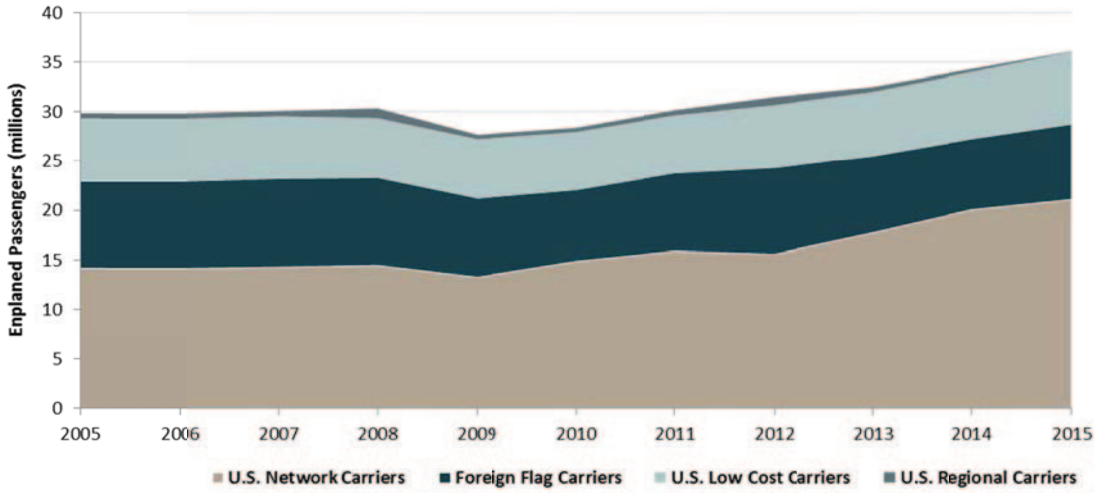
Los Angeles International Airport

	Enplaned passengers			Annual percent increase (decrease)		
Fiscal Year	Domestic	International	Total	Domestic	International	Total
2000	24,880,727	8,350,995	33,231,722	--	--	--
2001	24,958,416	8,834,557	33,792,973	(0.2%)	3.9%	0.9%
2002	20,781,210	7,350,566	28,131,776	(16.7%)	(16.8%)	(16.8%)
2003	20,441,104	7,269,224	27,710,328	(1.6%)	(1.1%)	(1.5%)
2004	21,241,860	7,837,987	29,079,847	3.9%	7.8%	4.9%
2005	22,143,442	8,404,809	30,548,251	4.2%	7.2%	5.0%
2006	22,030,697	8,624,449	30,655,146	(0.5%)	2.6%	0.3%
2007	22,374,333	8,429,137	30,803,470	1.6%	(2.3%)	0.5%
2008	22,427,379	8,714,960	31,142,339	0.2%	3.4%	1.1%
2009	20,662,591	7,666,428	28,329,019	(7.9%)	(12.0%)	(9.0%)
2010	21,127,610	7,875,532	29,003,142	2.3%	2.7%	2.4%
2011	22,151,724	8,128,847	30,280,571	4.8%	3.2%	4.4%
2012	23,019,627	8,497,290	31,516,917	3.9%	4.5%	4.1%
2013	23,855,876	8,668,302	32,524,178	3.6%	2.0%	3.2%
2014	25,016,409	9,316,116	34,332,525	4.9%	7.5%	5.6%
2015	26,237,839	9,883,929	36,121,768	4.9%	6.1%	5.2%
	Average annual percent increase (decrease)					
2000-2005	(2.3%)	(0.1%)	(1.7%)			
2005-2010	(0.9%)	(1.3%)	(1.0%)			
2010-2015	4.4%	4.6%	4.5%			
2005-2015	1.8%	1.4%	1.7%			

Note: For Fiscal Years ended June 30.
Source: Department records.

The allocation of passenger traffic at the Airport by airline type in 2005 through 2015 is shown on Figure 8. U.S. network airlines continue to account for the largest share of enplaned passengers at the Airport. In FY 2015, the U.S. network airlines accounted for 58% of total enplaned passengers, while the foreign-flag airlines and U.S. low cost carriers accounted for 21% and 20% of total enplaned passengers, respectively. In comparison, the U.S. network airlines, foreign flag airlines, and U.S. low cost airlines accounted for 52%, 22%, and 19% of total enplaned passengers, respectively, at the Airport in FY 2005. Since FY 2005, the U.S. regional airlines' share of enplaned passengers at the Airport has decreased from approximately 7% to less than 1%. This decrease reflects a decreased reliance by U.S. network airlines on their regional affiliates that provide service for the network airlines using smaller, regional aircraft.

Figure 8
HISTORICAL ENPLANED PASSENGERS BY AIRLINE TYPE
Los Angeles International Airport



Notes: For Fiscal Years ended June 30; excludes nonscheduled airlines.
Sources: Department records.

Enplaned Passenger Market Shares

Airline service at the Airport is diverse and highly competitive, with no single airline currently accounting for more than 20% of total enplaned passengers. Table 9 presents a comparison of FY 2010 and FY 2015 enplaned passengers at the Airport by airline. Since FY 2010, American Airlines has surpassed United Airlines to become the busiest airline at the Airport in terms of number of enplaned passengers. As shown on Figure 9, American (including legacy airline US Airways and all regional affiliates of both airlines) accounted for 18.8% of total enplaned passengers at the Airport in FY 2015. United and Delta Air Lines followed closely behind, accounting for 17.2% and 16.7%, respectively, of total enplaned passengers at the Airport in FY 2015. U.S. low cost carrier Southwest Airlines (including legacy airlines AirTran Airways) is the fourth busiest airline at the Airport, with 11.7% of total enplaned passengers in FY 2015. Airlines that increased service significantly at the Airport between FY 2010 and FY 2015 include American, Delta, JetBlue Airways, Southwest, Spirit Airlines, and Virgin America. Compared with other U.S. large-hub airports, the Airport has a relatively low amount of airline concentration, reflecting a competitive air service market.

Table 9

ENPLANED PASSENGERS BY AIRLINE

Los Angeles International Airport

	Enplaned passengers		Percent of total	
	FY 2010	FY 2015	FY 2010	FY 2015
U.S.-FLAG AIRLINES				
Network and regional airlines				
American *(a)*	5,216,220	6,758,247	17.9%	18.7%
American Eagle/Envoy	437,705	40,862	1.5	0.1
Subtotal – American	5,653,925	6,799,109	19.5%	18.8%
United	6,478,946	6,225,103	22.3	17.2
Delta	3,336,396	6,020,280	11.5	16.7
Alaska	1,602,294	1,652,816	5.5	4.6
Hawaiian	186,449	422,871	0.6	1.2
All other	72,516	10,207	0.3	0.0
Subtotal – network and regionals	17,330,526	21,130,386	59.8%	58.5%
Low cost carriers				
Southwest *(b)*	3,690,790	4,230,252	12.7%	11.7%
Virgin America	893,623	1,534,368	3.1	4.2
JetBlue	151,538	570,938	0.5	1.6
Spirit	69,098	510,478	0.2	1.4
All other	432,581	443,410	1.5	1.2
Subtotal – low-cost carriers	5,237,630	7,289,446	18.1%	20.2%
Total – U.S.-flag airlines	22,568,156	28,419,832	77.8%	78.7%
FOREIGN-FLAG AIRLINES				
Qantas	606,970	614,333	2.1%	1.7%
Air Canada	423,146	597,050	1.5	1.7
Aeomexico	204,679	402,416	0.7	1.1
Cathay Pacific	220,936	337,043	0.8	0.9
Air New Zealand	339,760	336,537	1.2	0.9
British Airways	269,204	296,368	0.9	0.8
Korean	352,470	293,193	1.2	0.8
Air France	251,803	288,789	0.9	0.8
Lufthansa	245,944	277,103	0.8	0.8
EVA	239,294	270,524	0.8	0.7
All other	3,280,780	3,988,580	11.3	11.0
Total – foreign-flag airlines	6,434,986	7,701,936	22.2%	21.3%
Airport total	29,003,142	36,121,768	100.0%	100.0%

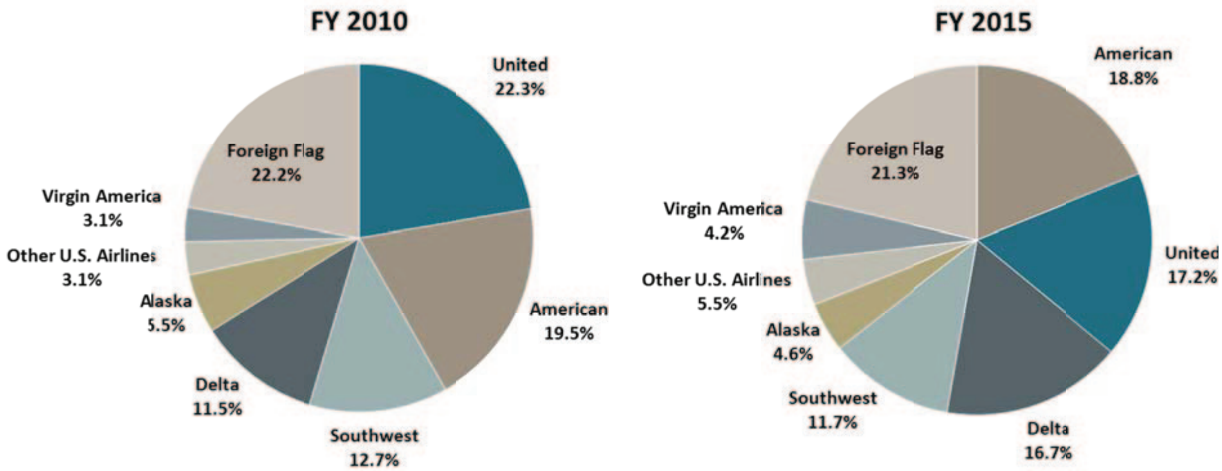
Notes: For Fiscal Years ended June 30. U.S. network airlines include associated regional affiliates. Columns may not add to totals shown because of rounding.

(a) Includes enplaned passengers on US Airways, which merged with American Airlines.

(b) Includes enplaned passengers on AirTran Airways, which merged with Southwest Airlines.

Source: Department records.

Figure 9
AIRLINE MARKET SHARES OF ENPLANED PASSENGERS
Los Angeles International Airport



Notes: For Fiscal Years ended June 30. U.S. network airlines include associated regional affiliates. Totals may not add to 100% because of rounding.
Source: Department records.

Domestic Origin-Destination Market

In FY 2015, the top 20 domestic passenger markets accounted for 69.3% of domestic O&D passengers at the Airport, as shown in Table 10. New York and San Francisco were the top two destination markets for O&D passengers at the Airport, accounting for 11.3% and 9.8% respectively of domestic O&D passengers in FY 2015. Other major markets include Chicago, Washington, D.C., Seattle-Tacoma, and Dallas- Fort Worth. Each of the top 20 domestic markets was served nonstop from the Airport in March 2016, with service provided by four or more airlines to 17 of the top 20 markets.

International Origin-Destination Markets

In FY 2015, the top 20 international passenger markets at the Airport accounted for 50.2% of total international O&D passengers, as shown in Table 11. London was the largest O&D market accounting for 4.9% of total international O&D passengers, followed by Tokyo (3.8%), Seoul (3.8%), Guadalajara (3.5%), and Taipei (3.3%). Each of the top 20 international markets was served nonstop from the Airport in March 2016, with service provided by two or more airlines to 16 of the top 20 markets, as shown in Table 11.

Table 10

DOMESTIC ORIGIN-DESTINATION PATTERNS AND AIRLINE SERVICE, FY 2015

(except as noted)

Los Angeles International Airport

Rank	Market	City code	O&D passengers	Percent of domestic O&D passengers FY 2015	Air Miles from LAX	Average daily scheduled nonstop departures (March 2016)	Number of airlines (March 2016)
1	New York *(a)*	NYC	4,082,640	11.3%	2,457	50	6
2	San Francisco *(b)*	SFO	3,559,960	9.8%	330	55	5
3	Chicago *(c)*	CHI	1,744,940	4.8%	1,743	29	6
4	Washington *(d)*	WAS	1,653,100	4.6%	2,303	17	6
5	Seattle-Tacoma	SEA	1,351,280	3.7%	954	25	4
6	Dallas-Fort Worth *(e)*	DFW	1,282,510	3.5%	1,237	31	6
7	Las Vegas	LAS	1,177,560	3.2%	236	35	6
8	Honolulu	HNL	1,086,370	3.0%	2,551	14	4
9	Denver	DEN	1,081,330	3.0%	860	22	5
10	Boston	BOS	1,081,040	3.0%	2,604	12	5
11	Miami *(f)*	MIA	1,077,460	3.0%	2,337	15	5
12	Atlanta	ATL	918,080	2.5%	1,941	17	4
13	Houston *(g)*	HOU	871,930	2.4%	1,381	20	4
14	Phoenix	PHX	657,570	1.8%	368	28	4
15	Salt Lake City	SLC	621,860	1.7%	588	16	5
16	Minneapolis-St. Paul	MSP	609,400	1.7%	1,532	10	4
17	Portland (Oregon)	PDX	607,940	1.7%	833	13	3
18	Orlando	ORL	606,890	1.7%	2,211	8	5
19	Philadelphia	PHL	584,810	1.6%	2,395	6	1
20	Detroit	DTW	584,150	1.6%	1,973	6	2
	Cities listed		25,240,820	69.7%		429	
	Other cities		10,995,220	30.3%		231	
	All cities		36,236,040	100.0%		660	

Notes: For Fiscal Years ended June 30, 2015. Columns may not add to totals shown because of rounding.

(a) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

(b) San Francisco, Oakland, and Mineta San Jose international airports.

(c) Chicago O'Hare and Chicago Midway International airports.

(d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.

(e) Dallas-Fort Worth International Airport and Love Field.

(f) Miami and Fort Lauderdale Hollywood international airports.

(g) Bush Intercontinental Airport/Houston and William P. Hobby Airport.

Sources: U.S. Department of Transportation, O&D Survey; Official Airline Guides schedules.

Table 11

INTERNATIONAL ORIGIN-DESTINATION PATTERNS AND AIRLINE SERVICE, FY 2015
(except as noted)

Los Angeles International Airport

Rank	Market	City code	Total passengers	Percent of international O&D passengers FY 2015	Air miles from LAX	Average daily scheduled nonstop departures (March 2016)	Number of airlines (March 2016)
1	London *(a)*	LON	891,719	4.9%	5,451	9	6
2	Tokyo *(b)*	TYO	697,056	3.8%	5,455	6	6
3	Seoul *(c)*	SEL	686,222	3.8%	5,996	5	2
4	Guadalajara	GDL	633,513	3.5%	1,307	9	6
5	Taipei *(d)*	TPE	602,692	3.3%	6,785	5	2
6	Mexico City *(e)*	MEX	590,698	3.3%	1,545	9	4
7	Vancouver	YVR	565,172	3.1%	1,080	13	6
8	Shanghai *(f)*	SHA	511,831	2.8%	6,490	5	4
9	Toronto	YTO	448,694	2.5%	2,175	9	2
10	Hong Kong	HKG	407,095	2.2%	7,259	4	1
11	Paris*(g)*	PAR	386,395	2.1%	5,672	3	2
12	Cancun	CUN	368,120	2.0%	2,119	5	3
13	Beijing	BJS	357,226	2.0%	6,251	3	1
14	San Salvador	SAL	348,055	1.9%	2,355	4	2
15	Sydney	SYD	342,483	1.9%	7,271	5	5
16	Manila	MNL	336,866	1.9%	7,305	2	1
17	San Jose Del Cabo	SJD	277,543	1.5%	911	6	3
18	Melbourne	MEL	246,970	1.4%	7,920	2	2
19	Guangzhou	CAN	200,132	1.1%	7,243	2	1
20	Puerto Vallarta	PVR	198,814	1.1%	1,217	3	3
	Cities listed		9,097,296	50.2%		109	
	Other cities		9,024,003	49.8%		43	
	All cities		18,121,299	100.0%		152	

Notes: For Fiscal Years ended June 30. Data are for international O&D passenger bookings. Columns may not add to totals shown because of rounding.
(a) Heathrow, Gatwick, Stanstead, and London City airports.
(b) Haneda and Narita airports.
(c) Incheon and Gimpo airports.
(d) Taoyuan and Sung Shan airports.
(e) Juarez and Toluca airports.
(f) Pudong and Hongqiao airports.
(g) Charles de Gaulle and Orly airports.
Sources: International Air Transport Association; Official Airline Guide schedules.

Airfares

Table 12 provides a comparison of average domestic one-way airfares[12] paid by passengers using the Airport in FY 2015 with the airfares at the four other air carrier airports in the Los Angeles CSA. While the Airport's overall domestic fare for all cities on a weighted average basis is the highest among Los Angeles CSA airports, this higher average fare is primarily driven by the high fares and large traffic volume in the premium Los Angeles–New York O&D passenger market. When comparing fares in other top domestic passenger markets, the Airport's airfares are very competitive. The Airport had the highest airfare among Los Angeles CSA airports for only 2 of its top 20 domestic passenger markets—New York and Philadelphia. The Airport's airfares were lowest among Los Angeles CSA airports to a number of markets, including Dallas/Fort Worth, Honolulu, Houston, and Minneapolis.

The Airport accounted for 75% or more of Los Angeles CSA domestic O&D passengers in each of its top 11 long-haul markets (1,500 miles or more) in FY 2015. This reflects the Airport's role in the Los Angeles CSA of providing service on longer haul domestic trips. The Airport accounted for 43% to 70% of Los Angeles CSA domestic O&D passengers in the top medium-haul markets. In short-haul markets, the Airport accounted for a 37% to 49% share of Los Angeles CSA domestic O&D passengers.

Airline Yields

Recent trends in airline yields (the airfare paid per mile flown) for domestic flights at the Los Angeles CSA airports are shown on Figure 10. Between FY 2010 and FY 2015, domestic airline yields at the Airport and in the nation as a whole increased 19%, compared with larger increases at the other Los Angeles CSA air carrier airports: John Wayne (29%), LA/Ontario International (28%), Bob Hope (35%), and Long Beach (53%). Differences in yield among the Los Angeles CSA airports reflect differences in the average length of passenger trips. For example, the Airport's domestic yields are lower than the yields at the other Los Angeles CSA airports, in part because the average passenger trip length from the Airport is more than 1,600 miles, about 30% longer than the average passenger trip length from the other airports. The Airport's large share of first class and business class domestic fare revenue, particularly in its long-haul markets, offsets the effects of lower yields on longer domestic trips.

[12] The fares that airlines report to the U.S. Department of Transportation (DOT) are exclusive of many ancillary charges (fees for checked baggage and preferred aircraft seating, for example) and may understate the passenger's actual cost of airline travel given the increased implementation of such fees beginning in 2008.

Table 12

COMPARISON OF AIRFARES IN LOS ANGELES' TOP 20 DOMESTIC O&D MARKETS, FY 2015

Los Angeles CSA Air Carrier Airports

							Average one-way domestic airfare paid				
Rank	Market	City code	Total passengers	Air miles from LAX	Length of haul	LAX O&D market percentage	Los Angeles	John Wayne	LA/ Ontario	Bob Hope	Long Beach
1	New York *(a)*	NYC	4,082,640	2,457	Long	87%	$317	$305	$246	$213	$221
2	San Francisco *(b)*	SFO	3,559,960	330	Short	46%	$111	$118	$112	$122	$87
3	Chicago *(c)*	CHI	1,744,940	1,743	Long	76%	$210	$237	$201	$202	$177
4	Washington *(d)*	WAS	1,653,100	2,303	Long	85%	$254	$258	$250	$230	$226
5	Seattle-Tacoma	SEA	1,351,280	954	Medium	49%	$134	$147	$134	$140	$121
6	Dallas-Fort Worth *(e)*	DFW	1,282,510	1,237	Medium	70%	$168	$207	$217	$221	$223
7	Las Vegas	LAS	1,177,560	236	Short	49%	$98	$129	$105	$110	$77
8	Honolulu	HNL	1,086,370	2,551	Long	99%	$258	$322	$367	$328	$345
9	Denver	DEN	1,081,330	860	Medium	54%	$131	$129	$148	$138	$145
10	Boston	BOS	1,081,040	2,604	Long	86%	$256	$274	$256	$254	$230
11	Miami *(f)*	MIA	1,077,460	2,337	Long	92%	$249	$261	$266	$227	$203
12	Atlanta	ATL	918,080	1,941	Long	80%	$240	$277	$239	$226	$225
13	Houston *(g)*	HOU	871,930	1,381	Medium	73%	$187	$218	$222	$217	$194
14	Phoenix	PHX	657,570	368	Short	37%	$122	$127	$125	$119	$122
15	Salt Lake City	SLC	621,860	588	Medium	50%	$118	$154	$157	$150	$105
16	Minneapolis-St. Paul	MSP	609,400	1,532	Long	78%	$195	$269	$223	$219	$222
17	Portland (Oregon)	PDX	607,940	833	Medium	43%	$143	$144	$138	$140	$116
18	Orlando	ORL	606,890	2,211	Long	79%	$244	$243	$236	$252	$176
19	Philadelphia	PHL	584,810	2,395	Long	82%	$279	$267	$271	$250	$248
20	Detroit	DTW	584,150	1,973	Long	83%	$239	$245	$253	$228	$248
	Cities listed		25,240,820			64%	$204	$168	$156	$134	$121
	Other cities		10,995,220			66%	$218	$209	$200	$163	$150
	All cities		36,236,040			65%	$208	$179	$172	$141	$126

Notes: For Fiscal Years ended June 30, 2015. For the purposes of this Report, short-haul flights are 500 miles or less, medium-haul flights are 501 to 1,500 miles, and long haul flights are more than 1,500 miles.

(a) Newark Liberty International, LaGuardia, and John F. Kennedy International airports.

(b) San Francisco, Oakland, and Mineta San Jose international airports.

(c) Chicago O'Hare and Chicago Midway International airports.

(d) Reagan Washington National, Baltimore/Washington International Thurgood Marshall, and Washington Dulles International airports.

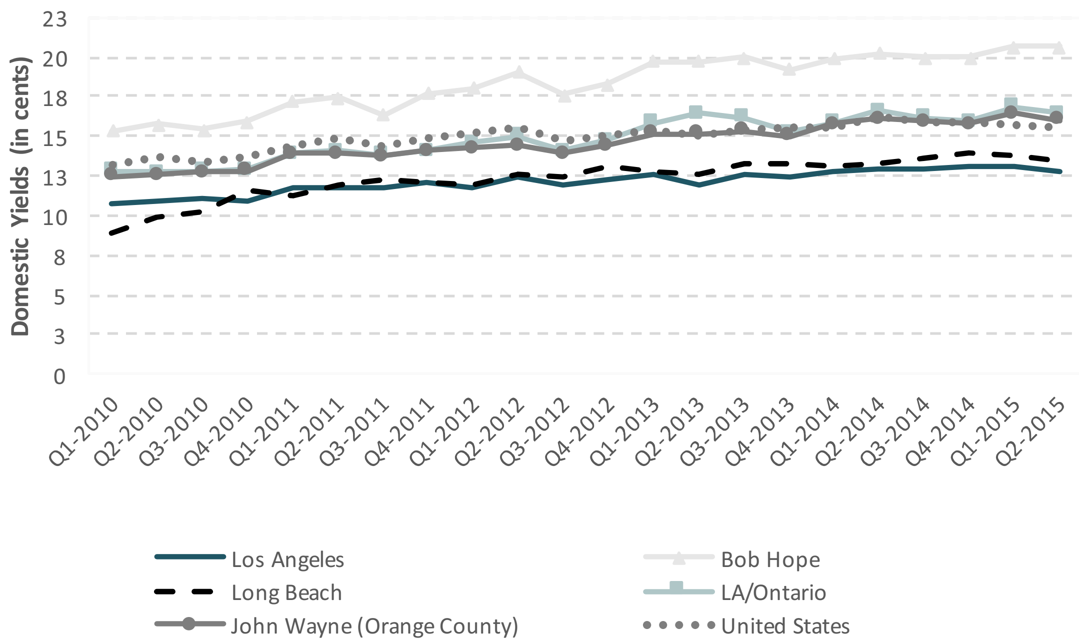
(e) Dallas-Fort Worth International Airport and Love Field.

(f) Miami and Fort Lauderdale Hollywood international airports.

(g) Bush Intercontinental Airport/Houston and William P. Hobby Airport.

Sources: U.S. Department of Transportation, O&D Survey; Official Airline Guides schedules.

Figure 10
AIRLINE YIELDS FOR DOMESTIC FLIGHTS, JANUARY 2010-JUNE 2015
Los Angeles CSA Airports and United States

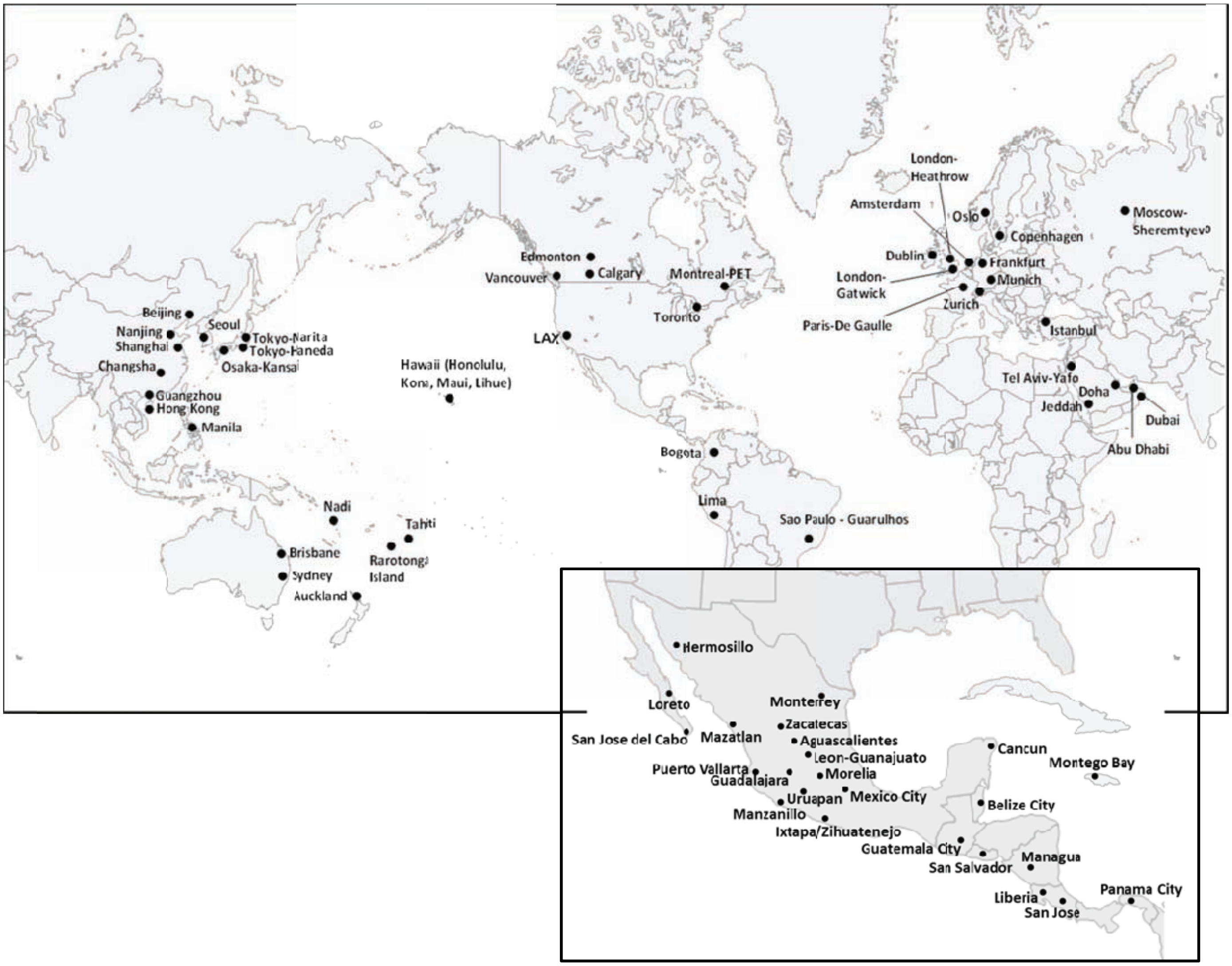


Sources: U.S. Department of Transportation, O&D Survey.

Airline Service

In March 2016, the Airport provided scheduled airline service to 80 domestic destinations and 70 international destinations. On average, 813 daily departures were scheduled, including 662 daily domestic departures and 151 daily international departures. International service was provided to seven international regions—Europe, the Middle East, Asia, the South Pacific, Canada, Mexico and Latin America/the Caribbean—as shown on Figure 11. New international service from the Airport includes American Airlines service to Montego Bay service, Qatar Airways service to Doha, Hainan Airlines service to Changsha, and Philippine Airlines service to Mactan. A number of additional new international routes are expected in 2016, including XL Airways service to Paris (Charles De Gaulle Airport); Thomas Cook service to Manchester, England; and Europe's low cost carrier service on Wow Air service to Reykjavik.

Figure 11
INTERNATIONAL SCHEDULED AIRLINE SERVICE IN MARCH 2016
Los Angeles international Airport

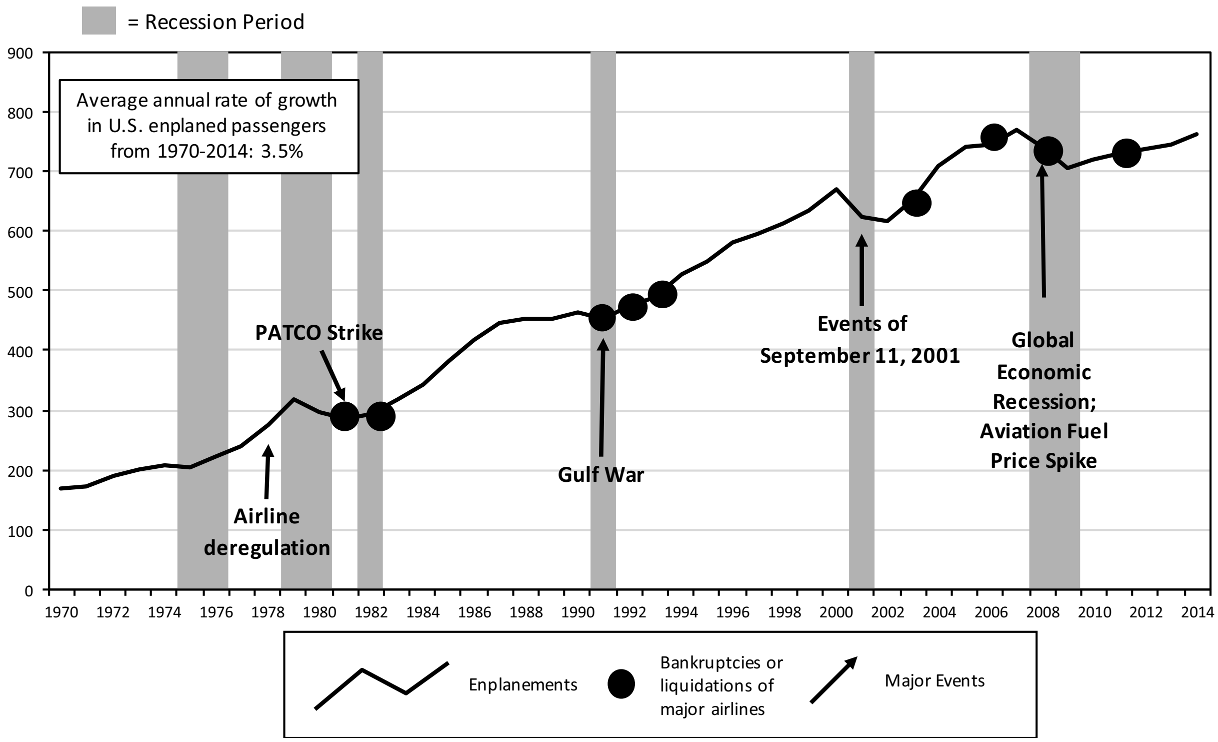


Source: Official Airline Guides schedules.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. As illustrated on Figure 12, recessions in the U.S. economy in 2001 and 2008–2009 contributed to a reduction in airline travel demand in those years, likely the result of high unemployment and reduced discretionary income. However, the aviation industry has recovered from prior recessions and passenger traffic has increased. From 1970 through 2014, the total numbers of domestic and international enplaned passengers in the United States increased an average of 3.5% per year.

Figure 12
U.S. TOTAL ENPLANED PASSENGERS



PATCO = Professional Air Traffic Controllers Organization.
Source: Air Transport Association.

The Airport has consistently rebounded from external shocks and periods of weak demand in aviation activity. After the events of September 11, 2001, similar to other airports across the United States, the Airport was affected by significant seat capacity reductions associated with airline bankruptcy reorganizations and sharply rising fuel prices. The global recession in 2008 and 2009 also resulted in declining airline travel demand and reduced traffic. The number of enplaned passengers at the Airport in each year 2012 through 2015 exceeded the number of enplaned passengers at the Airport during the recession in 2008 and 2009, in part as a result of a strong O&D market and continued growth in numbers of domestic and international passengers.

The major trends that are continuing to affect the airline industry and that are expected to influence airline service and traffic levels at the Airport during the Forecast Period are discussed below.

Airline Consolidation

The events of September 11, 2001, and the difficult operating conditions caused by high fuel prices and global recession led to a number of airline bankruptcies and mergers over the past decade and a half. Between 2002 and 2011, all major U.S. network airlines (US Airways, United

Airlines, Northwest Airlines, Delta Air Lines, and American Airlines) filed for Chapter 11 bankruptcy protection to reorganize and lower operating costs.

The U.S. airline industry has been moving toward consolidation, with many high profile mergers and acquisitions. Mergers among U.S. network airlines have included: Delta and Northwest Airlines (October 2008), United and Continental Airlines (August 2010), and American and US Airways (December 2013). Other mergers included low-cost carrier Frontier Airlines and regional airline Midwest Airlines in April 2010, and Southwest and AirTran in April 2011. In April 2016, Alaska Airlines and Virgin America reported that they had entered into a merger agreement, which is subject to certain conditions, including any required approvals from the FAA and the U.S Department of Transportation. Assuming that the merger occurs, the combined market share of enplaned passengers for both airlines would be 8.8%, making it the fourth largest airline at the Airport in FY 2015.

Airline consolidation has also progressed through the creation of global airline alliances and joint ventures. Airlines worldwide, however, have increasingly sought to increase revenues, share costs, and expand the reach of their networks by developing international partnerships through multilateral alliances or joint ventures. Three major global alliances were created between 1997 and 2000: Star Alliance, SkyTeam, and **one**world. In recent years, antitrust immunity has been granted to a number of joint ventures within the global alliances, allowing airlines to more closely coordinate operations, including pricing, and increase cost savings in international markets.

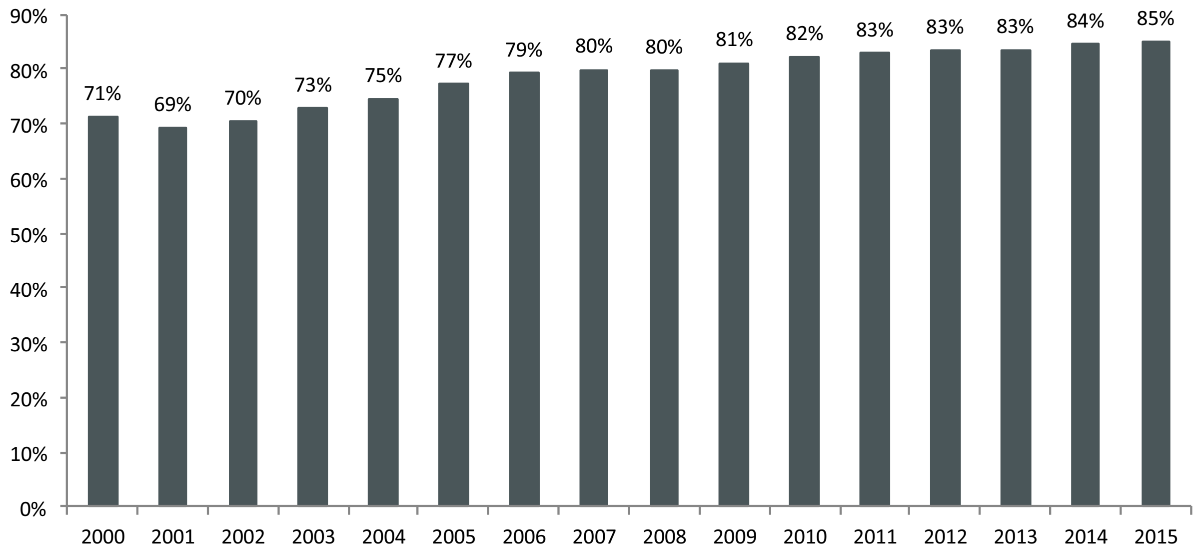
As a result of airline mergers, seat capacity has become more concentrated among fewer airlines. The three largest U.S. network airlines, as measured by numbers of passengers (American, Delta, and United) currently have a strong presence at the Airport. Given the Airport's diverse air service market and strong O&D markets, any future U.S. airline consolidation caused by bankruptcies or mergers is not anticipated to have a detrimental long-term effect on airline service at the Airport.

Airline Capacity Discipline

A new focus on capacity discipline among U.S. airlines emerged from the 2008-2009 national economic and financial crises. Network airlines and low-cost carriers have substantially reduced seat capacity, withdrawing service from less profitable and low passenger demand markets. Many regional markets across the United States have lost commercial service as a result. Airline emphasis has shifted from increasing market share to management of supply-and-demand on specific routes. Airlines are expected to maintain capacity discipline in the near term, emphasizing slower capacity growth and the use of right-sized aircraft to serve their markets.

Seat capacity reductions in the United States in 2008 and 2009, as well as the current airlines emphasis on seat capacity control, have resulted in an all-time high in passenger load factors. Figure 13 shows the continuing upward trend in U.S. domestic airline load factors over the past decade. Average domestic load factors were approximately 71% in 2000. The decline in load factors in 2001 occurred as passenger traffic declined faster than the airlines could reduce capacity in adjusting to the effects of September 11, 2001. From that point forward, load factors rose steadily to approximately 85% in 2015. Continued rising load factors reflect reduced capacity and better revenue management on the part of the airlines.

Figure 13
HISTORICAL DOMESTIC AIRLINE AIRCRAFT LOAD FACTORS



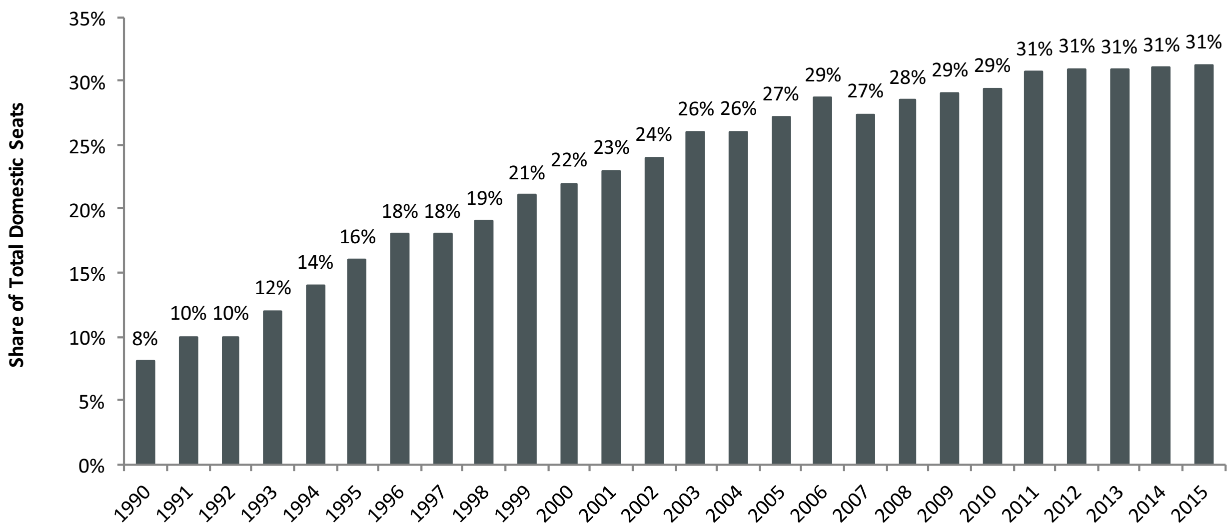
Sources: U.S. Department of Transportation, T100 Onboard Data.

Low Cost Carrier Growth

In the early 2000s, U.S. low cost carriers expanded rapidly and increased their market share of passenger traffic in the United States. Low cost carriers, including JetBlue Airways, AirTran Airways, and Frontier Airlines, popularized the no frills, low cost business model.

As shown on Figure 14, the low-cost carriers provided approximately 8% of domestic seat capacity in 1990. In 2015, the low-cost carriers accounted for approximately 31% percent of overall U.S. domestic seat capacity. While rising fuel prices and the economic downturn forced legacy airlines to reduce domestic seat capacity and focus on more profitable international routes, the low-cost carriers increased their domestic market shares of passengers. Between 2003 and 2009, the low-cost carriers (including Southwest, JetBlue, AirTran, Frontier, Spirit Airlines, Virgin America and Allegiant Air) added approximately 84 billion domestic seat miles to their route systems. In comparison, American, Delta/Northwest, United, and US Airways experienced a 20% average reduction in mainline domestic capacity over the same period for a combined reduction of 85 billion domestic seats miles.

Figure 14
LOW-COST CARRIER SHARE OF TOTAL DOMESTIC AIRLINE SEATS



Sources: Official Airline Guides schedules; Innovata.

The rapid growth of the low-cost carriers over the past decade was helped by the lower unit cost advantage the low-cost carriers maintained over the legacy airlines because of differences in network structure, overhead cost, and crew seniority between the two airline groups. In more recent years, there have been fewer distinctions between the low-cost carriers and the legacy airlines. The lowering of legacy airline cost structures and consolidation of airline networks has allowed the legacy airlines to compete more effectively with the low-cost carriers.

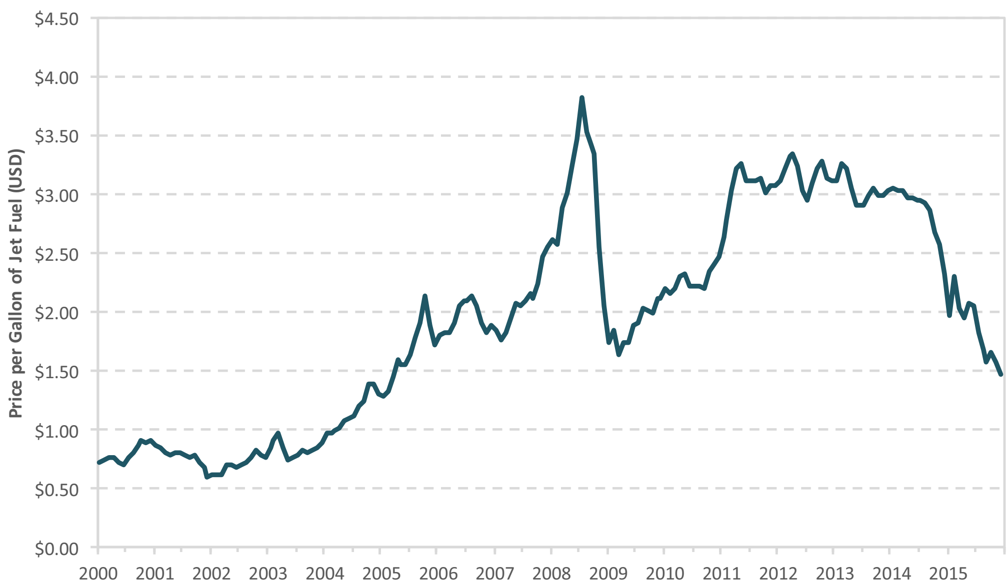
The low-cost carriers have also begun to actively analyze international expansion possibilities. JetBlue has built a strong presence in the Caribbean and Latin America, adding service to 31 markets. With the acquisition of AirTran, Southwest is now serving AirTran's Caribbean and Mexican routes, becoming positioned for further international expansion.

The low-cost carriers currently account for approximately 27% of domestic seats and 28% of domestic enplaned passengers at the Airport. In recent years, Southwest, Virgin America and JetBlue have all continued to expand domestic service at the Airport. It is expected that the low-cost carriers will continue to increase domestic service at the Airport and also enter international markets in the coming years. Southwest, for example, started nonstop service between the Airport and Liberia, Costa Rica, in April 2016.

Fuel Cost Impacts

The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Figure 15 shows the historical fluctuation in fuel prices since 2000. Beginning in 2003, fuel prices rapidly increased as a result of political unrest in Iraq and other oil-producing countries, as well as other factors influencing the demand for and supply of oil. In 2008, a spike in crude oil prices drove up jet fuel prices to an unprecedented high, forcing many airlines to introduce fuel surcharges. Fuel prices fell sharply in the second half of 2008, but rose again in 2011. Fuel increased to such high levels that it represented the largest operating expense for airlines, accounting for between 30% and 40% of expenses for most airlines in 2011.

Figure 15
HISTORICAL AVIATION FUEL PRICES



Sources: U.S. Department of Transportation, Bureau of Transportation Statisics, Airline Fuel Cost and Consumption (U.S. Carriers - Scheduled), January 2000 - December 2015, www.transtats.btv.gov.

Since mid-2014, average aviation fuel prices have decreased more than 50%, reflecting continued growth in U.S. oil production, strong global supply, and weakening outlooks for growth in the global economy and oil demand. Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term. Continued low fuel prices could result in dramatic changes in the aviation industry, such as lower airline operating costs potentially resulting in lower passenger ticket prices, which would likely result in increased travel demand. Higher profits and the ability to keep older, less fuel efficient aircraft in service may also contribute to seat capacity increasing at a slightly greater rate than currently experienced. Nevertheless, there is widespread agreement that fuel prices will continue to be volatile and are likely to increase over the long term as global energy demand increases in the face of finite and increasingly expensive oil supplies.

Aircraft Trends

Between 2001 and 2007, many airlines transferred a number of less profitable routes to their regional airline partners in order to reduce costs. Trends at the Airport mirrored the national trend, with an increase in the number of regional aircraft operations.

Beginning with the fuel price spike in 2008, airlines began to reduce the number of 50-seat regional jets in their fleets. In 2011, the use of 37-50 seat regional jets that were widely used in the first half of the decade was reduced as feeder aircraft for the network airlines. Airlines such as Delta, United, and American are expected to ground or sell hundreds of these small regional jets in the coming years. In the face of volatile fuel prices, airlines continued to move toward the use of larger, more fuel efficient aircraft. Over the next decade, legacy airlines will continue to upgrade their fleets with new, fuel-efficient aircraft, potentially reducing the fuel efficiency advantage of the low-cost carriers.

The introduction of aircraft with new technology will likely result in new nonstop service around the world. Aircraft such as the next-generation Boeing 777s, the Boeing 787, and the Airbus A350 incorporate new airframe, engine, and wing designs for significant improvements in aircraft range and fuel efficiency. Entering commercial service in 2011, the Boeing 787 "Dreamliner" was the first commercial service aircraft made of lightweight composite carbon fiber material rather than aluminum, allowing for fuel savings of approximately 20% compared with other jets of similar size. Despite delays in production and various initial in-service problems, the Boeing 787 has had incredible success and, according to Boeing, became the fastest-selling aircraft since its launch. The Airbus A350, a long-range twin-engine jetliner made primarily of composite materials, is a rival to the Boeing 787 that entered commercial service in January 2015. These new fuel-efficient aircraft are allowing airlines to profitably serve long-haul routes that were previously uneconomical with the Boeing 777, Boeing 747, Airbus A340 and other older long-range aircraft.

Capacity of the Airport

In addition to any future constraints that may be imposed by the capacity of the national air traffic control system, future growth in airline traffic at the Airport will depend on the capacity of the Airport itself. The LAX Specific Plan Amendment study process identified the use of no more than 153 gates at the Airport through the end of 2015. In the Southern California Association of Governments Regional Transportation Plan, the overall practical capacity of the Airport was defined as a range of 78.9 million to 96.6 million annual passengers. The forecasts in this Report are based on the assumption that, during the Forecast Period, neither available airfield nor terminal capacity, nor demand management initiatives, will constrain traffic growth at the Airport.

AIRLINE TRAFFIC FORECASTS

Forecasts of enplaned passengers and landed weight for the Airport are discussed in this section. The forecasts are based on analyses of historical trends in airline service and traffic at the Airport, historical and projected socioeconomic growth in the Los Angeles CSA, forecast GDP growth for the United States and other world regions, and expected future trends in airline traffic, as discussed in earlier sections. With Los Angeles continuing to grow as a major economic center, the Airport is expected to maintain its role as a leading O&D passenger market and international gateway, attracting additional domestic and international airline service and traffic.

It was assumed that the continued development of airline service at the Airport will not be constrained by the availability of aviation fuel, long-term limitations in airline aircraft fleet capacity, limitations in the capacity of the air traffic control system or the Airport, or government policies or actions that restrict growth.

Underlying Assumptions

Forecasts of annual enplaned passengers and landed weight were developed for FY 2016 through FY 2022, using the following assumptions:

- Actual enplaned passengers and landing weights at the Airport reported through January 2016.
- The U.S. economy will experience sustained GDP growth averaging between 2.0% and 2.5% per year.
- The Los Angeles area economy will continue to be a major center of trade and commerce, resulting in continued population and economic growth.
- The Los Angeles CSA will continue to be a major destination market for U.S. leisure and business travelers and a top global destination market for tourism, meetings, and conventions.
- Industry trends reflecting increased aircraft load factors and the use of larger aircraft will continue.
- The mix of airlines serving the Airport will continue to be diverse and sufficient to accommodate O&D passenger demand at the Airport and in the Los Angeles CSA.
- The percentage of passengers connecting at the Airport will not change materially.
- There will be no major disruption of airline service or airline travel behavior as a result of airline bankruptcies or liquidations, international hostilities, terrorist acts or threats, or public health crises.
- Downward pressure on aviation fuel prices will continue in 2016, with fuel prices returning thereafter to historical levels, but lower than the record prices reached in mid-2008.
- Competition among the airlines serving the Airport will ensure the continued availability of competitive airfares, with no significant increase in airline concentration.

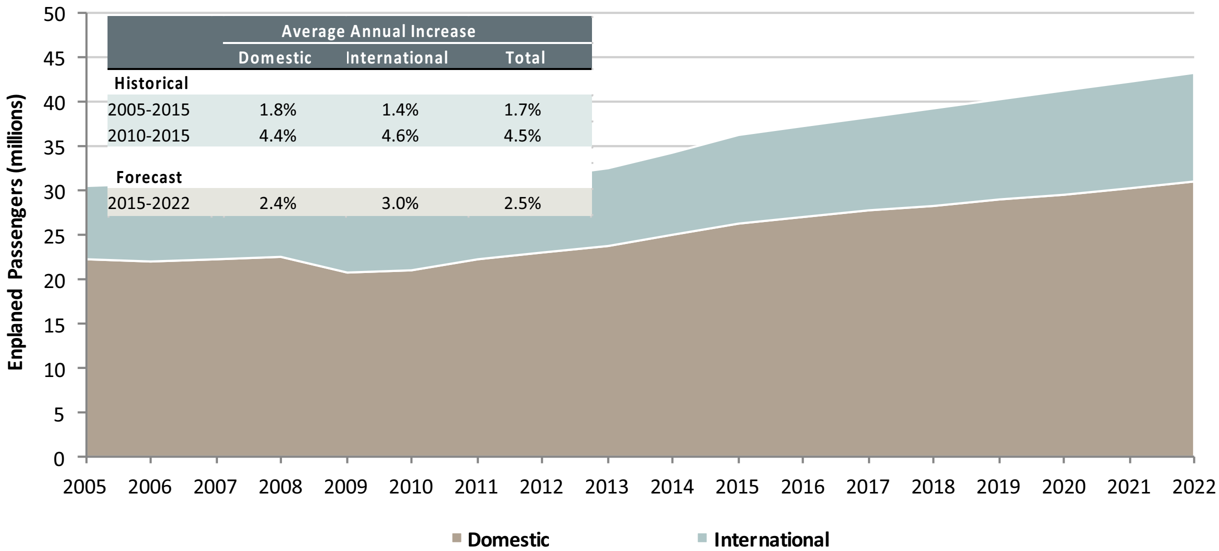
Enplaned Passengers

From FY 2015 through FY 2022, the total number of enplaned passengers at the Airport is forecast to increase an average of 2.5% per year, increasing from approximately 36.1 million to approximately 43.1 million, as shown on Figure 16 and in Table 13. The number of domestic enplaned passengers is forecast to increase an average of 2.4% per year, from approximately

26.2 million in FY 2015 to 30.9 million in FY 2022. The number of international enplaned passengers is forecast to increase an average of 3.0% per year, from approximately 9.9 million in FY 2015 to approximately 12.1 million in FY 2022.

In comparison, the Federal Aviation Administration forecasts an average increase of 2.4% per year in the number of enplaned passengers over the same period in its most recent *Terminal Area Forecast* for the Airport (published January 2016).

Figure 16
HISTORICAL AND FORECAST ENPLANED PASSENGERS
Los Angeles International Airport



Note: For Fiscal Years ending June 30.
Sources: Department records; ICF International.

Landed Weight

From FY 2015 through FY 2022, aircraft landed weight at the Airport is forecast to increase at an average of 1.9% per year, from approximately 55.0 million 1,000-pounds units to approximately 63.0 million 1,000-pound units in FY 2022, as shown in Table 13. The forecast rate of growth in landed weight is lower than the forecast rate of growth for enplaned passengers, reflecting an assumed gradual increase in the enplaned passenger load factors and average aircraft size, in terms of seats, in use at the Airport.

Table 13

AIRLINE TRAFFIC FORECASTS

Los Angeles International Airport

	Historical		Forecast							Average annual growth rate
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2015-FY 2022
ENPLANED PASSENGERS										
Domestic										
Network airlines and regional affiliates	18,312,592	18,977,491	19,381,000	19,738,000	20,050,000	20,362,000	20,675,000	20,989,000	21,301,000	1.7%
Low cost carriers	6,703,817	7,260,348	7,601,000	7,934,000	8,258,000	8,591,000	8,933,000	9,286,000	9,647,000	4.1%
Subtotal domestic	25,016,409	26,237,839	26,982,000	27,672,000	28,308,000	28,953,000	29,608,000	30,275,000	30,948,000	2.4%
International										
Asia	2,682,276	2,667,009	2,780,000	2,895,000	3,020,000	3,147,000	3,270,000	3,380,000	3,477,000	3.9%
Latin America/Caribbean	2,257,489	2,414,862	2,437,000	2,490,000	2,544,000	2,598,000	2,649,000	2,693,000	2,730,000	1.8%
Europe	1,782,040	2,009,311	2,081,000	2,154,000	2,221,000	2,281,000	2,333,000	2,376,000	2,417,000	2.7%
South Pacific	1,253,925	1,349,885	1,373,000	1,394,000	1,414,000	1,435,000	1,455,000	1,474,000	1,493,000	1.4%
Canada	1,072,648	1,143,877	1,167,000	1,198,000	1,228,000	1,254,000	1,279,000	1,304,000	1,327,000	2.1%
Middle East/Africa	267,738	298,985	337,000	383,000	434,000	491,000	556,000	623,000	692,000	12.7%
Subtotal international	9,316,116	9,883,929	10,175,000	10,514,000	10,861,000	11,206,000	11,542,000	11,850,000	12,136,000	3.0%
Total enplaned passengers	34,332,525	36,121,768	37,157,000	38,186,000	39,169,000	40,159,000	41,150,000	42,125,000	43,084,000	2.5%
Annual percent increase		5.2%	2.9%	2.8%	2.6%	2.5%	2.5%	2.4%	2.3%	
LANDED WEIGHT (1,000-POUND UNITS)										
Passenger airlines										
Domestic										
Network airlines and regional affiliates	22,904	23,076	24,000	24,000	24,000	25,000	25,000	25,000	25,000	1.2%
Low cost carriers	8,003	8,442	8,000	9,000	9,000	9,000	10,000	10,000	10,000	2.4%
Subtotal domestic	30,907	31,518	32,000	33,000	33,000	34,000	35,000	35,000	35,000	1.5%
International	15,892	17,124	18,000	18,000	19,000	19,000	20,000	20,000	21,000	3.0%
Total passenger airlines	46,799	48,642	50,000	51,000	52,000	53,000	55,000	55,000	56,000	2.0%
All-cargo airlines	5,845	6,399	6,500	7,000	7,000	7,000	7,000	7,000	7,000	1.3%
Total landed weight	52,644	55,041	57,000	58,000	59,000	60,000	62,000	62,000	63,000	1.9%
Annual percent increase		4.6%	3.6%	1.8%	1.7%	1.7%	3.3%	0.0%	1.6%	

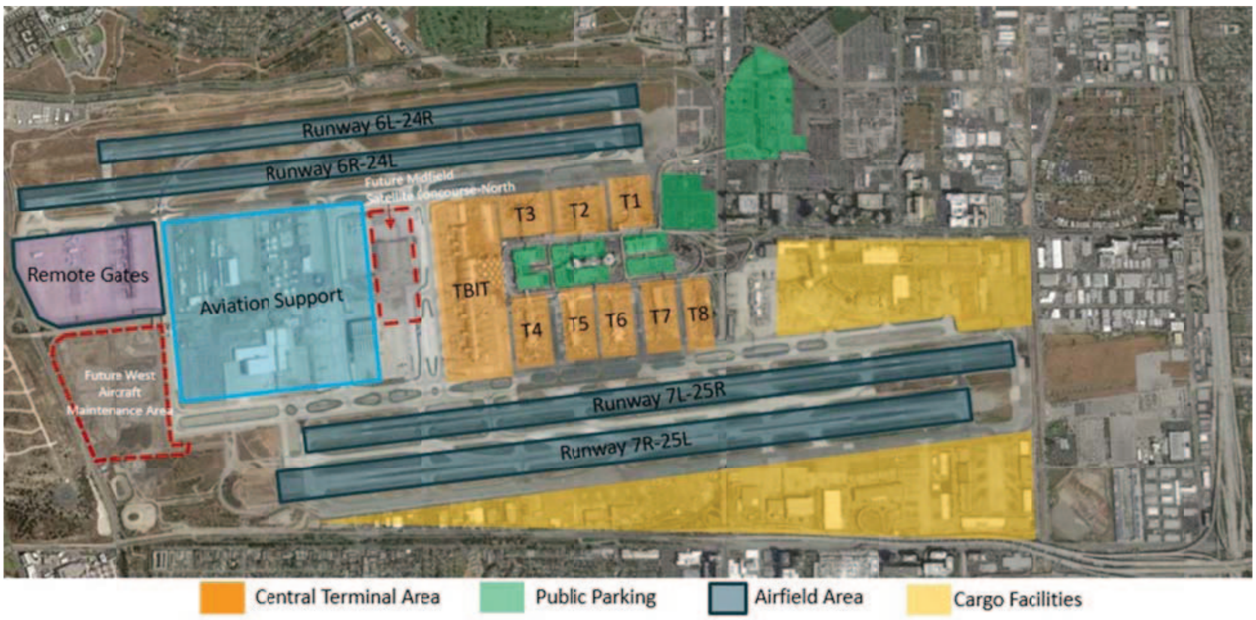
Notes: For Fiscal Years ending June 30. Columns may not add to totals shown because of rounding.
Sources: Historical, Department records. Forecast, ICF International.

AIRPORT FACILITES AND CAPITAL PROGRAM

AIRPORT FACILITIES

Los Angeles International Airport occupies approximately 3,670 acres of land and is located approximately 18 road miles from downtown Los Angeles. The primary facilities of the Airport, as shown on Figure 17, include: nine passenger terminal buildings (collectively, the Central Terminal Area or CTA), public parking facilities, the Airfield Area, the aviation support area, remote gates, and cargo facilities.

Figure 17
LOS ANGELES INTERNATIONAL AIRPORT PRIMARY FACILITIES
Los Angeles International Airport



The CTA is accessed via upper- and lower-level roadways. As shown in Table 14, seven of the nine terminal buildings provide primarily domestic airline service while Terminal 2 and the TBIT primarily accommodate international airline service.

West of the aviation support area are 18 remote gates used by airlines when there are no available gates in the CTA. Passengers are bused to and from the remote gates and certain terminal buildings.

Table 14
AIRPORT TERMINAL BUILDINGS AND GATES
Los Angeles International Airport

Terminal	Primary airlines	Primarily domestic or international	Number of gates	Gross building square footage
1	Southwest	Domestic	13	370,000
2	International airlines	International *(a)*	10	493,000
3	Virgin America	Domestic	12	323,000
4	American	Domestic *(b)*	13	593,000
5	Delta	Domestic *(b)*	13	533,000
6	Alaska	Domestic *(b)*	13	447,000
7	United	Domestic *(b)*	11	556,000
8	United	Domestic	9	146,000
TBIT	International airlines	International	18	2,578,000
	Central Terminal Area		112	6,039,000
	West remote gates		18	
	Commuter gate positions		8	
	Total Airport gates		138	

Note: All information as current as of February 2016.
(a) Primarily international; also serves domestic flights to/from Hawaii.
(b) Primarily domestic with some international flights.
Source: Department records.

Public parking facilities at the Airport include close-in and remote parking, as listed on Table 15:

Table 15
PUBLIC PARKING FACILITIES
Los Angeles International Airport

Public parking facility	Spaces
Close-in parking	
Central Terminal Area garages	8,577
Park One surface lot	2,700
Sub-total	11,277
Remote parking	
Lot C surface lot	5,300
Skyview Center surface lot	2,300
Cell phone waiting surface lot	21
Sub-total	7,621
Airport total	18,898

Source: Department records

As shown on Figure 17 and in Table 16, the Airport has four east-west parallel runways, configured in two pairs. Runways 6L-24R and 6R-24L are located north of the CTA and Runways 7L-25R and 7R-25L are located south of the CTA. Each of the four runways is equipped with an instrument landing system for arrivals. The current runway system can accommodate the arrivals and departures of all commercial aircraft currently in service, including the Airbus A380.

Table 16
LOS ANGELES INTERNATIONAL AIRPORT RUNWAYS

Airfield	Location	Runway Length (feet)	Runway Width (feet)
Runway 6L-24R	North of the CTA	8,926	150
Runway 6R-24L	North of the CTA	10,285	150
Runway 7L-25R	South of the CTA	12,091	150
Runway 7R-25L	South of the CTA	11,095	200

Source: Department records

Cargo facilities are located in two primary areas at the Airport: east of the CTA and south of Runway 7R-24L. These facilities provide more than 2 million square feet of storage and cargo handling space for the all-cargo airlines and for the passenger airlines that provide belly cargo services. Directly west of the CTA is the aviation support area consisting of miscellaneous aircraft maintenance facilities, Department buildings, and Federal Aviation Administration facilities.

CAPITAL PROGRAM

Department management periodically develops and updates its Capital Program for the redevelopment, improvement, and expansion of Airport facilities. The Capital Program is developed based on anticipated facility needs, current and expected airline traffic, available funding sources, and project priorities. For purposes of this Report, the current Capital Program for the Airport is as follows:

- **Series 2016A Subordinate Bonds Projects.** These projects are to be partially funded with the net proceeds of the Series 2016A Subordinate Bonds. The Series 2016A Subordinate Bonds Projects are estimated to cost approximately $1.7 billion ($315.7 million of which is expected to be funded with the Series 2016A Subordinate Bond net proceeds).

- **Other Planned and Incorporated Projects.** These projects are certain enough in terms of scope, timing, and cost to be included in the financial forecasts presented in this Report. Some projects in this category have yet to receive all necessary approvals to proceed (including planning, environmental, or Board of Airport Commissioners approvals). Projects in this category are estimated to cost approximately $4.3 billion ($1.9 billion of which is expected to be funded with the net proceeds of Future Bonds).

The financial forecasts included in this Report reflect changes in Pledged Revenues, LAX M&O Expenses, and Debt Service associated with the financing, construction, and completion of the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects.

The Department is also considering longer-term future projects at the Airport that are not included in the financial forecasts presented in this Report (referred to as Other Projects) because the timing, scope, cost, and/or approvals are too uncertain as of the date of this Report.

The largest component of the Other Projects is the Landside Access and Modernization Program (LAMP), which is expected to include a consolidated rental car facility (ConRAC), an automated people mover (APM) system, and intermodal transit facilities. The Department currently expects that the ConRAC and APM system will ultimately be designed, built, financed, operated, and maintained by third-party operators (the DBFOM approach); these two projects are estimated to be completed by mid-FY 2024. Current cost estimates for the LAMP range from approximately $4.5 billion to $5.5 billion, assuming a traditional delivery and financing approach compared with a DBFOM delivery and financing approach.

Potential sources of funding for LAMP projects may include, but would not be limited to, any combination of the following: (1) federal funds, (2) PFC revenues for PFC-eligible portions of the LAMP under a new PFC application authorized by the FAA, (3) CFC revenues, which are collected by the on-Airport rental car companies on behalf of the Department, (4) the net proceeds of special facility bonds, which would not be included as “Bonds” under the Senior Indenture or the Subordinate Indenture, (5) the issuance of additional Senior or Subordinate Revenue Bonds by the Department, (6) Department funds, and/or (7) funds from developers and/or DBFOM providers.

As stated earlier, PFC revenues and CFC revenues are not included in Pledged Revenues under the Senior Indenture and Subordinate Indenture and are not included in the forecast of Pledged Revenues presented in this Report.

The use of any moneys or combination of moneys from these sources to fund LAMP projects will be determined by the Department, in consideration of any number of factors, including, but not limited to:

- The availability of moneys from such funding sources
- Capital and bond market conditions at the time any such additional bonds are issued
- The proposed capital structure for portions of the LAMP that would be funded by entities providing DBFOM services
- The change in airline costs per enplaned passenger and debt service coverage ratios for the Airport

Series 2016A Subordinate Bonds Projects

As shown in Exhibit A, the Series 2016A Subordinate Bonds Projects are estimated to cost approximately $1.7 billion, and include the projects listed below. As noted below, certain projects are expected to be undertaken and initially funded by the airlines, which would then be acquired and/or reimbursed by the Department. All other project costs are to be funded by the Department.

- **Terminal 1 Improvement Project**: This project consists of the phased reconstruction of substantially all of Terminal 1, including the development of a new centralized 12-lane passenger security screening checkpoint, a new checked baggage inspection system, and redeveloped public areas, hold rooms and gate areas, airline operations space, and adjacent apron areas. Southwest Airlines is providing construction funding and undertaking these improvements, which are to be purchased by the Department in phases when portions of the project are complete and have been included in the annual calculation of the Terminal Buildings Charge. This project is estimated to cost $536.5 million (including $29.2 million to be funded from Series 2016A Subordinate Bond proceeds) and to be completed by FY 2019.

- **Terminal 2 Improvement Project**: This project consists of the phased redevelopment of portions of Terminal 2, including the ticketing lobby, baggage claim areas, baggage screening, concourse areas, and building systems. The Department is funding and undertaking these improvements. This project is estimated to cost $204.9 million (including $27.0 million to be funded from Series 2016A Subordinate Bond proceeds) and to be completed by FY 2018.

- **Terminals 6/7/8 Improvement Project**: This project consists of the phased redevelopment of portions of these terminals, including a new checked baggage screening system; a new baggage sortation system; renovated baggage claim areas; renovated passenger security screening checkpoints; airline office areas; the replacement of passenger boarding bridges; and the construction of a new club room for use by United Airlines premium passengers. United Airlines is providing construction funding and undertaking these improvements, which are to be purchased by the Department in phases when portions of the project are complete and have been included in the annual calculation of the Terminal Buildings Charge. This project is estimated to cost $548.8 million (including $184.4 million to be funded from Series 2016A Subordinate Bond proceeds) and to be completed by FY 2019.

- **Elevators and Escalators Replacements**: This project consists of the comprehensive upgrading of elevator and escalator systems throughout the public areas of the Airport (primarily in the CTA) that have exceeded their useful lives. This project is estimated to cost $263.9 million (including $18.0 million to be funded from the Series 2016A Subordinate Bond proceeds) and to be completed by FY 2018.

- **West Maintenance Facility Pad and Infrastructure**: This project consists of the demolition of existing facilities, grading, and infrastructure associated with 84 acres located to the west of the aviation support area and to the south of the remote gates. Infrastructure elements of this project include utilities and storm water improvements. This project does not include the future maintenance hangars, employee parking lot, storage/equipment facilities, or related facilities that are to be constructed by tenants in the West Aircraft Maintenance Area. This project is estimated to cost $100.7 million (including $57.2 million to be funded from the Series 2016A Subordinate Bond proceeds) and to be substantially completed by FY 2016.

Other Planned and Incorporated Projects

As shown in Exhibit A, Other Planned and Incorporated Projects are estimated to cost approximately $4.3 billion, and include the following projects.

Terminal

- **Midfield Satellite Concourse – Phase 1**: This project consists of the development of a new 12-gate, 800,000-square-foot concourse west of the TBIT/Bradley West terminal complex. This project would include adjacent apron and airfield pavement improvements, utilities, and baggage systems; would be connected via an underground tunnel to the TBIT/Bradley West; and would serve both international and domestic airline operations. This project is estimated to cost $1.6 billion and to be completed by FY 2019.

- **Terminal 1.5**: This project consists of the development of a new terminal building between Terminal 1 and Terminal 2 that would link the two terminals directly and result in a single unified facility. This project is estimated to cost $400.0 million and to be completed by FY 2019.

- **Bradley West Interior Enhancements**: This project consists of the redevelopment, reconfiguration, or demolition of building areas remaining from the original TBIT constructed in 1984. Modifications include enlargement and reconfiguration of original main terminal space, demolition of the original TBIT concourses and aprons, enlargement of original Federal Inspection Services (FIS) space, and reconfiguration of the passenger security screening checkpoint. This project is estimated to cost $371.4 million and to be substantially completed by the end of FY 2016.

- **Baggage System Enhancements**: This project includes construction of outbound baggage systems supporting the combined operations of both the TBIT and the Midfield Satellite Concourse (Phase 1). The project includes construction of bag conveyance systems, explosive trace detection workstations, an on-screen resolution control room, and installation/integration of TSA-provided explosive detection system (EDS) machines. This project is currently estimated to cost $250.0 million and to be completed by FY 2020.

- **Acquisition of Terminal 4 Improvements**: This project consists of the acquisition by the Department of Terminal 4 improvements undertaken by American Airlines. This project is estimated to cost $205.0 million and the improvements are expected to be acquired by December 2016.

- **Terminal 4/TBIT Connector Building**: This project consists of the construction of a 74,000-square-foot, multiuse, multilevel facility that includes a post-security corridor linking Terminal 4 with the TBIT/Bradley West complex, a checked baggage inspection system for Terminal 4, a five-lane passenger security screening checkpoint, an airside bus port for passenger connections to other terminals, and additional tenant support spaces. The project is estimated to cost $174.3 million and to be completed by the end of FY 2016.

- **Terminal 3 Connector**: This project consists of the construction of a post-security corridor linking Terminal 3 with the TBIT/Bradley West complex. This project is estimated to cost $165.0 million and to be completed by FY 2021.

- **Terminal Commercial Management:** This project consists of the development of certain public use areas in Terminals 1, 2, 3, 6, and the TBIT, including public seating, restroom facilities, and common area enhancements. Under the terms of its agreements with the Department, Westfield Concessions Management, LLC, is funding and undertaking these improvements, which are to be purchased by the Department in phases when completed. This project is estimated to cost $176.2 million and to be completed by FY 2017.

- **Other Terminal Projects**: This project consists of electrical upgrades, gate and holdroom renovations, passenger boarding bridges, baggage system improvements, fire/life safety improvements, and other miscellaneous terminal improvements. These projects are estimated to cost $131.9 million and to be completed during the Forecast Period (ending FY 2022).

Airfield and Apron

- **Runway Safety Area (RSA) Improvements:** This project consists of improvements to the west end of Runway 7L-25R to bring the runway safety area (RSA) into compliance with Federal Aviation Administration (FAA) standards and to extend the runway by 800 feet. Also included are improvements to the east ends of Runways 6L-24R and 6R-24L. This project is estimated to cost $284.0 million and to be completed by FY 2017.

- **Taxilane T Program:** This project consists of the construction of a new Taxilane T, in multiple phases, extending from the area adjacent to Taxilane S to the west ends of Runways 7L-25R and 6R-24L. This project is estimated to cost $133.5 million and to be completed by FY 2017.

- **Other Airfield and Apron Projects:** This project consists of remain overnight aircraft parking utilities, storm water improvements, pavement rehabilitation, a new fire drill training facility, and construction of airfield access posts. These improvements are estimated to cost $17.7 million and to be completed during the Forecast Period.

Other Projects:

- **Noise Mitigation and Soundproofing:** This project consists of the soundproofing of residences located near the Airport that are significantly affected by aircraft noise. Also, the Department is currently implementing a voluntary program of acquisition of residences located in the Manchester Square and Belford areas affected by aircraft noise. This project is estimated to cost $244.1 million and to be completed during the Forecast Period.

- **Other:** These projects include a range of infrastructure, utility, information technology, and other projects estimated to cost $134.3 million and to be completed during the Forecast Period.

FUNDING THE AIRPORT CAPITAL PROGRAM

The Department expects to pay the estimated costs of the Capital Program using the funding sources shown in Exhibit A, as discussed below. To the extent that the Department does not receive the funding shown in Exhibit A, the Department would (1) defer projects or reduce project scopes, as appropriate, (2) issue additional Airport revenue bonds, or (3) use additional Department funds.

Federal Grants

The Department receives FAA grants-in-aid under the Airport Improvement Program (AIP) for up to 75% of the costs of eligible projects. Certain of these grants are received as entitlement grants, the annual amounts of which are calculated on the basis of the number of enplaned passengers and the total landed weight of all-cargo aircraft at the Airport. Other grants received are discretionary grants, awarded on the basis of the FAA's determination of the priorities of projects at the Airport and at other airports nationwide.

In addition to AIP grants, the Department expects to receive funding from the Transportation Security Administration (TSA) for checked baggage inspection system improvements at various terminals. As shown in Exhibit A, the Department expects to receive approximately $99.7 million in TSA funds and $219.3 million in FAA grants for projects in the Capital Program.

PFC Revenues

As shown in Exhibit A, the Department expects to use approximately $296.8 million of PFC revenues on a pay-as-you-go basis for projects in the Capital Program.

The Department also expects to use PFC revenues each Fiscal Year of the Forecast Period to pay a portion of the debt service on certain outstanding Bonds that were issued to finance all or a portion of the costs of PFC-eligible projects. As described in more detail in the "Financial Performance" section of this Report (under "Debt Service"), PFC revenues are not included in the definition of Pledged Revenues under the Senior Indenture. For purposes of meeting the Rate Covenants, the portion of principal and interest on Senior Bonds or Subordinate Obligations paid with PFC revenues are excluded from the calculation of Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service.

To date, the FAA has authorized the Department to collect $3.1 billion in PFC revenues at the $4.50 PFC level for approved projects. As of December 31, 2015, the Department had collected a total of $2.2 billion in PFC revenues (including interest income) and expended approximately $1.8 billion on FAA-approved PFC eligible projects.

The overall Capital Program funding plan, forecast airline revenues, and other key financial results reflected in this Report are based on the assumption that the current $4.50 PFC level at the Airport will remain in effect during the Forecast Period.

Department Funds

As reflected in Exhibit A, the Department expects to use approximately $270.6 million of Department funds to pay for the Series 2016A Subordinate Bonds Projects and approximately $1.4 billion of Department funds to pay for Other Planned and Incorporated Projects.

The Department generates cash each year from the operation of the Airport, after all obligations under the Senior Indenture and the Subordinate Indenture have been met. Department funds reflected in Exhibit A also include Terminal Renewal and Improvement Fund (TRIF) amounts estimated to be used for future terminal projects (generated pursuant to the Terminal Rate Agreements described in the "Financial Performance" section this Report—under "Airline Revenues"). Amounts in the TRIF can only be used to fund terminal or terminal-related projects. All other Department funds can be used for any lawful purpose.

The estimated use of Department funds reflected in Exhibit A is based on an internal Department policy that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to annual LAX Maintenance and Operation Expenses.

Other Funds and Prior Bond Proceeds

As presented in Exhibit A, approximately $39.5 million of airline tenant funding is expected to be used to fund the Series 2016A Subordinate Bonds Projects. Also as presented on Exhibit A, approximately $302.0 million in prior revenue bond proceeds are expected to fund a portion of the Series 2016A Subordinate Bonds Projects and approximately $566.6 million of prior bond proceeds are expected to be used to fund projects categorized as Other Planned and Incorporated Projects.

Series 2016A Subordinate Bond Proceeds

As reflected on Exhibit A, approximately $315.7 million of Series 2016A Subordinate Bond proceeds are expected to be used to fund costs of the Series 2016A Subordinate Bonds Projects.

The Series 2016A Subordinate Bonds are expected to be subject to the Alternative Minimum Tax (AMT) and to have a fixed interest rate. Exhibit B presents the estimated sources and uses of proposed Series 2016A Subordinate Bond proceeds, provided by the Department's co-financial advisor Public Resources Advisory Group. In addition to funding a portion of the costs of the Series 2016A Subordinate Bonds Projects, the net proceeds of the Series 2016A Subordinate Bonds would also be used to (1) make a deposit to the Subordinate Debt Service Reserve Fund, (2) pay capitalized interest on the Series 2016A Subordinate Bonds, and (3) pay the costs of issuance, including underwriters' discount and financing, legal, and other costs for the Series 2016A Subordinate Bonds.

Future Bond Proceeds

As reflected in Exhibit A, approximately $2.3 billion of future Senior Bond proceeds and approximately $144.7 million of future Subordinate Bond proceeds (for a total of approximately $2.4 billion) are expected to be used to fund a portion of the estimated costs of the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects (together, the Capital Program).

Exhibit B presents the estimated sources and uses of funds for Future Bonds, as provided by the Department's co-financial advisor Public Resources Advisory Group—based on the assumption that Future Bonds issued to fund airfield or apron projects will be Subordinate Obligations and that Future Bonds issued for all other projects in the Capital Program will be Senior Bonds. The Department may use any combination of Senior Bonds and Subordinate Obligations to fund these or other projects in the Capital Program.

In addition to funding a portion of the estimated costs of the Series 2016A Subordinate Bonds Projects and the Other Planned and Incorporated Projects, the net proceeds of Future Bonds are assumed to be used to (1) pay capitalized interest, (2) make deposits to the Senior or Subordinate Debt Service Reserve Funds, and (3) pay the costs of issuance for Future Bonds.

FINANCIAL PERFORMANCE

FINANCIAL FRAMEWORK

The Department accounts for Airport financial operations and results according to generally accepted accounting principles for governmental entities and the requirements of the Senior Indenture and the Subordinate Indenture. Other key documents that influence the Airport financial operations are the agreements with the airlines for their use and lease of Airport facilities.

The financial forecasts presented in this Report reflect the Department's expected course of action during the Forecast Period to generate Pledged Revenues to meet the Senior Rate Covenant and the Subordinate Rate Covenant.

Under the Senior Rate Covenant, the Department has covenanted to establish, fix, prescribe, and collect rates, tolls, fees, rentals, and charges for the use of the Airport so that, in each Fiscal Year:

- Pledged Revenues are at least equal to the amount of required deposits to various funds and accounts during such Fiscal Year, and
- Net Pledged Revenues, together with any Transfer, are equal to at least 125% of the Senior Aggregate Annual Debt Service on outstanding Senior Bonds.

The Subordinate Rate Covenant of the Subordinate Indenture requires the Department, in each Fiscal Year, to generate Subordinate Pledged Revenues to:

- Meet the payment requirements of funds and accounts under the Subordinate Indenture, and
- Together with any Transfer, be at least equal to 115% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations.

Any "Transfer" from the LAX Revenue Account to the Debt Service Fund for purposes of meeting the Senior Rate Covenant shall not exceed 25% of Senior Aggregate Annual Debt Service on outstanding Senior Bonds and shall not exceed 15% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations.

An overview of recent historical Airport financial results is provided in this section and the assumptions used as the basis for forecasting Pledged Revenues, LAX M&O Expenses, debt service on Senior Bonds and Subordinate Obligations, and deposits to funds and accounts established under the Senior and Subordinate Indentures are discussed.

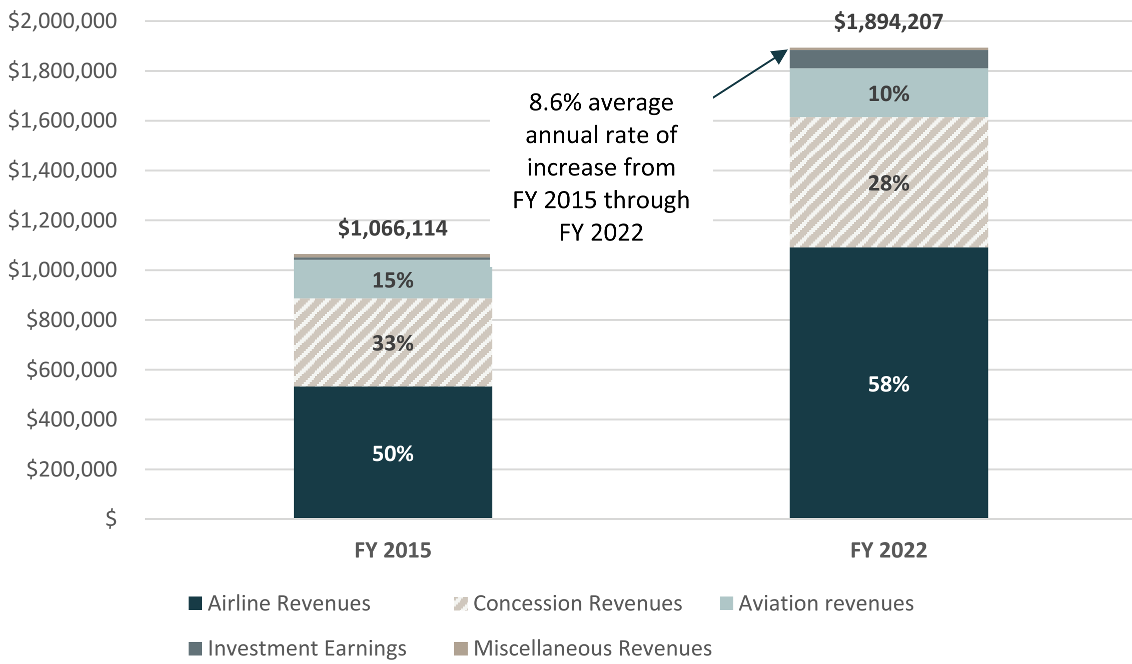
PLEDGED REVENUES

Exhibit C presents budgeted and forecast Pledged Revenues for the Airport.

In FY 2015, airline revenues and concession revenues accounted for just over 80% of Pledged Revenues. Airline revenues include terminal building rentals, landing fees, and apron fees. Concession revenues include, but are not limited to, public parking fees, rental car privilege fees, and terminal building concession revenues.

Figure 18 presents the major sources of Pledged Revenues for the Airport for actual FY 2015 (actual) and FY 2022 (forecast):

Figure 18
ACTUAL FY 2015 AND FORECAST FY 2022 PLEDGED REVENUES
Los Angeles International Airport



Notes: Percentages reflect shares of total Pledged Revenues. Percentages for investment earnings and miscellaneous revenues are not shown, but they accounted for 1% and 1% of Pledged Revenues, respectively, in FY 2015 and are forecast to account for 2% and 1%, respectively, in FY 2022. Columns may not total 100% because of rounding.

The forecast increase in Pledged Revenues is largely the result of an expected increase in airline revenues, from approximately 50% of Pledged Revenues in FY 2015 to approximately 58% of Pledged Revenues in FY 2022. The forecast increase in airline revenues is primarily driven by significant Department capital investments in airline areas and the cost-recovery basis for calculating annual airline rates and charges.

The major sources of Pledged Revenues and the assumptions used to forecast Pledged Revenues are discussed below.

Airline Revenues

Overview. Forecast airline terminal building rentals, landing fees, and apron fees, in total and expressed on a per enplaned passenger basis, are shown on Exhibit C-1. Airline revenues totaled approximately $532.9 million in FY 2015 (accounting for 50% of Pledged Revenues) and are forecast to be approximately $1.1 billion in FY 2022 (accounting for 58% of Pledged Revenues).

Forecasts of airline terminal building rentals, landing fees, and apron fees incorporated in this Report were calculated pursuant to the methodologies in the *LAX Passenger Terminal Tariff*, *Rate Agreements*, prior terminal leases, and the *Air Carrier Operating Permits,* as discussed in the following paragraphs.

LAX Passenger Terminal Tariff. Airlines occupy and use terminal space at the Airport under the terms of the LAX Passenger Terminal Tariff (Airport Terminal Tariff). The Airport Terminal Tariff has no term or expiration date, but is subject to change from time to time by the Board of Airport Commissioners. After consultation with airline representatives regarding the Department's rates and charges, the Board approved certain changes to the Airport Terminal Tariff on September 17, 2012, as described below, which became effective on January 1, 2013. The Airport Terminal Tariff applies to all terminals at the Airport, provided however, that the Airport Terminal Tariff expressly does not apply to Terminal 4 unless and until all airlines using Terminal 4 are subject to the rate methodology adopted on September 17, 2012. American Airlines, operating from Terminal 4, has a lease with the Department for the use and occupancy of space that expires in December 2024. Under this lease, American Airlines is required to pay operation and maintenance charges based on the methodology of the Airport Terminal Tariff.

Terminal rates under the Airport Terminal Tariff are designed to recover all costs, including administrative and access costs, allocable to terminal space. The fees and charges established under the Airport Terminal Tariff are as follows:

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

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

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

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

***Rate Agreement*.** To resolve certain litigation regarding the Department's rate setting methodology, and to phase-in new terminal rates and charges for airlines, the Department offered the airlines a Rate Agreement in 2013. Airlines that do not enter into a Rate Agreement will not participate in the discounts, fixed charges, and credits for concession revenues described below.

All airlines currently serving the Airport have entered into the Rate Agreement with the Department. Pursuant to the Rate Agreement, the airlines consent and waive rights to challenge the application of the Airport Terminal Tariff rate methodology (approved by the Board in September 2012).

Under the Rate Agreement:

- The equalized terminal rental rates are phased in over a five-year period (calendar years 2013 to 2017).

- For calendar years 2014 to 2017, the Terminal Buildings Charge will be discounted by 20%, 15%, 10% and 5%, respectively.

- Starting in calendar year 2018, the equalized Terminal Buildings Charge will be calculated pursuant to the Airport Terminal Tariff, without a discount.

- Since the start of calendar year 2014, the Department has provided a credit for a portion of the concession revenues generated in the LAX terminals (known as Tier One Revenue Sharing) in the calculation of the Terminal Buildings Charge and the FIS Fee.

- The Department established the Terminal Renewal and Improvement Fund (TRIF) funded from annual net revenues from the application of the Airport Terminal Tariff. Amounts deposited in the TRIF are required to be used by the Department to fund, together with debt and grant funding, terminal related capital improvements. Deposits into the TRIF may not exceed $125 million annually or a maximum unused fund balance amount of $500 million. These limits are subject to annual consumer price index increases.

- The Department can include the amortization of TRIF-funded capital projects in the cost base for the calculation of the terminal rental rate five years after any such TRIF-funded project is put in service.

- 50% of the funds in the TRIF, that are not otherwise committed to projects, in excess of the TRIF limits described above, are required to be deposited in a Revenue Sharing Fund. Amounts deposited in the Revenue Sharing Fund are required to be distributed to airlines signing the Rate Agreement as a credit against any amount due in the following priority: first, against Terminal Building Charges and second, against landing fees.

***Terminal 4 Lease*.** The Department has a lease for the use of terminal space in Terminal 4 with American Airlines that expires in December 2024. This lease was entered into in connection with the issuance of certain conduit financings by the Regional Airports Improvement Corporation (RAIC) and provides the Department with the right under certain circumstances to defease the third-party debt that financed terminal improvements. Any early termination of this lease may require payment or provision for payment by the Department of some or all of the related conduit financings.

Under this lease, rental rates are not charged pursuant to the Airport Terminal Tariff, rather rental rates on terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. American is required to pay operation and maintenance charges based on the Tariff rate methodology.

***Air Carrier Operating Permit*.** Airlines operating at the Airport use landing and apron facilities pursuant to a 10-year Air Carrier Operating Permit expiring June 30, 2022, with an option to extend for another 10 years. The Air Carrier Operating Permit can be terminated with a 30-day notice from the airlines or the Department. The Air Carrier Operating Permit sets forth (1) how landing and apron fees are to be calculated each year and (2) various terms and conditions related to the use of landing and apron facilities, including, but not limited to, insurance requirements and indemnification provisions.

***Forecast of Airline Revenues*.** The forecast of airline revenues is presented in Exhibit C-1 (along with the calculation of airline cost per enplaned passenger). The forecast of airline revenues is based on (1) the cost recovery and rate-setting principles in the Terminal Rate Agreement and the Air Carrier Operating Permit, (2) the forecast of LAX M&O Expenses, debt service on Senior Bonds and Subordinate Obligations, and other costs that are allocable to the airline cost centers and included in the annual calculation of airline rates and charges, and (3) assumptions regarding the amount of new terminal space associated with the completion of certain projects in the Capital Program during the Forecast Period.

Exhibit C-2 presents forecast airline Terminal Building rentals through FY 2022. Terminal Building costs are recovered according to a commercial compensatory rate-setting methodology (with certain discounts and credits) prescribed in the Terminal Rate Agreement. The net cost requirement of the Terminal Building cost center is divided by total rentable space in the Terminal Buildings to determine the average rental rate (Terminal Building Rate) per square foot. Airlines that lease space from the Department are charged this average rate per square foot. For those airlines that do not lease space, but operate on a common-use basis, the Terminal Building Rate is used to calculate the net requirement of all common-use space, which is then recovered based on a common-use methodology.

Exhibit C-3 presents forecast landing and apron fees, calculated according to a cost center compensatory (cost-based) rate-setting methodology prescribed in the Air Carrier Operating Permit, under which (1) the cost requirements of the Airfield Area cost center are recovered through landing fees assessed per 1,000-pound unit of total aircraft landed weight and (2) the cost requirements of the Apron Area cost center are recovered through apron fees assessed per 1,000-pound unit of passenger airline aircraft landed weight.

Aviation Revenues

Aviation Revenues at the Airport (other than airline revenues discussed above) include building rentals other than passenger terminal rentals (referred to as Building Rentals), land rentals, aircraft parking fees, fuel fees, and other aviation revenues. In FY 2015, Aviation Revenues accounted for 14.5% of Pledged Revenues.

Land Rentals. The Department leases land to multiple aviation users including passenger and cargo airlines. Uses of the land include aircraft maintenance, cargo facilities, and automobile parking[13]. In FY 2015, land rentals accounted for 8.5% of Pledged Revenues. Land rental revenue is forecast to increase with inflation.

Building Rentals. The Department leases buildings, other than the Terminal Buildings, to multiple aviation users, including passenger and cargo airlines. Uses of the space include aircraft maintenance, cargo facilities, and administrative offices. In FY 2015, building rentals accounted for 5.6% of Pledged Revenues. Building rental revenue is forecast to increase with inflation.

Other Aviation Revenues. This category includes other miscellaneous revenues generated from aviation users of the Airport, including revenues from aircraft parking, fuel flowage fees, and the TSA. In FY 2015, other aviation revenues accounted for 0.4% of Pledged Revenues. Other aviation revenues are forecast to increase with inflation, with the exception of those subcategories related to the number of aircraft (e.g., aircraft parking, and fuel flowage fees), which are driven by inflation plus the forecast growth in landed weight.

Concession Revenues

Concession revenues totaled $354.1 million in FY 2015 (accounting for 33.2% of Pledged Revenues) and are forecast to total approximately $522.9 million in FY 2022 as presented in Exhibit C (accounting for 27.6% of Pledged Revenues). Annual concession revenues are forecast to increase between FY 2015 and FY 2022; however, because airline revenues are forecast to increase at a faster rate during the same period, the percent of Pledged Revenues accounted for by concession revenues is forecast to decrease (from 33.2% to 27.6%) during the Forecast Period. As described below, the Department has entered into multiple agreements with concessionaries for the provision of non-airline services at the Airport.

***Auto Parking Revenues*.** Automobile parking is provided in garages in the Central Terminal Area, a surface lot adjacent to the Central Terminal Area, and remote parking surface lots. In FY 2015, automobile parking revenues accounted for 8.1% of Pledged Revenues.

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[13] The Department leases the Park One facility and Skyview Center Parking facilities and collects rent from the operators. All other revenue associated with automobile parking is reflected in Auto Parking on Exhibit C.

Table 17 lists the public parking facilities at the Airport[14], as well as the number of spaces and current parking rates at each facility.

Parking facilities in the Central Terminal Area are operated for the Department by New South Parking-California under a management contract that expires on May 31, 2016. Under this contract, the Department receives 100% of the gross parking revenues from these facilities, and compensates New South Parking-California for certain expenses it incurs in operating the facilities. The Department has executed a similar 5-year contract (with 5 one-year extension options) with ABM Onsite Services-West for the operation of the parking facilities in the Central Terminal Area beginning June 1, 2016, with business terms similar to the contract between the Department and New South Parking-California. The Department has also entered into a contract with LAZ Parking for the operation of the Lot C surface parking lot.

Multiple facilities near the Airport also provide parking for Airport patrons. The Department does not impose a privilege fee on these off-Airport parking operations of private companies, but does impose a trip fee for the shuttle bus operations of off-Airport parking companies.

Table 17
PUBLIC PARKING FACILITIES AND RATES
Los Angeles International Airport

Public parking	Number of spaces	24-hour rate	Hourly rate
Close-in parking			
Central Terminal Area garages	8,577	$30.00	$3.00 first hour, $4.00 thereafter
Remote parking			
Lot C surface lot	5,300	$12.00	$4.00
Cell phone waiting lot	21	n.a.	n.a.
Subtotal	5,321		
Airport total	13,898		

Note: n.a. = Not applicable.
Source: Department records.

Parking revenues were forecast as a function of numbers of originating passengers, parking transactions per passenger, and revenue per transaction. Estimated reductions in public parking revenues per originating passenger from FY 2017 through FY 2021 as a result of anticipated effects of Central Terminal Area construction projects during that period were also incorporated.

[14] The Department also owns the Park One and Skyview Center parking facilities; however, these facilities are managed under separate operating agreements and the revenue is recorded under Land Rent on Exhibit C.

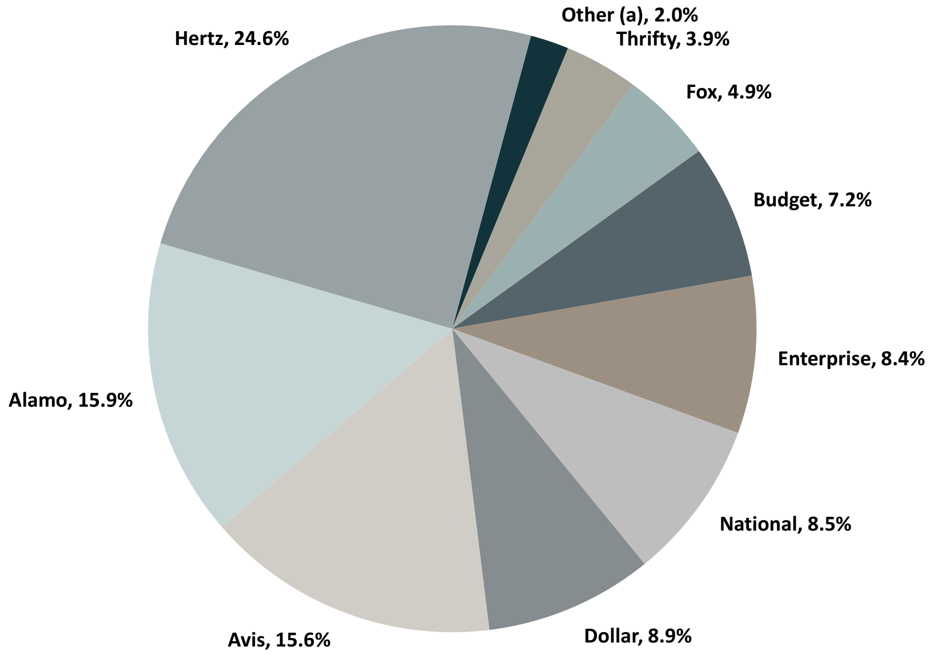
***Rental Car Revenues*.** The Department has executed rental car concession agreements with 13 rental car companies serving the Airport (Rental Car Concessionaires). The concession agreements are scheduled to expire in January 2018, and the Department may extend the agreements for two one-year periods at its sole discretion. The concession agreements require each Rental Car Concessionaire to pay the Department a concession fee equal to 10% of its annual gross revenues or a minimum annual guarantee, whichever is greater. In FY 2015, rental car concession revenues accounted for 7.4% of Pledged Revenues, which was based on the concession fee equal to 10% of annual gross revenues.

The following companies and their brands have rental car concession agreements with the Department: Advantage, Alamo, Avis, Budget, Dollar, DR Car Rental (DBA Payless), Enterprise, Fox, Hertz, Midway, National, Sixt, and Thrifty. In addition, Firefly and Zipcar operate as affiliates of Thrifty and Avis, respectively, for a total of 15 on-Airport rental car brands. These companies operate rental car facilities located off Airport property and transport their passengers to and from the CTA on their own branded shuttle buses.

Approximately 25 other rental car companies (located off Airport property) provide rental car services to Airport passengers, but do not have concession agreements with the Department. Their customers use LAX shuttle buses to meet their rental car courtesy shuttle at the Airport's remote rental car depot. These other companies are required to have a license agreement with the Department and pay a fixed fee per month (these other companies do not pay a percentage of gross revenues).

Figure 19 presents the Rental Car Concessionaires' market shares of gross revenues for FY 2015.

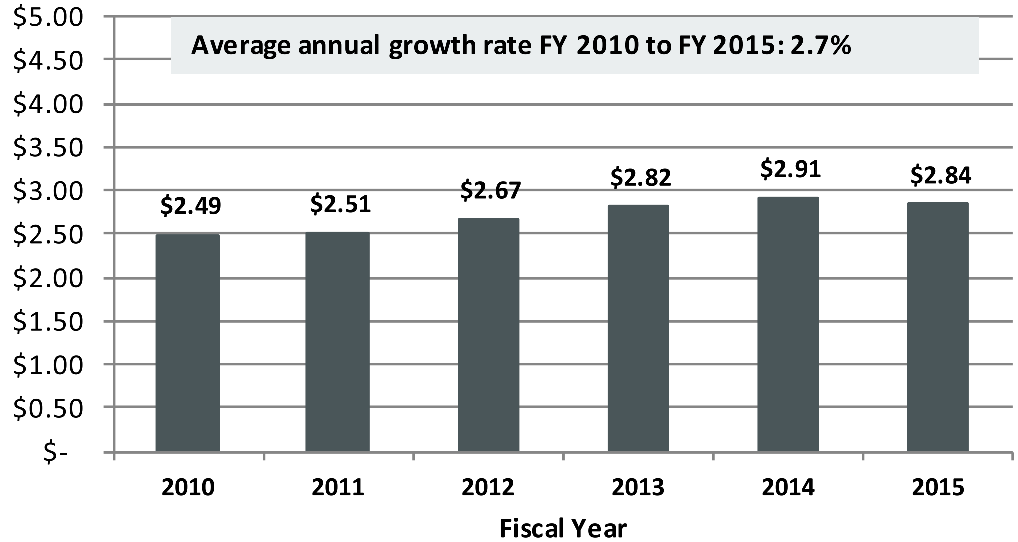
Figure 19
ON-AIRPORT RENTAL CAR COMPANY SHARES OF FY 2015 GROSS REVENUES
Los Angeles International Airport



Notes: The sectors may not total 100% because of rounding.
(*a*) Other includes Advantage, Firefly, and Zipcar.
Source: Department records.

Figure 20 presents the trend in rental car privilege fees paid to the Department per originating passenger at the Airport for FY 2010 through FY 2015. Between FY 2010 and FY 2015, total rental car privilege fees per originating passenger increased an average of 2.7% per year. The decline in on-Airport rental car privilege fees per originating passenger from FY 2014 to FY 2015 is the result of originating passengers increasing faster than privilege fees.

Figure 20
ON-AIRPORT RENTAL CAR PRIVILEGE FEES PER ORIGINATING PASSENGER
Los Angeles International Airport



Source: Department records.

Rental car revenues were forecast on the basis of:

- The estimated number of originating passengers, which was based on the forecast of enplaned passengers presented earlier in this Report.
- The Department's expectation that, when the existing agreements expire in January 2018, they will either be extended by the Department or new agreements with similar business terms will be executed with the rental car companies operating at the Airport.
- Moderate increases in the rental car privilege fees per originating passenger during the Forecast Period. The assumed increase in the privilege fee per originating passenger was based on the assumption that the Rental Car Concessionaires will continue to manage their financial performance by charging higher daily rates over the long term.

The Department imposes a CFC on rental car customers per rental car transaction, and the associated revenues (or debt secured by the associated revenues) are expected to finance the development and operation of a ConRAC at the Airport. Revenues generated from the CFC are not currently included in Pledged Revenues and, as such, would not support the Series 2016A Subordinate Bonds or other debt issued under the Senior Indenture or Subordinate Indenture. The Department could include CFC revenues in Pledged Revenues per a Supplemental Senior Indenture, but has no plans to do so.

The Department is currently in discussions with the rental car companies regarding development and financing of the proposed ConRAC, which is part of the LAMP. The Department expects to negotiate new rental car agreements that would be executed prior to the estimated opening of the ConRAC (currently estimated to be completed by mid-FY 2024). The Department does not expect any material change to annual privilege fees paid by rental car companies under a new agreement.

***Duty Free Revenues**.* The Department has entered into a duty free merchandise concession agreement with DFS Group L.P. (DFS) for the design, construction, development and operation of duty free merchandise concessions at all Airport terminal buildings. The agreement with DFS is scheduled to expire in September 2024. Under the agreement with DFS, the Department receives a certain percentage of the concessionaire's gross sales at the Airport, subject to a minimum annual guarantee, plus 10% of any gross sales in excess of $175 million. In FY 2015, duty free revenues accounted for 6.0% of Pledged Revenues. Duty free revenues are forecast to increase with growth in the number of international passengers.

***Terminal Concession Revenues*.** In FY 2015, terminal concession revenues accounted for 6.1% of Pledged Revenues. Terminal concession revenues include fees paid by retail and food and beverage concessionaires in the Airport terminals. The Department has entered into multiple agreements for the provision of terminal concessions. These agreements are organized into two groups:

- **Retail and Food and Beverage Concessions**–The Department directly manages the concession programs in Terminals 4, 5, 7, and 8. The Department has entered into several agreements with companies to provide retail and food and beverage concessions in these terminals. The agreements for retail concessions are scheduled to expire in June 2021 and agreements for food and beverage concessions are scheduled to expire between June 2021 and June 2023. These concessionaires pay the Department the greater of either a percentage of gross receipts or a minimum annual guarantee.

- **Terminal Commercial Manager Concessions**–This group is operated under two separate concession agreements that the Department has entered into with Westfield Airports, LLC (Westfield). The first agreement is for Terminal 2 and the TBIT. The second agreement is for terminals 1, 2, and 6. Westfield acts as the master developer and manager of the concessions in these terminals. Both Terminal Commercial Manager agreements with Westfield are scheduled to expire in 2029. Under the Department's agreements with Westfield, the Department receives the greater of a minimum annual guarantee or rent (consisting of a base percentage of Westfield's revenues plus a contingent percentage additional rent if gross sales exceed certain benchmarks).

The forecast of retail and food and beverage revenues and terminal commercial management revenues were developed together based on combined per passenger spend rates for the three categories. It was assumed that by FY 2017, the combined spend rate for these three revenue categories would return to the FY 2014 actual level of $1.95 per passenger, reflecting the completion of several terminal renovation projects and the re-opening of various concession space. Thereafter the combined per passenger spend rate was forecast to increase with inflation until the assumed first full year of operation of the Midfield Satellite Concourse–Phase 1, when the spend rate was forecast to increase 5% in both FY 2020 and FY 2021.

Terminal Advertising. The Department has entered into a Terminal Media Operator concession agreement with JCDecaux Airport, Inc. (JCDecaux) for advertising sponsorship and other media throughout the terminal buildings. In FY 2015, Terminal Buildings advertising revenue accounted for 2.1% of Pledged Revenues. The agreement with JCDecaux is scheduled to expire in December 2020, at which point the Department has the right to extend the agreement for one 3-year period. For purposes of this Report, it was assumed that the Department will extend JCDecaux's agreement for the 3-year option period. Terminal Buildings advertising revenues are forecast to remain at the FY 2016 budgeted level in FY 2017 and to increase with inflation thereafter.

Commercial Vehicle Revenues. The Department generates revenues from a per trip fee on all bus, limousine, taxicab operators, as well as companies such as Uber and Lyft. In FY 2015, commercial vehicle revenues accounted for 2.2% of Pledged Revenues. In FY 2015, the Department entered into agreements with transportation network companies such as Uber and Lyft to access the Airport ground transportation market—the agreements specify that a $4.00 fee for each drop off or pick up is to be paid to the Department. Commercial vehicle revenues, including revenues from Uber and Lyft, are forecast to increase with inflation.

Other Concession Revenue. Revenues in this category primarily include fees generated from foreign exchange, telecommunications, luggage carts, and automated teller machine transactions. In FY 2015, other concession revenue accounted for 1.4% of Pledged Revenues. Other concession revenue is forecast to increase with numbers of enplaned passengers and inflation.

Investment Earnings

Investment earnings on moneys held in the LAX Revenue Fund, Reserve Fund, and M&O Reserve Fund (funds defined under the Senior Indenture) are defined as Pledged Revenues under the Senior Indenture. In FY 2015, investment earnings accounted for 0.9% of Pledged Revenues. The forecast of investment earnings is based on an assumed increase in the investment earnings rate and estimated increases in LAX Revenue Fund, Debt Service Reserve Fund, and M&O Reserve Fund balances during the Forecast Period.

Miscellaneous Revenues

Miscellaneous revenues include (1) federal subsidies associated with the Series 2009C and Series 2010C Subordinate Build America Bonds (BABs) and (2) other airport sales and services. In FY 2015, miscellaneous revenues accounted for 1.3% of Pledged Revenues. The miscellaneous revenues associated with BABs are forecast based on (1) the assumption that Federal sequestration will continue, (2) debt service schedules for the associated bonds, and (3) historical subsidies. All other miscellaneous revenues are forecast based on assumed rates of inflation.

LAX M&O EXPENSES

Exhibit D presents LAX M&O Expenses by expense type and by Airport cost center. As defined in the Senior Indenture, LAX M&O Expenses are substantially all maintenance and operating expenses of the Airport, excluding (1) depreciation, (2) administrative costs allocated to other airports operated and maintained by the Department, and (3) any expenses of the Airport paid from sources other than Pledged Revenues.

FY 2016 Budget LAX M&O Expenses

The Department's LAX M&O budget for FY 2016 was used as the basis for forecasting LAX M&O Expenses.

Historically, salaries and benefits have represented the single largest category of expense at the Airport, which is typical of most U.S. airports, and is expected to be the case in FY 2016 and during each Fiscal Year of the Forecast Period. The next largest category of expense at the Airport is contractual services, which includes expenses associated with various technical, professional service, management, and other contracts.

Other categories of LAX M&O Expenses include materials and supplies, utilities, and other operating expenses[15].

The major categories of budgeted FY 2016 LAX M&O Expenses and the allocation to Airport cost centers are shown on Figure 21.

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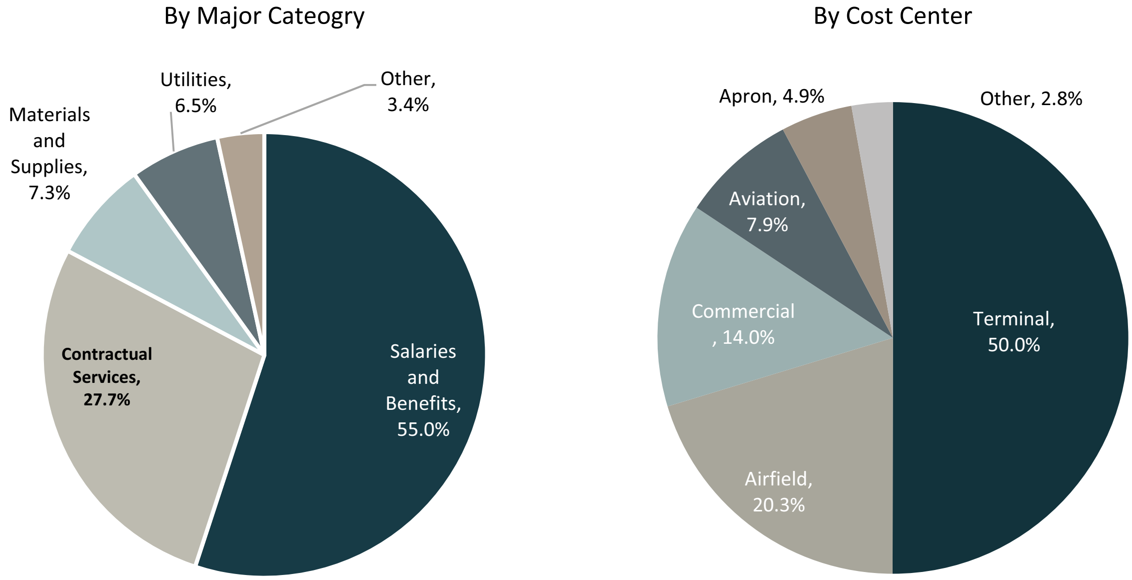
[15] Includes expenses associated with administrative services and advertising and public relations.

Figure 21
FY 2016 BUDGET LAX MAINTENANCE AND OPERATION EXPENSES
Los Angeles International Airport



Note: The sectors may not add to 100.0% because of rounding.
Source: The Department's FY 2016 budget.

Forecast LAX M&O Expenses

Forecast LAX M&O Expenses for FY 2017 through FY 2022 are based on (1) the Department's FY 2016 budget and its plans for operating Airport facilities through the Forecast Period, (2) assumed inflationary and real (net of inflation) increases in the cost of labor, services, utilities, and supplies, and (3) estimates of additional expenses associated with new or expanded Airport facilities included in the Capital Program to be placed in service during the Forecast Period (as described below).

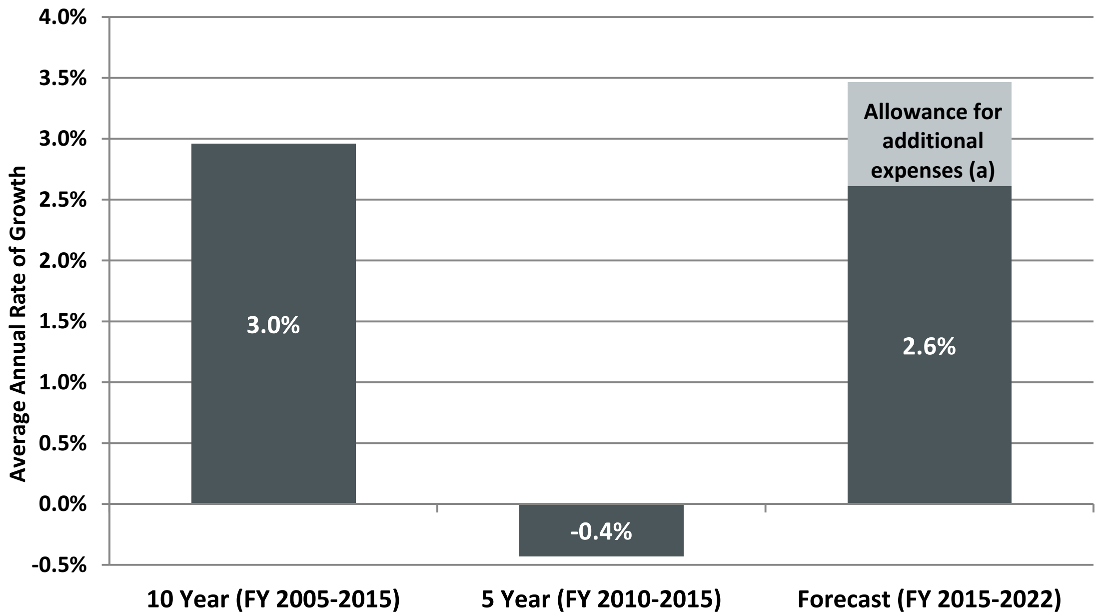
The Department expects that certain of the Other Planned and Incorporated Projects, including the Midfield Satellite Concourse – Phase 1, Terminal 1.5, and the Terminal 3/TBIT Connector Building, will result in additional increases in LAX M&O Expenses during the Forecast Period. Forecasts of LAX M&O Expenses associated with these terminal projects were developed based on preliminary estimates of increased total terminal square footage and current LAX M&O Expenses associated with Airport terminal facilities. Expenses associated with increased space are forecast to be lower per square foot than current LAX M&O Expenses to account for higher efficiency in newer facilities (e.g., lower utility costs). The Department does not expect the Series 2016A Subordinate Bonds Projects to have a material effect on forecast LAX M&O Expenses.

LAX M&O Expenses per enplaned passenger increased an average of approximately 3.0% per year during the most recent 10-year period (FY 2005 to FY 2015) and decreased an average of approximately 0.4% per year for the most recent 5-year period (FY 2010 through FY 2015). The relationship between LAX M&O Expenses and numbers of enplaned passengers was analyzed because the cost of operating and maintaining an airport is typically based on numbers of passengers, among other factors. A comparison of historical and forecast rates of growth in LAX M&O Expenses per enplaned passenger at the Airport is presented on Figure 22.

Figure 22

RATES OF GROWTH IN LAX M&O EXPENSES PER ENPLANED PASSENGER

Los Angeles International Airport



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(a) Reflects an allowance for additional M&O Expenses associated with projects in the Capital Program.
Sources: Department records for historical data. Forecast results are based on the LAX M&O Expenses presented in Exhibit D and forecast enplaned passengers presented in this Report.

LAX M&O Expenses are forecast to increase from a budget of approximately $645.1 million in FY 2015 to approximately $977.1 million in FY 2022, an annual increase of 6.1% per year.

DEBT SERVICE

Exhibit E presents Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service for outstanding Senior Bonds and Subordinate Obligations, as well as for the Series 2016A Subordinate Bonds and Future Bonds.

Principal of and interest on Senior Bonds or Subordinate Obligations paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service for purposes of meeting the Senior and Subordinate Rate Covenants. Exhibit E reflects PFC revenues expected to be used by the Department each Fiscal Year to pay debt service. The actual amount of PFC revenues that the Department will use to pay debt service may vary from year to year.

As shown in Exhibit E, Senior Aggregate Annual Debt Service is estimated to increase from approximately $95.5 million in FY 2016 to approximately $273.9 million in FY 2022. Subordinate Aggregate Annual Debt Service is estimated to increase from approximately $61.8 million in FY 2016 to approximately $97.1 million in FY 2022.

The Department uses a commercial paper program to assist with short-term borrowing needs pursuant to the Subordinate Indenture. The Department is currently authorized to issue up to $500 million of commercial paper. As of the date of this Report, the Department's current outstanding commercial paper balance is approximately $50.3 million. No commercial paper was assumed to be issued to pay for the costs of projects included in the Capital Program reflected on Exhibit A.

Series 2016A Subordinate Bonds

Debt service on the Series 2016A Subordinate Bonds was estimated by Public Resources Advisory Group, the Department's co-financial adviser. The proposed Series 2016A Subordinate Bonds are assumed to be issued as fixed-rate bonds, amortized over the useful lives of the individual projects to be funded with net bond proceeds, and have a final maturity date of May 15, 2046. An estimated all-in true interest cost of approximately 4.95% on the Series 2016A Subordinate Bonds was provided by Public Resources Advisory Group.

Future Bonds

Debt service estimated for future Senior Bonds and Subordinate Obligations expected to be issued during the Forecast Period (as shown on Exhibit B) was also provided by Public Resources Advisory Group, based on the following assumptions:

- Assumed fixed interest rate of 6.00% for both future Senior Bonds and future Subordinate Obligations

- Capitalized interest and other costs of issuance would be funded from the net proceeds of Future Bonds; debt service on Future Bonds included in the financial forecasts presented in this Report is net of capitalized interest

- The Future Bonds for each project will be amortized over the lower of the project's expected useful life or 30 years

- Future Bonds issued to pay for airfield or apron projects will be Subordinate Obligations

- Future Bonds issued for all other projects in the Capital Program will be Senior Bonds.

FLOW OF FUNDS AND DEBT SERVICE COVERAGE

Exhibit F presents the forecast application of Pledged Revenues to the various funds and accounts under the Senior Indenture and the Subordinate Indenture and the calculation of debt service coverage according to the Senior Rate Covenant and the Subordinate Rate Covenant.

Pledged Revenues remaining after the payment of LAX M&O Expenses, Senior Bond debt service, Subordinate Obligations debt service, and other fund deposit requirements are available for any lawful Airport purpose.

The Senior Rate Covenant is forecast to be met in each Fiscal Year of the Forecast Period:

- As reflected in Exhibit C, forecast Pledged Revenues exceed the amount of required deposits to various funds and accounts under the Senior Indenture during each Fiscal Year, and

- As reflected in Exhibit F and on Figure 23, forecast Net Pledged Revenues equal at least 125% of the Senior Aggregate Annual Debt Service, taking into account outstanding Senior Bonds and future Senior Bonds (and assuming no Transfers).

Under the Senior Indenture, any Transfer from the LAX Revenue Account to the Debt Service Fund taken into account for purposes of meeting the Senior Rate Covenant shall not exceed 25% of Senior Aggregate Annual Debt Service on outstanding Senior Bonds. No Transfers were assumed in the Report for the purposes of calculating Senior debt service coverage ratios.

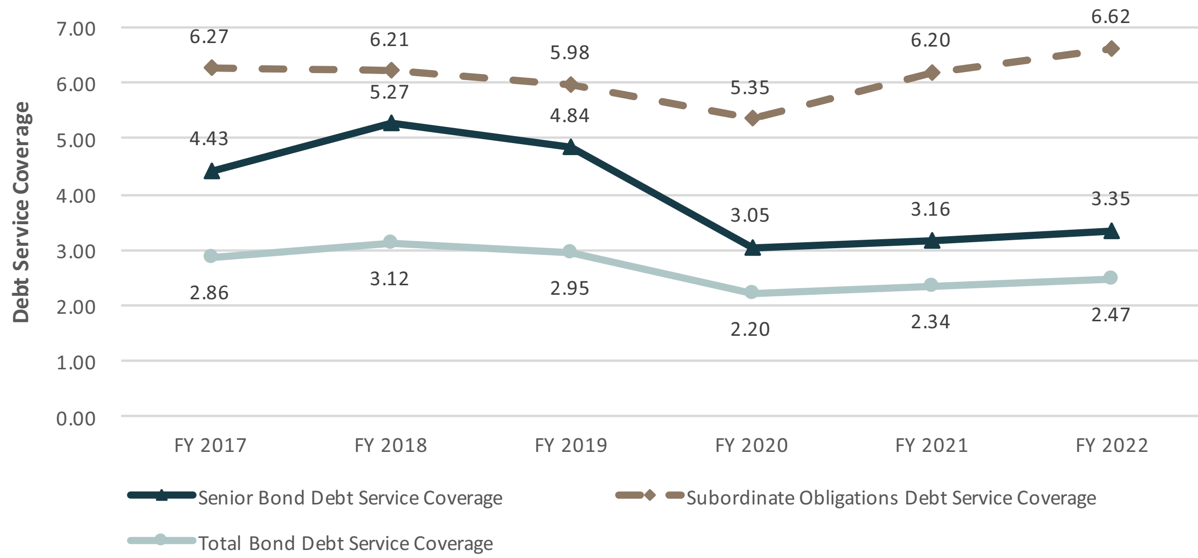
The Subordinate Rate Covenant is forecast to be met in each Fiscal Year of the Forecast Period:

- As reflected in Exhibit F, forecast Subordinate Pledged Revenues exceed the amount of required deposits to various funds and accounts under the Subordinate Indenture during each Fiscal Year, and

- As reflected in Exhibit F and on Figure 23, forecast Subordinate Pledged Revenues equal at least 115% of the Subordinate Aggregate Annual Debt Service, taking into account outstanding Subordinate Obligations, the Series 2016A Subordinate Bonds, and future Subordinate Obligations.

Under the Subordinate Indenture, any Transfer from the LAX Revenue Account to the Debt Service Fund taken into account for purposes of meeting the Subordinate Rate Covenant shall not exceed 15% of Subordinate Aggregate Annual Debt Service on outstanding Subordinate Obligations. No Transfers were assumed in the Report for the purposes of calculating Subordinate debt service coverage ratios.

Figure 23
FORECAST DEBT SERVICE COVERAGE
Los Angeles International Airport



Notes: Includes debt service on Senior Bonds, existing Subordinate Obligations, and estimated debt service on the Series 2016A Subordinate Bonds and Future Bonds. Debt service is net of capitalized interest, if any. Debt service coverage on Subordinate Obligations is higher than debt service coverage on Senior Bonds as a result of, among other reasons, significantly less Subordinate Obligation debt service as compared to Senior Bond debt service.
Source of Debt Service: Public Resources Advisory Group.

Table 18 of the Official Statement for the Series 2016A Subordinate Bonds provides historical data on debt service coverage for Senior Bonds and Subordinate Obligations.

SENSITIVITY ANALYSIS—PROJECTED FINANCIAL RESULTS

The forecast financial results presented in this Report were tested to determine their sensitivity to potential changes in the forecasts of airline traffic. The assumptions underlying the projected financial results in the sensitivity analysis include the following relative to the forecasts presented earlier in this Report:

- Enplaned passengers and landed weight would be as presented in this Report for FY 2016 and FY 2017. From FY 2018 through FY 2022, no growth in the numbers of enplaned passengers and landed weight were assumed under the sensitivity analysis.

- Nonairline revenues from certain sources would decrease in proportion to decreases in numbers of enplaned passengers.

- PFC revenues would also decrease in proportion to the projected decreases in the number of enplaned passengers.

As shown in Exhibit G, the Department is projected to meet the requirements of the Senior Rate Covenant and the Subordinate Rate Covenant under the sensitivity analysis.

If the hypothetical assumptions underlying the projections resulting from the sensitivity analysis were realized, Department management would likely take certain of the following mitigating actions that would result in improved financial metrics above those presented in Exhibit G: (1) reduce LAX M&O Expenses, (2) reduce the scope and cost of projects in the Capital Program, (3) delay implementation of certain projects in the Capital Program, and/or (4) reduce or delay the amount and frequency of Future Bonds expected to be issued to fund projects in the Capital Program.

Exhibit A
ESTIMATED CAPITAL PROGRAM COSTS AND SOURCES OF FUNDS THROUGH FY 2022 (a)
Los Angeles International Airport
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

		Sources of Funds									
		Federal Grants							Future Bond Proceeds		
	Estimated Project Costs	TSA	AIP	Pay-as-you-go PFCs	Department Funds	Other Funds (b)	Prior Bonds	Series 2016A Subordinate Bond Proceeds	Subordinate	Senior	Total
SERIES 2016A SUBORDINATE BONDS PROJECTS											
Terminal 1 Improvement Project	536,520	53,676	-	-	5,563	12,890	85,736	**29,189**	-	349,466	536,520
Terminal 2 Improvement Project	204,914	-	-	-	86,300	-	91,620	**26,994**	-	-	204,914
Terminals 6/7/8 Improvement Project	548,827	21,000	-	-	60,019	26,589	47,724	**184,398**	-	209,097	548,827
Elevators and Escalators Replacements	263,974	-	-	77,362	106,875	-	45,200	**17,963**	-	16,574	263,974
West Maintenance Facility Pad and Infrastructure	100,654	-	-	-	11,827	-	31,673	**57,154**	-	-	100,654
SERIES 2016A Subordinate Bonds Projects Total	**1,654,889**	**74,676**	**-**	**77,362**	**270,584**	**39,479**	**301,953**	**315,698**	**-**	**575,137**	**1,654,889**
OTHER PLANNED AND INCORPORATED PROJECTS											
Terminal											
Midfield Satellite Concourse - Phase 1	1,574,631	-	10,000	5,960	738,904	-	-	-	-	819,767	1,574,631
Terminal 1.5	400,000	25,000	-	-	40,000	-	-	-	-	335,000	400,000
Bradley West Interior Enhancements	371,357	-	40,000	-	69,273	-	262,085	-	-	-	*371,357*
Baggage System Enhancements	250,000	-	-	-	83,250	-	-	-	-	166,750	250,000
Acquisition of Terminal 4 Improvements	205,000	-	-	-	55,000	-	-	-	-	150,000	205,000
Terminal 4/TBIT Connector Building	174,318	-	44,657	-	64,283	-	65,378	-	-	-	174,318
Terminal 3 Connector	165,000	-	-	-	16,500	-	-	-	-	148,500	165,000
Terminal Commercial Management (T1, T2, T3, T6, TBIT)	176,151	-	-	-	2,000	-	127,975	-	-	46,176	176,151
Other Terminal Projects (c)	131,901	-	-	2,200	72,930	-	-	-	-	56,771	131,901
Terminal Total	**3,448,358**	**25,000**	**94,657**	**8,160**	**1,142,139**	**-**	**455,438**	**-**	**-**	**1,722,964**	**3,448,358**
Airfield and Apron											
Runway Safety Area Improvements	284,034	-	89,882	-	39,992	-	37,966	-	116,194	-	284,034
Taxilane T Program	133,544	-	34,800	-	25,566	-	73,178	-		-	133,544
Other Airfield and Apron Projects (d)	17,721	-	-	-	6,192	-	-	-	11,529	-	17,721
Airfield and Apron Total	**435,299**	**-**	**124,682**	**-**	**71,750**	**-**	**111,144**	**-**	**127,723**	**-**	**435,299**
Other Projects											
Noise Mitigation and Soundproofing	244,089	-	-	204,089	40,000	-	-	-	-	-	244,089
Infrastructure (e)	26,145	-	-	7,160	18,985	-	-	-	-	-	26,145
Landside (f)	24,900	-	-	-	24,900	-	-	-	-	-	*24,900*
Miscellaneous (g)	83,250	-	-	-	66,250	-	-	-	17,000	-	83,250
Other Projects Total	**378,384**	**-**	**-**	**211,249**	**150,135**	**-**	**-**	**-**	**17,000**	**-**	**378,384**
Other Planned and Incorporated Projects Total	**4,262,041**	**25,000**	**219,339**	**219,409**	**1,364,024**	**-**	**566,582**	**-**	**144,723**	**1,722,964**	**4,262,041**
Total Capital Program	**5,916,931**	**99,676**	**219,339**	**296,771**	**1,634,609**	**39,479**	**868,535**	**315,698**	**144,723**	**2,298,101**	**5,916,931**

(a) Only includes projects expected to be completed by FY 2021 to incorporate one full year of financial impact.
(b) Reflects airline tenant funds.
(c) Includes Terminal 6 electrical upgrades, Terminal 1-Terminal 8 minimum point of entry and IT room expansion, Terminal 5 gate and boarding renovations, fire life safety projects in Terminal 2 and Terminal 4-Terminal 8, along with other miscellaneous terminal improvements.
(d) Includes remain overnight aircraft parking electrification, stormwater connections, a replacement of the fire drill training facility, and construction of access posts.
(e) Includes a project to expand Access Control and Alarm Monitoring Systems, construction of departure level bollards, water main replacement around the Imperial Cargo complex, and Secured Area Access Post and vehicle checkpoint improvements.
(f) Includes projects for landside accessibility, wayfinding, and signage in the Central Terminal Area, demolition of certain buildings, and parking structure improvements.
(g) Includes a project for the Airport police canine facility, IT improvements, improvements to the Skyview building, and capital renewal allowances for all areas of the Airport.

Source: City of Los Angeles, Department of Airports.

Exhibit B
ESTIMATED SOURCES AND USES OF BOND FUNDS
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

	Series 2016A Subordinate Bonds	Future Bond Series						Total Series 2016A Subordinate Bonds and Future Bond Series
		2017	2018	2019	2020	2021	Total Future Bond Series	
SENIOR BONDS								
Sources of funds								
Par amount		$ 843,365	$ 774,675	$ 879,850	$ 165,195	$ 26,405	$ 2,689,490	$ 2,689,490
Reoffering premium		-	-	-	-	-	-	-
Total sources of funds		**$ 843,365**	**$ 774,675**	**$ 879,850**	**$ 165,195**	**$ 26,405**	**$ 2,689,490**	**$ 2,689,490**
Uses of funds								
Project costs funded with bond proceeds		$ 708,617	$ 643,777	$ 772,289	$ 149,118	$ 24,300	$ 2,298,101	$ 2,298,101
Capitalized interest		59,552	66,264	35,860	2,531	-	164,206	164,206
Debt service reserve fund deposit		69,291	59,211	65,539	12,390	1,918	208,348	208,348
Costs of issuance		2,530	2,324	2,640	496	79	8,068	8,068
Underwriters discount		3,373	3,099	3,519	661	106	10,758	10,758
Contingency		1	1	4	1	2	9	9
Total uses of funds		**$ 843,365**	**$ 774,675**	**$ 879,850**	**$ 165,195**	**$ 26,405**	**$ 2,689,490**	**$ 2,689,490**
SUBORDINATE BONDS								
Sources of funds								
Par amount	$ 318,330	$ 63,255	$ 83,295	$ 17,450	$ 1,910	$ -	$ 165,910	$ 484,240
Reoffering premium	28,878	-	-	-	-	-	-	28,878
Total sources of funds	**$ 347,208**	**$ 63,255**	**$ 83,295**	**$ 17,450**	**$ 1,910**	**$ -**	**$ 165,910**	**$ 513,118**
Uses of funds								
Project costs funded with bond proceeds	$ 315,698	$ 53,887	$ 73,185	$ 15,923	$ 1,728	$ -	$ 144,723	$ 460,421
Capitalized interest	6,527	3,762	2,824	-	-	-	6,586	13,113
Debt service reserve fund deposit	22,754	5,162	6,699	1,400	166	-	13,428	36,182
Costs of issuance	955	190	250	52	6	-	498	1,453
Underwriters discount	1,273	253	333	70	8	-	664	1,937
Contingency	2	1	4	4	2	-	12	14
Total uses of funds	**$ 347,208**	**$ 63,255**	**$ 83,295**	**$ 17,450**	**$ 1,910**	**$ -**	**$ 165,910**	**$ 513,118**

Source: Public Resources Advisory Group.

Exhibit C
PLEDGED REVENUES
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Budget (a)	Forecast					
	2016	2017	2018	2019	2020	2021	2022
Airline Revenues							
Terminal Building rentals (b)	$ 387,193	$ 438,946	$ 497,953	$ 538,146	$ 613,682	$ 706,862	$ 741,114
Landing and apron fees	250,931	277,298	295,259	318,659	339,254	344,214	351,080
Total Airline Revenues	**$ 638,124**	**$ 716,244**	**$ 793,212**	**$ 856,805**	**$ 952,936**	**$ 1,051,076**	**$ 1,092,195**
Annual increase/(decrease)		12.2%	10.7%	8.0%	11.2%	10.3%	3.9%
Aviation Revenues (c)							
Land rentals (d)	$ 88,127	$ 96,675	$ 98,609	$ 100,581	$ 102,592	$ 104,644	$ 106,737
Building rent - other than passenger terminals	69,934	71,332	72,759	74,214	75,699	77,213	78,757
Aircraft parking	1,010	1,052	1,096	1,141	1,185	1,234	1,289
Fuel fees	160	167	174	181	188	196	205
Other aviation revenue (e)	7,421	7,728	8,048	8,379	8,702	9,061	9,466
Total Aviation Revenues	**$ 166,652**	**$ 176,954**	**$ 180,686**	**$ 184,496**	**$ 188,366**	**$ 192,348**	**$ 196,454**
Annual increase/(decrease)		6.2%	2.1%	2.1%	2.1%	2.1%	2.1%
Concession Revenues							
Auto parking	$ 86,448	$ 93,364	$ 94,409	$ 97,333	$ 102,408	$ 102,237	$ 115,361
Rental cars	84,362	87,849	92,588	97,540	102,697	108,017	113,518
Duty free	72,577	71,700	74,067	76,419	78,707	80,805	82,766
Duty paid terminal concessions							
Food & beverage	$ 20,510	$ 26,027	$ 27,364	$ 28,758	$ 30,941	$ 33,257	$ 34,865
Retail	11,494	11,325	11,849	12,209	13,136	14,119	14,586
Terminal commercial management	34,585	48,417	51,153	54,020	58,122	62,471	65,812
Duty paid terminal concessions total	$ 66,589	$ 85,769	$ 90,366	$ 94,987	$ 102,199	$ 109,847	$ 115,263
Commercial vehicles revenue (f)	30,711	39,193	41,005	42,883	44,821	46,799	48,823
Foreign exchange	7,083	7,425	7,768	8,124	8,491	8,866	9,249
Telecommunications	809	809	809	809	809	809	809
Other concession revenue (g)	5,519	5,785	6,053	6,330	6,616	6,908	7,207
Terminal advertising	26,000	26,000	26,520	27,050	28,143	29,280	29,866
Total Concession Revenues	**$ 380,098**	**$ 417,894**	**$ 433,585**	**$ 451,475**	**$ 474,891**	**$ 493,567**	**$ 522,862**
Annual increase/(decrease)		9.9%	3.8%	4.1%	5.2%	3.9%	5.9%

Exhibit C (Page 2 of 2)
PLEDGED REVENUES
Los Angeles International Airport
Fiscal years ending June 30th
(dollars in thousands)

	Budget (a)	Forecast					
	2016	2017	2018	2019	2020	2021	2022
Airport Sales and Services							
Accommodations	$ 114	$ 116	$ 118	$ 120	$ 122	$ 124	$ 126
Other sales & services	631	644	657	670	683	697	711
Total Airport Sales and Services	**$ 745**	**$ 760**	**$ 775**	**$ 790**	**$ 805**	**$ 821**	**$ 837**
Annual increase/(decrease)		2.0%	2.0%	1.9%	1.9%	2.0%	1.9%
Miscellaneous Revenues							
Build America Bonds subsidy (Series 2009C)	$ 6,862	$ 6,712	$ 6,556	$ 6,386	$ 6,210	$ 6,024	$ 5,828
Build America Bonds subsidy (Series 2010C)	1,465	1,465	1,465	1,465	1,465	1,465	1,465
Miscellaneous revenues	1,326	1,353	1,380	1,408	1,436	1,465	1,494
Total Miscellaneous Revenues	**$ 9,654**	**$ 9,530**	**$ 9,402**	**$ 9,259**	**$ 9,111**	**$ 8,954**	**$ 8,787**
Annual increase/(decrease)		(1.3%)	(1.3%)	(1.5%)	(1.6%)	(1.7%)	(1.9%)
Investment Earnings	$ 21,669	$ 27,201	$ 33,776	$ 43,425	$ 51,391	$ 61,118	$ 73,073
Total Pledged Revenues	**$ 1,216,941**	**$ 1,348,584**	**$ 1,451,435**	**$ 1,546,250**	**$ 1,677,500**	**$ 1,807,884**	**$ 1,894,207**
Annual increase/(decrease)		10.8%	7.6%	6.5%	8.5%	7.8%	4.8%

(a) Source: City of Los Angeles, Department of Airports.
(b) Net of Tier 2 Revenue Sharing credits.
(c) Other than Airline Terminal rentals, landing fees, and apron fees.
(d) Includes revenues associated with the Park One property.
(e) Includes TSA revenue and other aviation fees.
(f) Includes bus, limousine, taxi cab, and transportation network company (e.g. Uber/Lyft) revenues.
(g) Includes, among other items, luggage carts and automated teller machine revenue.

Exhibit C-1

AIRLINE REVENUES AND COST PER ENPLANED PASSENGER

Los Angeles International Airport

Fiscal Years Ending June 30

(amounts in thousands, except cost per enplaned passenger)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Estimated	**Forecast**					
	2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
AIRLINE REVENUES							
Airline Terminal Rentals	$ 387,193	$ 438,946	$ 497,953	$ 555,218	$ 634,161	$ 706,862	$ 751,233
Less: Tier Two Revenue Sharing (a)	-	-	-	(17,072)	(20,479)	-	(10,119)
Net Airline Terminal Rentals	$ 387,193	$ 438,946	$ 497,953	$ 538,146	$ 613,682	$ 706,862	$ 741,114
Signatory Airline Landing and Apron Fees	250,759	277,298	295,259	318,659	339,254	344,214	351,080
Subtotal Signatory Airline Revenues	$ 637,952	$ 716,244	$ 793,212	$ 856,805	$ 952,936	$ 1,051,076	$ 1,092,195
Non-Signatory landing fees (b)	172	-	-	-	-	-	-
Less: Landing Fees associated with cargo landed weight (c)	(25,018)	(29,825)	(33,357)	(38,032)	(40,694)	(43,215)	(47,078)
Total Passenger Airline Revenues	**$ 613,106**	**$ 686,419**	**$ 759,855**	**$ 818,773**	**$ 912,242**	**$ 1,007,861**	**$ 1,045,117**
Enplaned passengers	37,156	38,185	39,168	40,158	41,150	42,123	43,084
Airline cost per enplaned passenger	**$ 16.50**	**$ 17.98**	**$ 19.40**	**$ 20.39**	**$ 22.17**	**$ 23.93**	**$ 24.26**

(a) Pursuant to the Rate Agreement, the following amounts, if any, are credited to Signatory Airlines as Tier Two Revenue Sharing: (1) amounts in the Terminal Renewal and Improvement Fund above the maximum balance specified in the Rate Agreement and (2) Net Terminal Cash Flow generated each year above the annual maximum specified in the Rate Agreement.

(b) None assumed in the forecasts.

(c) Includes landing fees associated with cargo carried on all-cargo airline aircraft and cargo landed weight carried by the passenger airlines.

Exhibit C-2

AIRLINE TERMINAL RENTALS

Los Angeles International Airport

(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

				Forecast			
	2016 (a)	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
Calendar Year Basis (b)							
Demised Premises	$ 232,174	$ 312,299	$ 344,399	$ 388,933	$ 450,515	$ 478,790	$ 509,809
Common Use Fees	41,293	47,392	52,265	58,893	68,088	71,482	75,179
Federal Inspection Service Fees	93,464	102,886	115,715	128,793	151,148	171,208	173,099
Terminal Special Charges	10,127	10,355	10,594	10,844	11,108	11,384	11,514
Prior Leases	27,902	-	-	-	-	-	-
Total airline terminal rentals (CY basis)	**$ 404,960**	**$ 472,932**	**$ 522,973**	**$ 587,463**	**$ 680,859**	**$ 732,865**	**$ 769,601**
Fiscal Year Basis (c)							
Total airline terminal rentals (FY basis)	**$ 387,193**	**$ 438,946**	**$ 497,953**	**$ 555,218**	**$ 634,161**	**$ 706,862**	**$ 751,233**

Note: The total airline terminal rentals (FY basis) differs from the amount shown in Exhibit C as a result of Tier 2 revenue sharing, which can be seen on Exhibit C-1.

(a) Airline terminal rentals reflected for CY 2016 are based on budgeted CY 2016 terminal rent calculations with updates to certain information. Airline terminal rents reflected for FY 2016 are based on estimates of terminal rents for the last 6 months of CY 2015 and the first six months of CY 2016.

(b) Terminal rentals are charged on a calendar year basis.

(c) Fiscal year amounts shown for inclusion in overall Airport financial forecasts (which are on a Fiscal Year basis).

Exhibit C-3
LANDING AND APRON FEES
Los Angeles International Airport
Fiscal Years Ending June 30
(in thousands, except for rates)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Budget (a)	Forecast					
	2016	2017	2018	2019	2020	2021	2022
LANDING FEE							
Operating Expense	$ 139,347	$ 149,036	$ 156,488	$ 164,312	$ 172,528	$ 181,154	$ 190,212
Amortization Expense	18,743	24,162	30,675	33,020	30,005	24,160	19,657
Senior Debt Service	1,978	2,770	2,824	3,640	1,101	1,088	1,087
Subordinate Debt Service	48,454	55,703	57,431	66,508	67,689	67,641	67,466
Less: Credit for Build America Bonds subsidy (Series 2009C)	(6,862)	(6,712)	(6,556)	(6,386)	(6,210)	(6,024)	(5,828)
Less: Credit for Build America Bonds subsidy (Series 2010C)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)	(1,465)
Debt Service Coverage (b)	-	-	-	-	-	-	-
M&O Reserve	2,538	1,945	1,968	2,067	4,322	2,602	2,732
Van Nuys Reliever Net Costs	1,016	1,036	930	819	703	583	456
Total Airfield Requirement	**$ 203,750**	**$ 226,474**	**$ 242,295**	**$ 262,515**	**$ 268,673**	**$ 269,738**	**$ 274,318**
Total Landed Weight (c)	56,441	57,623	58,832	60,048	61,138	62,412	63,923
Landing Fee Rate (d)	**$ 3.46**	**$ 3.93**	**$ 4.12**	**$ 4.37**	**$ 4.39**	**$ 4.32**	**$ 4.29**
APRON FEE							
Operating Expense	$ 33,748	$ 35,061	$ 36,814	$ 38,655	$ 40,587	$ 42,617	$ 44,748
Amortization Expense	3,706	4,757	4,723	4,203	10,113	9,976	9,927
Senior Debt Service	547	1,429	1,805	3,642	9,707	10,514	10,513
Subordinate Debt Service	8,566	9,119	9,159	9,158	9,157	10,757	10,932
Debt Service Coverage (b)	-	-	-	-	-	-	-
M&O Reserve	615	457	463	486	1,017	612	643
Total Apron Requirement	**$ 47,181**	**$ 50,824**	**$ 52,964**	**$ 56,144**	**$ 70,581**	**$ 74,476**	**$ 76,762**
Passenger Aircraft Landed Weight (c)	48,769	49,586	50,277	50,893	51,422	51,957	52,497
Apron Fee Rate (e)	**$ 0.92**	**$ 1.02**	**$ 1.05**	**$ 1.10**	**$ 1.37**	**$ 1.43**	**$ 1.46**
Combined Rate	**$ 4.38**	**$ 4.96**	**$ 5.17**	**$ 5.47**	**$ 5.77**	**$ 5.76**	**$ 5.75**

(a) Source: City of Los Angeles, Department of Airports. With the exception of Amortization and Debt Service in FY 2016, amounts reflected in this exhibit are as reflected in the FY 2016 Budget (see notes (d) and (e)).
(b) Debt service coverage is 0.25x for Senior Debt Service and 0.15x for Subordinate Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculations.
(c) Landed weight reflected in FY 2016 is a budgeted amount.
(d) The budgeted FY 2016 Landing Fee Rate of $3.46 is reflected in FY 2016. The calculated rate for FY 2016 based on requirements reflected on this exhibit would be approximately $0.15 higher than the budgeted rate as a result of minor adjustments to amortization and debt service since the time the budget was prepared.
(e) The budgeted FY 2016 Apron Fee Rate of $0.92 is reflected in FY 2016. The calculated rate for FY 2016 based on requirements reflected on this exhibit would be approximately $0.05 higher than the budgeted rate as a result of minor adjustments to amortization and debt service since the budget was prepared.

Exhibit D
LAX MAINTENANCE AND OPERATION EXPENSES
Los Angeles International Airport
Fiscal Years Ending June 30
(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Budget (a)	Forecast					
	2016	2017	2018	2019	2020	2021	2022
BY TYPE OF EXPENSE							
Salaries and Benefits	$ 380,021	$ 399,828	$ 419,874	$ 440,923	$ 484,939	$ 511,438	$ 539,262
Contractual Services	191,254	201,223	211,311	221,904	244,056	257,392	271,396
Administrative Services	4,531	4,768	5,007	5,257	5,782	6,098	6,430
Materials and Supplies	50,551	53,186	55,853	58,653	64,508	68,033	71,734
Utilities	45,070	47,420	49,797	52,293	57,513	60,656	63,956
Advertising and Public Relations	2,048	2,155	2,263	2,376	2,614	2,756	2,907
Other Operating Expenses	16,983	17,868	18,763	19,705	21,672	22,856	24,099
LAX M&O Expenses before Adjustments	$ 690,459	$ 726,448	$ 762,868	$ 801,111	$ 881,084	$ 929,229	$ 979,784
Adjustments (b)	(10,618)	(2,100)	(2,205)	(2,315)	(2,431)	(2,553)	(2,680)
LAX M&O Expenses	**$ 679,841**	**$ 724,348**	**$ 760,663**	**$ 798,796**	**$ 878,653**	**$ 926,676**	**$ 977,104**
Annual increase/(decrease)		6.5%	5.0%	5.0%	10.0%	5.5%	5.4%
Equipment/Vehicles	7,110	7,480	7,855	8,249	9,073	9,568	10,089
Total LAX M&O Expenses + Equipment/Vehicles	**$ 686,950**	**$ 731,828**	**$ 768,518**	**$ 807,045**	**$ 887,726**	**$ 936,244**	**$ 987,193**
SUMMARY BY COST CENTER							
Terminal Building	$ 343,622	$ 368,941	$ 387,388	$ 406,758	$ 467,325	$ 494,724	$ 523,494
Apron Area	33,748	35,061	36,814	38,655	40,587	42,617	44,748
Airfield Area	139,347	149,036	156,488	164,312	172,528	181,154	190,212
Aviation	54,592	58,062	60,965	64,013	67,214	70,574	74,103
Commercial	96,229	100,346	105,464	110,837	116,479	122,403	128,623
Exclusions / Other	19,411	20,382	21,399	22,470	23,593	24,772	26,013
Total LAX M&O Expenses + Equipment/Vehicles	**$ 686,950**	**$ 731,828**	**$ 768,518**	**$ 807,045**	**$ 887,726**	**$ 936,244**	**$ 987,193**

(a) Source: City of Los Angeles, Department of Airports.
(b) Includes administrative costs allocated to other airports that are not defined as LAX M&O Expenses.

Exhibit E

DEBT SERVICE

Los Angeles International Airport

Fiscal Years Ending June 30

(dollars in thousands)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

		Budget	Forecast					
		2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
SENIOR BOND DEBT SERVICE (a)								
Existing Senior Bond Debt Service								
Series 2008A		$ 39,702	$ 40,434	$ 40,501	$ 31,671	$ 40,987	$ 33,757	$ 41,382
Series 2009A		21,693	20,960	20,896	29,720	23,191	30,410	22,827
Series 2010A		61,883	61,893	61,891	58,651	67,204	62,849	59,817
Series 2010D		51,589	51,725	51,877	52,044	52,226	59,889	62,876
Series 2012A		11,720	11,584	11,427	11,261	9,884	6,587	6,588
Series 2012B		9,073	9,071	9,075	9,074	9,072	9,072	9,073
Series 2012C		6,900	6,897	6,895	10,143	-	-	-
Series 2013A		1,802	8,534	8,534	8,534	8,534	8,534	8,534
Series 2015A		8,881	15,027	15,748	17,565	17,573	17,564	17,563
Series 2015B		-	2,850	3,136	3,139	3,138	3,140	3,136
Series 2015D		2,400	19,702	20,509	20,511	20,512	20,508	20,518
Series 2015E		521	2,148	2,148	2,148	2,153	2,149	2,151
Total Existing Senior Bond Debt Service	[A]	$ 216,164	$ 250,826	$ 252,636	$ 254,461	$ 254,473	$ 254,459	$ 254,466
Future Senior Bond Debt Service								
Series 2017		$ -	$ 8,061	$ 37,863	$ 51,312	$ 67,971	$ 69,795	$ 69,795
Series 2018		-	-	2,072	13,622	50,135	58,659	59,211
Series 2019		-	-	-	2,646	54,749	65,027	65,539
Series 2020		-	-	-	-	4,607	11,913	12,390
Series 2021		-	-	-	-	-	1,188	1,918
Total Future Senior Bond Debt Service	[B]	$ -	$ 8,061	$ 39,936	$ 67,580	$ 177,463	$ 206,581	$ 208,852
Total Senior Bond Debt Service	**[C]=[A]+[B]**	**$ 216,164**	**$ 258,887**	**$ 292,571**	**$ 322,041**	**$ 431,936**	**$ 461,040**	**$ 463,318**
Less: PFC revenues used to pay Senior Bond Debt Service (b)	**[D]**	$ (120,633)	$ (117,985)	$ (161,514)	$ (167,702)	$ (170,011)	$ (182,073)	$ (189,386)
Senior Aggregate Annual Debt Service (c)	**[E]=[C]+[D]**	**$ 95,531**	**$ 140,903**	**$ 131,057**	**$ 154,338**	**$ 261,925**	**$ 278,967**	**$ 273,932**
Allocation to Direct Cost Centers								
Terminal Building		$ 84,949	$ 127,292	$ 116,910	$ 136,100	$ 241,722	$ 257,988	$ 252,955
Apron Area		547	1,429	1,805	3,642	9,707	10,514	10,513
Airfield Area		1,978	2,770	2,824	3,640	1,101	1,088	1,087
Aviation		2,088	2,975	3,035	3,949	1,100	1,095	1,094
Commercial		5,971	6,436	6,483	7,007	8,295	8,283	8,282
Senior Aggregate Annual Debt Service	**=[E]**	**$ 95,531**	**$ 140,903**	**$ 131,057**	**$ 154,338**	**$ 261,925**	**$ 278,967**	**$ 273,932**

Exhibit E (page 2 of 2)
DEBT SERVICE
Los Angeles International Airport
Fiscal Years Ending June 30 (dollars in thousands)

		Budget	Forecast					
		2016	2017	2018	2019	2020	2021	2022
SUBORDINATE OBLIGATIONS DEBT SERVICE (a)								
Existing Subordinate Obligations Debt Service								
Series 2008C		$ 6,193	$ 6,196	$ 6,191	$ 6,195	-	-	-
Series 2009C		27,911	27,767	27,617	27,446	27,267	27,086	26,900
Series 2009E		4,792	4,791	4,793	4,796	4,793	-	-
Series 2010B		6,726	6,734	6,734	6,734	6,734	8,414	8,605
Series 2010C		3,676	4,187	4,187	4,187	4,187	4,187	4,187
Series 2013B		2,736	5,274	5,274	5,274	5,274	5,275	5,270
Series 2015C		9,779	9,783	9,784	9,785	15,979	15,979	15,978
Total Existing Subordinate Obligations Debt Service	**[F]**	$ 61,812	$ 64,730	$ 64,579	$ 64,415	$ 64,234	$ 60,940	$ 60,940
Future Subordinate Obligations Debt Service								
Series 2016A		$ -	$ 11,386	$ 22,754	$ 22,754	$ 22,754	$ 22,754	$ 22,754
Series 2017		-	942	2,423	4,919	5,181	5,181	5,181
Series 2018		-	-	377	6,207	6,708	6,708	6,708
Series 2019		-	-	-	918	1,400	1,400	1,400
Series 2020		-	-	-	-	114	166	166
Total Future Subordinate Obligations Debt Service	**[G]**	$ -	$ 12,327	$ 25,554	$ 34,797	$ 36,156	$ 36,209	$ 36,209
Total Subordinate Obligations Debt Service	**[H]=[F]+[G]**	**$ 61,812**	**$ 77,058**	**$ 90,134**	**$ 99,212**	**$ 100,390**	**$ 97,149**	**$ 97,149**
Less: PFC revenues used to pay Subordinate Obligations Debt Service (b)		$ -	$ -	$ -	$ -	$ -	$ -	$ -
Subordinate Aggregate Annual Debt Service (c)		**$ 61,812**	**$ 77,058**	**$ 90,134**	**$ 99,212**	**$ 100,390**	**$ 97,149**	**$ 97,149**
Allocation to Direct Cost Centers								
Terminal Building		$ 4,792	$ 12,223	$ 23,489	$ 23,492	$ 23,490	$ 18,696	$ 18,696
Apron Area		8,566	9,119	9,159	9,158	9,157	10,757	10,932
Airfield Area		48,454	55,703	57,431	66,508	67,689	67,641	67,466
Aviation		-	-	-	-	-	-	-
Commercial		-	13	54	54	54	54	54
Subordinate Aggregate Annual Debt Service	**=[H]**	**$ 61,812**	**$ 77,058**	**$ 90,134**	**$ 99,212**	**$ 100,390**	**$ 97,149**	**$ 97,149**
TOTAL DEBT SERVICE	**=[E]+[H]**	**$ 157,343**	**$ 217,960**	**$ 221,191**	**$ 253,551**	**$ 362,315**	**$ 376,116**	**$ 371,081**

(a) As defined in the Senior and Subordinate Indentures, for purposes of meeting the Senior and Subordinate Rate Covenants, Senior Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service is net of PFC Revenues used to pay debt service and net of capitalized interest.

(b) The amount of PFC revenues reflected on this exhibit to pay debt service is based on (1) existing approvals from the FAA and (2) the assumption that the Department will apply for and receive FAA approval to use PFC revenues for debt service associated with certain future terminal projects (including certain Series 2016A Subordinate Bonds Projects and Other Planned and Incorporated Projects).

(c) Debt service on the Department's outstanding Commercial Paper is not reflected in this exhibit. See the section titled "Subordinate Bonds and Subordinate Commercial Paper Notes" of the Official Statement for additional information on the Department's Commercial Paper program.

Exhibit F
FLOW OF FUNDS AND DEBT SERVICE COVERAGE
Los Angeles International Airport
Fiscal Years Ending June 30
(amounts in thousands, except coverage ratios)

The forecasts presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

		Budget	Forecast					
		2016	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
FLOW OF FUNDS								
Pledged Revenues								
Airline Revenues		$ 638,124	$ 716,244	$ 793,212	$ 856,805	$ 952,936	$ 1,051,076	$ 1,092,195
Aviation Revenues		166,652	176,954	180,686	184,496	188,366	192,348	196,454
Concession Revenues		380,098	417,894	433,585	451,475	474,891	493,567	522,862
Airport Sales & Services		745	760	775	790	805	821	837
Miscellaneous Revenues		9,654	9,530	9,402	9,259	9,111	8,954	8,787
Investment Earnings		21,669	27,201	33,776	43,425	51,391	61,118	73,073
Total Pledged Revenues	**[A]**	**$ 1,216,941**	**$ 1,348,584**	**$ 1,451,435**	**$ 1,546,250**	**$ 1,677,500**	**$ 1,807,884**	**$ 1,894,207**
LAX M&O Expenses	**[B]**	**679,841**	**724,348**	**760,663**	**798,796**	**878,653**	**926,676**	**977,104**
Net Pledged Revenues	**[C]=[A]-[B]**	**537,101**	**624,236**	**690,772**	**747,454**	**798,847**	**881,208**	**917,103**
Remaining Flow of Funds costs								
Senior Aggregate Annual Debt Service (a)	**[D]**	$ 95,531	$ 140,903	$ 131,057	$ 154,338	$ 261,925	$ 278,967	$ 273,932
Subordinate Aggregate Annual Debt Service (b)	**[E]**	61,812	77,058	90,134	99,212	100,390	97,149	97,149
M&O Reserve	**[F]**	12,160	9,264	9,376	9,845	20,587	12,394	13,013
Total - Remaining Flow of Funds costs	**[G]=[D]+[E]+[F]**	$ 169,503	$ 227,225	$ 230,566	$ 263,395	$ 382,902	$ 388,510	$ 384,094
Net revenues remaining	**[H]=[C]-[G]**	**$ 367,597**	**$ 397,011**	**$ 460,206**	**$ 484,059**	**$ 415,945**	**$ 492,698**	**$ 533,009**

Exhibit F (page 2 of 2)
FLOW OF FUNDS AND DEBT SERVICE COVERAGE
Los Angeles International Airport
Fiscal Years Ending June 30 (dollars in thousands)

		Budget	Forecast					
		2016	2017	2018	2019	2020	2021	2022
DEBT SERVICE COVERAGE								
Senior Bond Debt Service Coverage								
Pledged Revenues	=[A]	$ 1,216,941	$ 1,348,584	$ 1,451,435	$ 1,546,250	$ 1,677,500	$ 1,807,884	$ 1,894,207
LAX M&O Expenses	=[B]	679,841	724,348	760,663	798,796	878,653	926,676	977,104
Net Pledged Revenues	[C]=[A]-[B]	$ 537,101	$ 624,236	$ 690,772	$ 747,454	$ 798,847	$ 881,208	$ 917,103
Senior Aggregate Annual Debt Service (a)	=[D]	95,531	140,903	131,057	154,338	261,925	278,967	273,932
Senior Bond Debt Service Coverage (c)	**= [C] / [D]**	**5.62**	**4.43**	**5.27**	**4.84**	**3.05**	**3.16**	**3.35**
Subordinate Obligation Debt Service Coverage								
Net Pledged Revenues	=[C]	$ 537,101	$ 624,236	$ 690,772	$ 747,454	$ 798,847	$ 881,208	$ 917,103
Less: Senior Aggregate Annual Debt Service	=[D]	95,531	140,903	131,057	154,338	261,925	278,967	273,932
Net Subordinate Pledged Revenues	[H]=[C]-[D]	$ 441,569	$ 483,333	$ 559,715	$ 593,116	$ 536,922	$ 602,240	$ 643,172
Subordinate Aggregate Annual Debt Service (b)	=[E]	$ 61,812	$ 77,058	$ 90,134	$ 99,212	$ 100,390	$ 97,149	$ 97,149
Subordinate Obligation Debt Service Coverage (c)	**= [H] / [E]**	**7.14**	**6.27**	**6.21**	**5.98**	**5.35**	**6.20**	**6.62**
Total Debt Service Coverage								
Net Pledged Revenues	=[C]	$ 537,101	$ 624,236	$ 690,772	$ 747,454	$ 798,847	$ 881,208	$ 917,103
Senior and Subordinate Bond Debt Service	[I]=[D]+[E]	$ 157,343	$ 217,960	$ 221,191	$ 253,551	$ 362,315	$ 376,116	$ 371,081
Total Debt Service Coverage (c)	**= [C] / [I]**	**3.41**	**2.86**	**3.12**	**2.95**	**2.20**	**2.34**	**2.47**

(a) Senior Aggregate Annual Debt Service is net of PFC revenues used to pay Senior Debt Service and net of capitalized interest.
(b) Subordinate Aggregate Debt Service is net of capitalized interest and excludes debt service on the Department's outstanding Commercial Paper. See the section titled "Subordinate Bonds and Subordinate Commercial Paper Notes" of the Official Statement for additional information on the Department's Commercial Paper program.
(c) No Transfers were assumed for purposes of calculating debt service coverage ratios.

Exhibit G

COMPARISON OF BASELINE FORECAST AND SENSITIVITY PROJECTION RESULTS

Los Angeles International Airport

Fiscal Years Ending June 30

The forecasts and projections presented in this exhibit were prepared using information from the sources identified and assumptions provided by, or reviewed with and agreed to by, Department management, as described in the accompanying text. Inevitably, some of the assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecast and actual results, and those differences may be material.

	Budget	Forecast					
	2016	2017	2018	2019	2020	2021	2022
ENPLANED PASSENGERS							
Baseline forecast (a)	37,156,245	38,185,306	39,167,990	40,158,480	41,150,207	42,123,320	43,083,807
Annual increase/(decrease)		2.8%	2.6%	2.5%	2.5%	2.4%	2.3%
Sensitivity projection	37,156,245	38,185,306	38,185,306	38,185,306	38,185,306	38,185,306	38,185,306
Annual increase/(decrease)		2.8%	0%	0%	0%	0%	0%
AIRLINE COST PER ENPLANED PASSENGER							
Baseline forecast	$ 16.50	$ 17.98	$ 19.40	$ 20.39	$ 22.17	$ 23.93	$ 24.26
Sensitivity projection	16.50	17.98	19.40	21.53	24.04	26.50	27.74
DEBT SERVICE COVERAGE ON SENIOR BONDS							
Baseline forecast	5.62	4.43	5.27	4.84	3.05	3.16	3.35
Sensitivity projection	5.62	4.43	5.19	4.72	2.94	3.01	3.18
DEBT SERVICE COVERAGE ON SUBORDINATED OBLIGATIONS							
Baseline forecast	7.14	6.27	6.21	5.98	5.35	6.20	6.62
Sensitivity projection	7.14	6.27	6.09	5.79	5.06	5.76	6.14
DEBT SERVICE COVERAGE ON ALL BONDS							
Baseline forecast	3.41	2.86	3.12	2.95	2.20	2.34	2.47
Sensitivity projection	3.41	2.86	3.07	2.87	2.13	2.23	2.35

(a) As reflected in Exhibits A-F.

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APPENDIX B

ANNUAL FINANCIAL REPORT OF
LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF
THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

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Annual Financial Report

FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

Department of Airports Los Angeles, California

Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Annual Financial Report

Fiscal years ended June 30, 2015 and 2014

Prepared by Financial Reporting Division

BOARD OF AIRPORT COMMISSIONERS, ELECTED CITY OFFICIALS, AND LOS ANGELES WORLD AIRPORTS STAFF


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District 11

Mitch O'Farrell
District 13

José Huizar
District 14

Joe Buscaino
District 15

LOS ANGELES WORLD AIRPORTS

Deborah Flint
Executive Director

Stephen Martin
Chief Operating Officer

Debbie Bowers
Deputy Executive Director
Commercial Development

Cynthia Guidry
Deputy Executive Director
Capital Programming,
Planning & Engineering

Roger Johnson
Deputy Executive Director
Airports Development

Samson Mengistu
Deputy Executive Director
Administration

Dominic Nessi
Deputy Executive Director
Information Management
& Technology

Patrick Gannon
Deputy Executive Director
Law Enforcement &
Homeland Security
Chief, Airports Police

Wei Chi
Deputy Executive Director
Comptroller

David Shuter
Deputy Executive Director
Facilities Maintenance
& Utilities

Jacqueline Yaft
Deputy Executive Director
Operations, Maintenance
& Emergency Management

Ryan Yakubik
Chief Financial Officer

Raymond Ilgunas
General Counsel

Silveria Silva
Accounting Operations

Jess Romo
Airport Manager, ONT/VNY

Barry Rondinella
Airport Operations

Janet Hackney
Airports Development
Contracts & Budget

Shirlene Sue
Airport Permit Services

Sandy Miller
Board Office

Maria Tesoro-Fermin
Community Relations

Robert Loya
Construction Inspection

Edward Bushman
Emergency Management

Lisa Trifiletti
Environmental Services

Nerida Esguerra
Finance & Budget

Valerie Hunter
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Systems

Rosalyn Wong
Financial Reporting

Mark Adams
Government Affairs

Barbara Yamamoto
Guest Services

Paula Adams
Human Resources

Tony Chen
Information Management &
Technology Architecture

Micaela LeBlanc
Information Management &
Technology Business
Application Support

Aura Moore
Information Management &
Technology Business Systems

Nathan Look
Information Management &
Technology Infrastructure

Mary Albers
Information Management &
Technology Planning

Anson Fong
Information Management &
Technology Security (Interim)

Amanda Dyson
Internal Audit

Marisa Katnich
Landside Business Management

Ramon Oliveres
Leasing & Development

Ralph Morones
Maintenance Services

Karen Tozer
Procurement Services

Mary Grady
Public & Media Relations

Bruce Brown
Risk Management

David Jones
Terminals Business
Management

Jeffrey Smith
Utilities & Infrastructure

Message from the Executive Director

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2015.

Macias Gini & O'Connell LLP, Certified Public Accountants (MGO), audited LAX's financial statements. Based upon its audit, MGO rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2015 and 2014, were fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). MGO's report is on pages 1 and 2.

MGO conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a material effect on its passenger facility charge program for the fiscal year ended June 30, 2015. MGO's report is on pages 81 and 82.

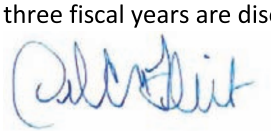
MGO also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1936, as amended by Senate Bill 1192 and Assembly Bill 359*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2015. MGO's report is on pages 87 and 88.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 3 through 26.

The financial condition of LAX depends primarily upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. Passenger and cargo traffic at LAX depends on the demographic characteristics and economic activity of the Air Trade Area. LAX is part of a system of Southern California airports – along with LA/Ontario International Airport, Van Nuys Airport and property retained for future aeronautical uses in the City of Palmdale – that are owned and operated by Los Angeles World Airports.

LAX is the fifth busiest airport in the world and second in the United States. The airport offers 692 daily nonstop flights to 85 cities in the U.S. and 928 weekly nonstop flights to 67 cities in 34 countries on 59 commercial air carriers. LAX ranks 14th in the world and fifth in the U.S. in air cargo tonnage processed, with over two million tons of air cargo valued at nearly $96.3 billion. An economic study in 2011 reported that operations at LAX generated 294,400 jobs in Los Angeles County with labor income of $13.6 billion and economic output of more than $39.7 billion. This activity added $2.5 billion to local and state revenues.

Passenger traffic in LAX has shown encouraging growth of 4.8% and reached 72.1 million passengers in fiscal year 2015 as compared to the prior fiscal year. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.



Deborah Flint
Executive Director

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Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Annual Financial Report
Fiscal Years Ended June 30, 2015 and 2014

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2015 ANNUAL FINANCIAL REPORT

Financial Section

Financial Section Contents

Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LAX as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of LAX are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2015 and 2014, the changes in their financial position, or, where applicable, their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As described in Notes 1 and 2, effective July 1, 2014, LAX adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68.* The implementation of these statements resulted in a restatement of net position as of July 1, 2014, in the amount of $567.9 million. The net position as of July 1, 2013 was not restated because all of the information available to restate prior year amounts was not readily available. Our opinion is not modified with respect to this matter.

Independent Auditor's Report
(continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 26, the schedule of LAX's proportionate share of the net pension liability on page 77, and the schedule of contributions – pension on pages 78 to 80 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of LAX. The accompanying compliance section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures and accompanying notes on pages 83 to 86; and Schedule of Customer Facility Charge Revenues and Expenditures and accompanying notes on pages 89 to 90 (collectively Information) are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2015, on our consideration of LAWA'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* in considering LAWA's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Los Angeles, California
November 5, 2015

2015 ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis

Management's Discussion and Analysis

Los Angeles World Airports
(Department of Airports of the City of Los Angeles, California)
Los Angeles International Airport

Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

Los Angeles World Airports (LAWA) is an independent, fiscally self-sufficient department of the City of Los Angeles, California (City). LAWA is an enterprise fund that owns and operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). LAWA owns approximately 17,750 acres of land located east of USAF Plant 42 in the City of Palmdale. LAWA retains the rights for future development of the Palmdale property.

The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2015 and 2014. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 27.

Using This Financial Report

LAX's financial report consists of this management's discussion and analysis (MD&A), and the financial statements that follow after the MD&A. The financial statements include:

The *Statements of Net Position* present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2015 and 2014. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present the results of LAX's operations and information showing the changes in net position for the fiscal years ended June 30, 2015 and 2014. These statements can be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

The *Statements of Cash Flows* relate to the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. Consequently, only transactions that affect LAX's cash and cash equivalents accounts were recorded in these statements. At the end of the statements, a reconciliation is provided to assist in understanding the difference between operating income and cash flows from operating activities.

The *Notes to the Financial Statements* present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of LAX's financial activities.

Passenger and Other Traffic Activity Highlights

The following table presents a summary of passenger and other traffic for the last three fiscal years:

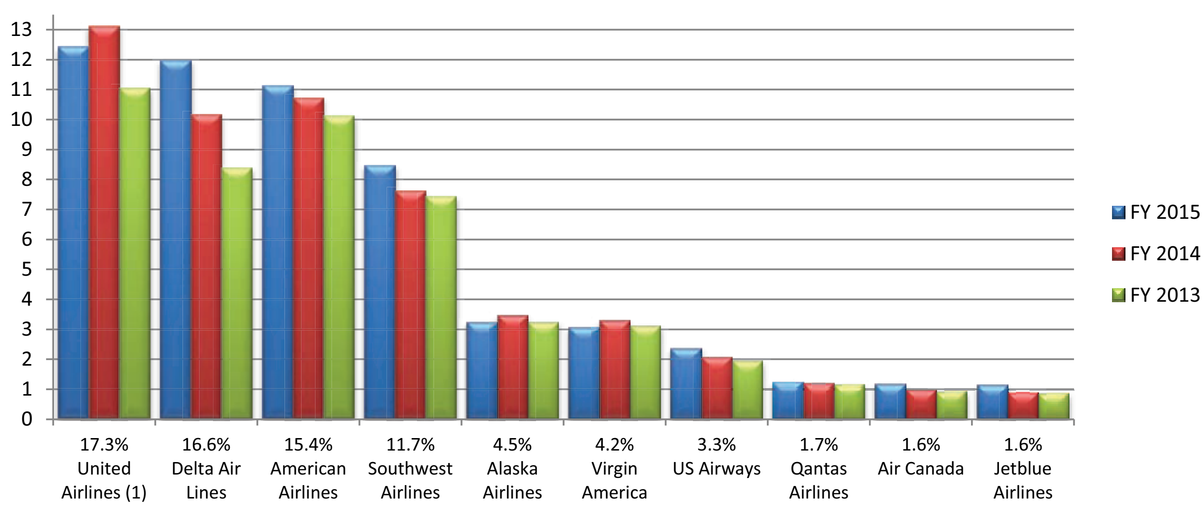
				% Change	
	FY 2015	FY 2014	FY 2013	FY 2015	FY 2014
Total passengers	72,062,730	68,786,455	64,969,102	4.8%	5.9%
Domestic passengers	52,478,111	50,162,524	47,641,025	4.6%	5.3%
International passengers	19,584,619	18,623,931	17,328,077	5.2%	7.5%
Departing passengers	36,114,325	34,333,784	32,524,178	5.2%	5.6%
Arriving passengers	35,948,405	34,452,671	32,444,924	4.3%	6.2%
Passenger flight operations					
Departures	291,107	286,725	273,193	1.5%	5.0%
Arrivals	290,920	286,627	273,297	1.5%	4.9%
Landing weight					
(thousand lbs)	54,990,272	52,572,657	50,206,827	4.6%	4.7%
Air cargo (tons)					
Mail	87,791	76,784	81,953	14.3%	-6.3%
Freight	2,016,438	1,852,760	1,863,891	8.8%	-0.6%

Note: Prior years' data may change because of the updated available information, however, in order to remain comparable and consistent with the published data, the passenger and other traffic numbers for prior fiscal years are not changed.

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2015 and the comparative passengers for fiscal years 2014 and 2013.

FY 2015 Top Ten Carriers and Percentage of Market Share (passengers in millions)



(1) Skywest activity was added into United Airlines effective FY2013 and Continental Airlines merged into United Airlines in early 2014.

Passenger Traffic, Fiscal Year 2015

Passenger traffic at LAX increased by 4.8% in fiscal year 2015 as compared to fiscal year 2014. Of the 72.1 million passengers that moved in and out of LAX, domestic passengers accounted for 72.8%, while international passengers accounted for 27.2%. United Airlines ferried the largest number of passengers at 12.4 million with a 5.2% decrease in passenger traffic. Delta Air Lines, ranked second with 12.0 million passengers posted a 17.8% increase in passenger traffic. American Airlines, ranked third with 11.1 million passengers posted a 3.8% increase in passenger traffic. Southwest Airlines (8.5 million) and Alaska Airlines (3.2 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked eighth overall.

Passenger Traffic, Fiscal Year 2014

Passenger traffic at LAX increased by 5.9% in fiscal year 2014 as compared to fiscal year 2013. Of the 68.8 million passengers that moved in and out of LAX, domestic passengers accounted for 72.9%, while international passengers accounted for 27.1%. United Airlines ferried the largest number of passengers at 13.1 million with an increase of 18.7% from the prior fiscal year after merging with Continental Airlines in early 2014. American Airlines, ranked second with 10.7 million passengers posted a 5.9% increase in passenger traffic. Delta Air Lines, ranked third with 10.2 million passengers posted a 21.2% increase in passenger traffic. Southwest Airlines (7.6 million) and Alaska Airlines (3.5 million) complete the top five air carriers operating at LAX. Qantas Airlines was the top foreign flag carrier with 1.2 million passengers and was ranked ninth overall.

Flight Operations, Fiscal Year 2015

Departures and arrivals at LAX had an increase of 8,675 flights or 1.5% during fiscal year 2015 when compared to fiscal year 2014. Scheduled[1] and charter were up 85,315 flights, while commuter flights were down 76,640. Revenue landing pounds were up 4.6%. The top three carriers in terms of landing pounds were Delta Air Lines, United Airlines, and American Airlines. In total, these three airlines contributed 40.2% of the total revenue pounds at LAX.

Flight Operations, Fiscal Year 2014

Departures and arrivals at LAX had an increase of 26,862 flights or 4.9% during fiscal year 2014 when compared to fiscal year 2013. Scheduled and charter were up 41,852 flights, while commuter flights were down 14,990. Revenue landing pounds were up 4.7%. The top three carriers in terms of landing pounds were American Airlines, Delta Air Lines, and United Airlines. In total, these three airlines contributed 38.5% of the total revenue pounds at LAX.

[1] *The increase in scheduled and charter flights by 85,315 and the decrease in commuter flights by 76,640 in fiscal year 2015 was due to the grouping of the Skywest activity into United Airlines effective FY2015. Skywest is considered as a commuter airline while United Airlines is considered as a scheduled carrier. Prior year data is not restated as information is not available.*

Air Cargo Operations, Fiscal Year 2015

Mail and freight cargo at LAX increased by 9.1% in fiscal year 2015 as compared to fiscal year 2014. Freight and mail were up by 11,007 tons and 163,678 tons, respectively. Domestic cargo was up by 32,670 tons or 4.1% and international cargo was up by 142,015 tons or 12.6%. Federal Express was the top air freight carrier accounting for 17.6% of total freight cargo, followed by Korean Airlines with 4.9%. United Airlines was the top mail carrier accounting for 31.8% of total mail cargo.

Air Cargo Operations, Fiscal Year 2014

Mail and freight cargo at LAX decreased by 0.8% in fiscal year 2014 as compared to fiscal year 2013. Freight and mail were down by 11,131 tons and 5,169 tons, respectively. Domestic cargo was down by 8,972 tons or 1.1% and international cargo was down by 7,328 tons or 0.6%. Federal Express was the top air freight carrier accounting for 19.4% of total freight cargo, followed by American Airlines with 5.0%. United Airlines was the top mail carrier accounting for 31.5% of total mail cargo.

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2015

- Assets exceeded liabilities at June 30, 2015 by $4.1 billion.
- Bonded debt had a net increase of $316.5 million.
- Operating revenue totaled $1,045.8 million.
- Operating expenses (including depreciation and amortization of $178.0 million) totaled $823.4 million.
- Net non-operating revenue was $17.6 million.
- Federal and other grants totaled $31.0 million.
- LAX's proportionate share of net pension liability (NPL) for the retirement benefits, based on the ratio of LAX's contributions to the City's retirement plan's total contributions, was $566.6 million as of measurement date June 30, 2014, and reporting date June 30, 2015. NPL, the difference between the total pension liability (TPL) and the retirement plan's net position, is an important measure required by Governmental Accounting Standards Board (GASB) Statements No. 68[2] and 71[3], to disclose in the financial statements. (See Note 13 of the notes to the financial statements.) The data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amounts was not readily available.
- Net position decreased by $291.6 million (including restatement of net position of $(567.9) million as a result of the implementation of GASB Statements No. 68 and 71).

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[2] *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, issued in June 2012*

[3] *GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68, issued in November 2013*

Financial Highlights, Fiscal Year 2014

- Assets exceeded liabilities at June 30, 2014 by $4.3 billion.
- Bonded debt had a net increase of $194.1 million.
- Operating revenue totaled $961.7 million.
- Operating expenses (including depreciation and amortization of $141.8 million) totaled $751.8 million.
- Net non-operating revenue was $59.2 million.
- Federal and other grants totaled $24.7 million.
- Net position increased by $300.1 million.

Net Position Summary

A condensed net position summary for fiscal years 2015, 2014, and 2013 is presented below:

Condensed Net Position
(amounts in thousands)

	FY 2015	FY 2014	FY 2013	FY 2015 increase (decrease)	FY 2014 increase (decrease)
Assets					
Unrestricted current assets	$ 777,512	$ 752,234	$ 724,570	$ 25,278	$ 27,664
Restricted current assets	1,590,602	1,673,096	1,631,710	(82,494)	41,386
Capital assets, net	6,991,500	6,453,252	5,888,002	538,248	565,250
Other noncurrent assets	8,550	11,235	13,841	(2,685)	(2,606)
Total assets	9,368,164	8,889,817	8,258,123	478,347	631,694
Deferred outflows of resources					
Deferred charges on debt refunding	25,307	676	730	24,631	(54)
Changes of assumptions related to pension	82,071	--	--	82,071	--
Contribution after measurement date related to pension	49,043	--	--	49,043	--
Total deferred outflows of resources	156,421	676	730	155,745	(54)
Liabilities					
Current liabilities payable from unrestricted assets	304,022	402,672	259,121	(98,650)	143,551
Current liabilities payable from restricted assets	126,729	112,117	97,108	14,612	15,009
Noncurrent liabilities	4,335,666	4,030,675	3,857,701	304,991	172,974
Net pension liability	566,613	--	--	566,613	--
Total liabilities	5,333,030	4,545,464	4,213,930	787,566	331,534
Deferred inflows of resources					
Differences between expected and actual experience related to pension	16,914	--	--	16,914	--
Differences between projected and actual investment earnings related to pension	103,501	--	--	103,501	--
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension	17,723	--	--	17,723	--
Total deferred inflows of resources	138,138	--	--	138,138	--
Net Position					
Net investment in capital assets	2,952,716	2,667,815	2,261,306	284,901	406,509
Restricted for debt service	341,697	325,490	307,374	16,207	18,116
Restricted for capital projects	742,742	893,390	889,723	(150,648)	3,667
Restricted for operations and maintenance reserve	174,228	164,284	157,210	9,944	7,074
Restricted for federally forfeited property and protested funds	1,289	1,088	894	201	194
Unrestricted	(159,255)	292,962	428,416	(452,217)	(135,454)
Total net position	$ 4,053,417	$ 4,345,029	$ 4,044,923	$ (291,612)	$ 300,106

A condensed net position summary of LAX's net position, on a proforma basis without the financial impact of GASB Statements No.68 and No. 71, for fiscal years 2015, 2014, and 2013 is presented below:

Proforma Condensed Net Position without the Financial Impact of GASB Statements No. 68 and No. 71
(amounts in thousands)

	FY 2015	FY 2014	FY 2013	FY 2015 increase (decrease)	FY 2014 increase (decrease)
Assets					
Unrestricted current assets	$ 777,512	$ 752,234	$ 724,570	$ 25,278	$ 27,664
Restricted current assets	1,590,602	1,673,096	1,631,740	(82,494)	41,356
Capital assets, net	6,991,500	6,453,252	5,888,002	538,248	565,250
Other noncurrent assets	8,550	11,235	13,841	(2,685)	(2,606)
Total assets	9,368,164	8,889,817	8,258,153	478,347	631,664
Deferred outflows of resources					
Deferred charges on debt refunding	25,307	676	730	24,631	(54)
Liabilities					
Current liabilities payable from unrestricted assets	304,022	402,672	259,121	(98,650)	143,551
Current liabilities payable from restricted assets	126,729	112,117	97,108	14,612	15,009
Noncurrent liabilities	4,344,728	4,030,675	3,857,701	314,053	172,974
Total liabilities	4,775,479	4,545,464	4,213,930	230,015	331,534
Net Position					
Net investment in capital assets	2,952,716	2,667,815	2,261,306	284,901	406,509
Restricted for debt service	341,697	325,490	307,374	16,207	18,116
Restricted for capital projects	742,742	893,390	889,723	(150,648)	3,667
Restricted for operations and maintenance reserve	174,228	164,284	157,210	9,944	7,074
Restricted for federally forfeited property and protested funds	1,289	1,088	894	201	194
Unrestricted	405,320	292,962	428,416	112,358	(135,454)
Total net position	$ 4,617,992	$ 4,345,029	$ 4,044,923	$ 272,963	$ 300,106

Net Position, Fiscal Year 2015

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2015 and 2014, assets exceeded liabilities by $4.1 billion and $4.3 billion, respectively, representing a 6.7% decrease or $291.6 million. The decrease in net position is a result of LAX's adoption of the provisions of GASB Statements No. 68 and No. 71.

The largest portion of LAX's net position ($3.0 billion or 72.8%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.3 billion or 31.1%) represents resources that are subject to various restrictions on how they may be used. The unrestricted net position (-$159.3 million or -3.9%) reflects the recognition of the reduction of net position due to GASB Statements No. 68 and 71 as stated above. As reflected in the Proforma Condensed Net Position, without the adoption of GASB Statements No. 68 and 71, the unrestricted net position would be $405.3 million.

Unrestricted current assets increased by 3.4%, from $752.2 million at June 30, 2014 to $777.5 million at June 30, 2015. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2015) held in the City Treasury. Cash outflows were less than inflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2015) held in the City Treasury for capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 9.0% from $599.6 million in fiscal year 2014 to $653.7 million in fiscal year 2015 mainly due to unspent proceeds of newly issued 2015 series bonds as of June 30, 2015.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisitions may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 8.3%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of $2.7 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net decrease of $98.7 million or 24.5%. This was mainly due to the decrease of $109.7 million, or 34.5% in contracts and accounts payable as a result of the final closeout payment of $83.3 million and $62.0 million for the Bradley West Core project and Bradley West Gates project, respectively, in fiscal year 2014. The decrease was offset by increase in obligations under securities lending transactions and increase in other current liabilities. The increase in other current liabilities was mainly due to the increase in the negative accounts receivable balance of $5.4 million resulting from the unapplied credits issued to the airlines, and increase in LAX's share of the City Treasury's year-end pending investment trade of $1.3 million.

Current liabilities payable from restricted assets had a net increase of $14.6 million or 13.0%. The increase was mainly due to the increase of $9.3 million, or 12.9% in current maturities of bonded debt and the increase of $1.4 million in accrued interest payable, increase of $4.7 million in obligations under securities lending transactions and $1.7 million in LAX's allocated share of the City Treasury's fiscal year-end pending investment trades, in fiscal year 2015, offset by the decrease of $2.5 million, or 56.6% in contracts and accounts payable.

The net increase in noncurrent liabilities was $871.6 million or 21.6%, as a result of additional bond issuances of $497.3 million and the recognition of LAX's proportionate share of net pension liability of $566.6 million during fiscal year 2015.

In addition to the net pension liability, LAX has also recognized the proportionate share of deferred outflows of resources for changes of assumptions related to pension of $82.1 million, deferred outflows of resources for contribution after measurement date related to pension of $49.0 million, deferred inflows of resources for differences between projected and actual investment earnings related to pension of $103.5 million, deferred inflows of resources for changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of $17.7 million, and deferred inflows of resources for differences between expected and actual actuarial experience related to pension of $16.9 million. LAX has also recognized the reversal of the net pension obligation of $9.0 million during fiscal year 2015. As a result, the net financial impact of the implementation of GASB Statements No. 68 and 71 is decrease in the net position by $564.6 million. Implementation of GASB Statements No. 68 and 71 is solely for financial reporting purpose, and it does not represent an immediate funding requirement. Accordingly, without the recognition of the decrease of net position due to GASB Statements No. 68 and 71, LAX's net position, would be $4.6 billion.

Net Position, Fiscal Year 2014

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2014 and 2013, assets exceeded liabilities by $4.3 billion and $4.0 billion, respectively, representing a 7.4% increase or $300.1 million.

The largest portion of LAX's net position ($2.7 billion or 61.4%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position ($1.4 billion or 31.9%) represents resources that are subject to various restrictions on how they may be used. The remaining balance of $293.0 million (6.7%) may be used to meet LAX's ongoing obligations.

Unrestricted current assets increased by 3.8%, from $724.6 million at June 30, 2013 to $752.2 million at June 30, 2014. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2014) held in the City Treasury. Cash inflows were more than outflows during the fiscal year. Unrestricted cash inflows were from operating activities, investment activities, non-capital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2014) held in the City Treasury for capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. The year-end investment portfolio held by fiscal agents increased by 6.9% from $560.9 million in fiscal year 2013 to $599.6 million in fiscal year 2014.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, and existing resources. Interim financing of such acquisitions may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by 9.6%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

The recognition of the current portion of the receivable from the City General Fund of $2.6 million was the primary reason for the decrease in other noncurrent assets.

Current liabilities payable from unrestricted assets had a net increase of $143.6 million or 55.4%. This was mainly due to the increase of $168.8 million, or 113.2% in contracts and accounts payable as a result of the final closeout payment of $83.3 million and $62.0 million for the Bradley West Core project and Bradley West Gates project, respectively. The increase was offset by the $15.9 million decrease in commercial paper and $9.5 million in unearned revenue recognized during fiscal year 2014.

Current liabilities payable from restricted assets had a net increase of $15.0 million or 15.5%. The net increment was mostly due to the increase of $19.2 million, or 36.0% in current maturities of bonded debt, offset by the decrease of $2.9 million in obligations under securities lending transactions and $2.9 million in LAX's allocated share of the City Treasury's fiscal year-end pending investment trades, in fiscal year 2014.

The net increase in noncurrent liabilities was $173.0 million or 4.5%, as a result of additional bond issuances during fiscal year 2014.

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2015, 2014, and 2013 is presented below:

Condensed Changes in Net Position
(amounts in thousands)

	FY 2015	FY 2014	FY 2013	FY 2014 increase (decrease)	FY 2013 increase (decrease)
Operating revenue	$ 1,045,800	$ 961,729	$ 865,473	$ 84,071	$ 96,256
Less- Operating expenses	645,398	610,027	589,430	35,371	20,597
Operating income before depreciation and amortization	400,402	351,702	276,043	48,700	75,659
Less- Depreciation and amortization	178,035	141,795	134,500	36,240	7,295
Operating income	222,367	209,907	141,543	12,460	68,364
Other nonoperating revenue, net	17,648	59,196	70,742	(41,548)	(11,546)
Federal and other grants	30,964	24,674	12,264	6,290	12,410
Inter-agency transfers	5,303	6,329	(2,126)	(1,026)	8,455
Changes in net position	276,282	300,106	222,423	(23,824)	77,683
Net position, beg. of year, as previously reported	4,345,029	4,044,923	3,828,380	300,106	216,543
Adjustment of an amount due from ONT	--	--	15,985	--	(15,985)
Change in accounting principle	(567,894)	--	(21,865)	(567,894)	21,865
Net position, beg. of year, as restated	3,777,135	4,044,923	3,822,500	(267,788)	222,423
Net position, end of year	$ 4,053,417	$ 4,345,029	$ 4,044,923	$ (291,612)	$ 300,106

Operating Revenue

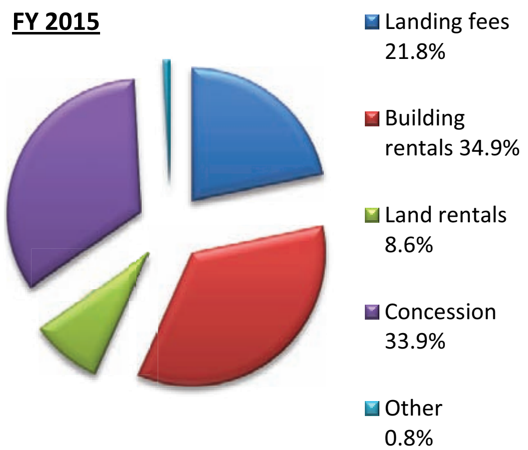
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2015, 2014, and 2013:

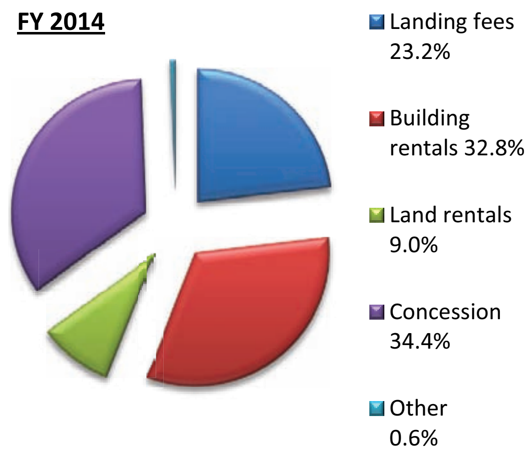
Summary of Operating Revenue
(amounts in thousands)

	FY 2015	FY 2014	FY 2013	FY 2015 increase (decrease)	FY 2014 increase (decrease)
Aviation revenue					
Landing fees	$ 227,518	$ 222,608	$ 216,359	$ 4,910	$ 6,249
Building rentals	365,296	315,764	257,251	49,532	58,513
Land rentals	90,478	86,534	81,010	3,944	5,524
Other aviation revenue	4,564	3,620	3,924	944	(304)
Total aviation revenue	687,856	628,526	558,544	59,330	69,982
Concession revenue	354,082	331,311	304,139	22,771	27,172
Other operating revenue	3,862	1,892	2,790	1,970	(898)
Total operating revenue	$ 1,045,800	$ 961,729	$ 865,473	$ 84,071	$ 96,256

Operating Revenue, Fiscal Year 2015

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2015 and 2014. Other aviation and other operating revenue were added and labeled "other."





For the fiscal year ended June 30, 2015, total operating revenue was $1,045.8 million, a $84.1 million or 8.7% increase from the prior fiscal year. The growth in aviation related revenue was $59.3 million. Non-aviation revenue had a net increase of $24.8 million mostly from concessions.

As described in the notes to the financial statements (see page 38), landing fees assessed to air carriers at LAX are based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

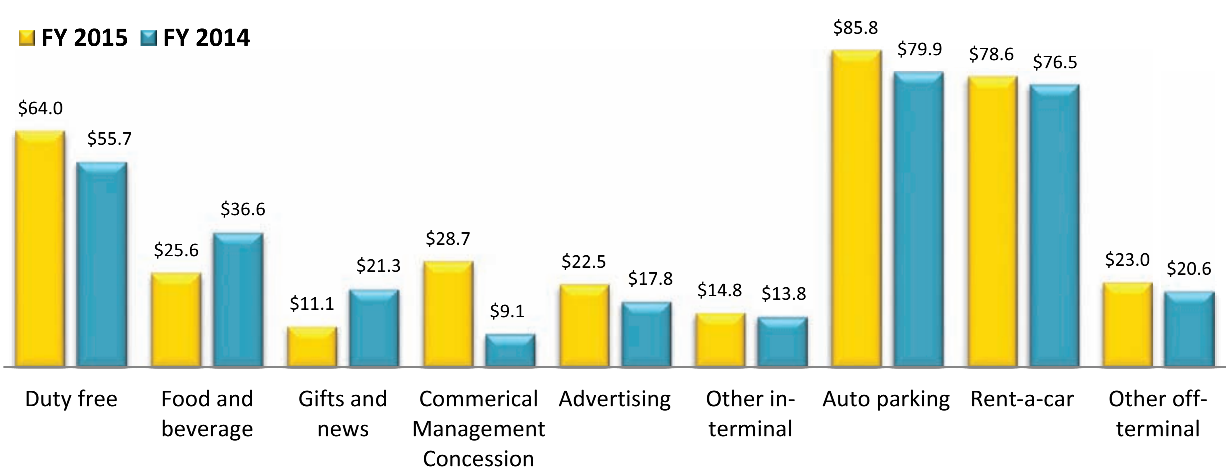
Landing fees for the fiscal year ended June 30, 2015 were up from $222.6 million to $227.5 million, or 2.2%. Total building rental revenue posted a growth of $49.5 million, or 15.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, increased cost recovery with the implementation of the terminal agreement, as well as the new and renegotiated leases signed with the airlines and other tenants. Land rental revenue increased by $3.9 million mainly due to the increase in leased areas.

Total revenue from concessions was $354.1 million in fiscal year 2015, a 6.9% growth from $331.3 million in fiscal year 2014. In-terminal concession revenue are rentals collected from commercial management concessionaries, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2015 had a net increase of $12.4 million or 8.0% as compared to fiscal year 2014. The concessions benefited from the increased passenger traffic. Duty free revenues increased by $8.3 million, or 14.8%. Advertising revenue increased by $4.7 million, or 26.8% as a result of the new advertising contract. Foreign exchange and telecommunications increased by $1.1 million, or 14.8%. As discussed in Note 8 of the notes to the financial statements, LAWA entered into Terminal Commercial Management Concession Agreements with Westfield Concession Management, LLC to develop, lease, and manage retail, food and beverage in specific locations at the TBIT, Terminals 1, 2, 3 and 6. As a result, commercial management concession showed an increase of $19.6 million or 215.4% while the concession revenue from food and beverage, gifts and news showed a decrease of $21.2 million or 36.6% during fiscal year 2015. Overall, the total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires showed a slight decrease of $1.6 million, or 2.4% mainly caused by the closure of some retail locations due to the on-going terminal modernization projects.

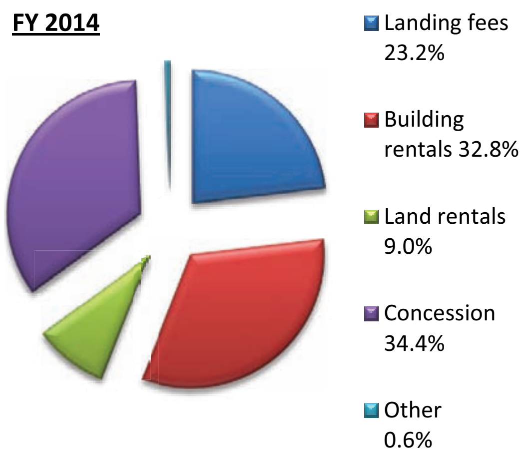
Off-terminal concession revenue in fiscal year 2015 was $187.4 million as compared to $177.0 million in fiscal year 2014, an increase of $10.4 million, or 5.9%. Of the $10.4 million increase, $5.9 million was from auto parking, $2.1 million from rent-a-car (RAC), $1.3 million from bus, limousine and taxi services, and $1.1 million from flyaway bus service.

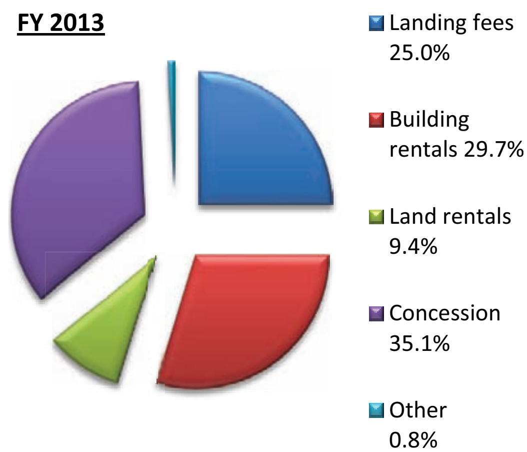
Comparative concession revenue by type for fiscal years 2015 and 2014 are presented in the following chart (amounts in millions).



Operating Revenue, Fiscal Year 2014

The following chart illustrates the proportion of sources of operating revenue for fiscal years ended June 30, 2014 and 2013. Other aviation and other operating revenue were added and labeled "other."





For the fiscal year ended June 30, 2014, total operating revenue was $961.7 million, a $96.3 million or 11.1% increase from the prior fiscal year. The growth in aviation related revenue was $70.0 million. Non-aviation revenue had a net increase of $26.3 million mostly from concessions.

As described in the notes to the financial statements (see page 38), landing fees assessed to air carriers at LAX are based on a cost recovery methodology. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

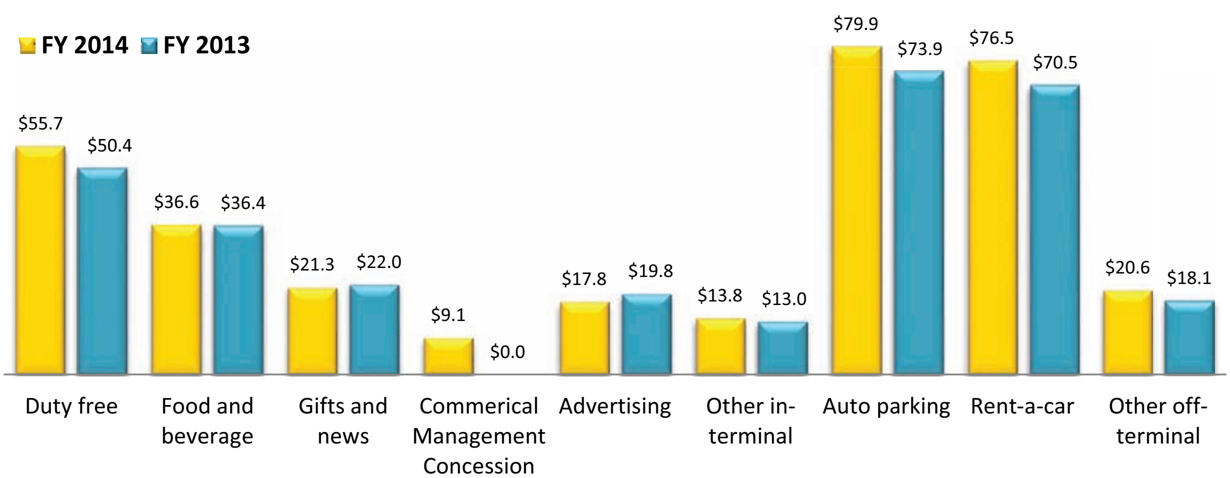
Landing fees for the fiscal year ended June 30, 2014 were up from $216.4 million to $222.6 million, or 2.9%. Total building rental revenue posted a growth of $58.5 million, or 22.7%. The increase was primarily attributable to the improvements and refurbishments in the terminals, the adoption of the new rates and charges, as well as the new and renegotiated leases signed with the airlines and other tenants. Building rental revenue from Skyview Center, which was acquired on June 25, 2013, represented $5.2 million of the increase. Land rental revenue increased by $5.5 million.

Total revenue from concessions was $331.3 million in fiscal year 2014, an 8.9% growth from $304.1 million in fiscal year 2013. In-terminal concession revenue are rentals collected from commercial management concessionaries, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, and luggage cart rental. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2014 had a net increase of $12.7 million or 9.0% as compared to fiscal year 2013. The concessions benefited from the increased passenger traffic and new offerings such that revenue from sales over the minimum annual guarantee (MAG) posted a notable improvement. Duty Free revenues increased by $5.3 million, or 10.5%. The total revenue from food and beverage concessionaires, retail merchants and commercial management concessionaires showed an increase of $8.6 million, or 14.7%. Advertising revenue decreased by $2.0 million, or 10.1% as a result of the loss of some advertising locations due to the closure of the old south concourse in Tom Bradley International Terminal (TBIT) and impacts of construction of new escalators, elevators, and walkways in the Terminal 4.

Off-terminal concession revenue in fiscal year 2014 was $177.0 million as compared to $162.5 million in fiscal year 2013, an increase of $14.5 million, or 8.9%. Of the $14.5 million increase, $6.0 million was from auto parking, $6.0 million from rent-a-car (RAC), $1.5 million from bus, limousine and taxi services, and $1.0 million from flyaway bus service.

Comparative concession revenue by type for fiscal years 2014 and 2013 are presented in the following chart (amounts in millions).



Operating Expenses

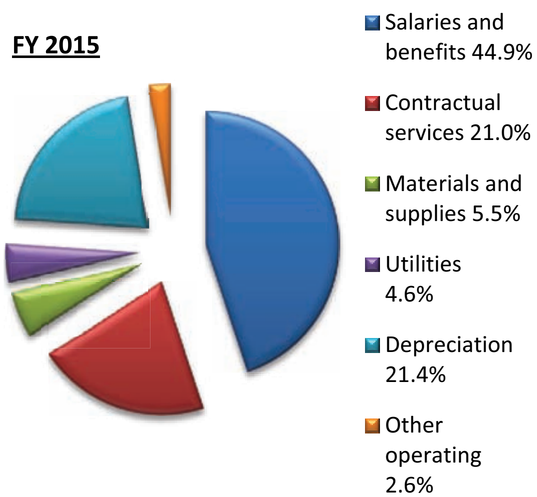
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2015, 2014, and 2013. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

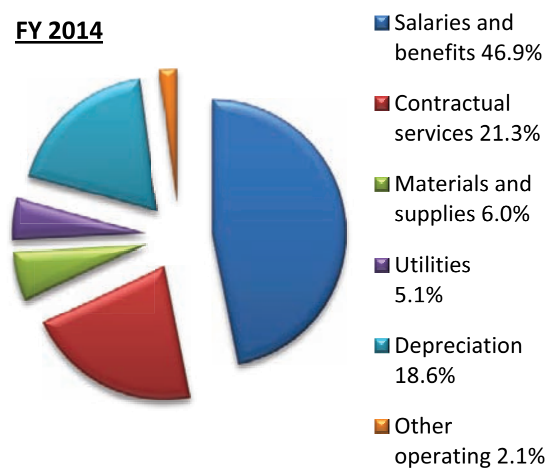
Summary of Operating Expenses (amounts in thousands)

	FY 2015	FY 2014	FY 2013	FY 2015 increase (decrease)	FY 2014 increase (decrease)
Salaries and benefits	$ 374,018	$ 356,726	$ 338,004	$ 17,292	$ 18,722
Contractual services	174,745	161,771	162,661	12,974	(890)
Materials and supplies	46,102	45,726	47,908	376	(2,182)
Utilities	38,355	39,089	32,472	(734)	6,617
Other operating expenses	21,205	16,093	18,383	5,112	(2,290)
Operating expenses before depreciation	654,425	619,405	599,428	35,020	19,977
Depreciation	178,035	141,795	134,500	36,240	7,295
Total operating expenses	832,460	761,200	733,928	71,260	27,272
Less- allocation to ONT, VNY and PMD	9,027	9,378	9,998	(351)	(620)
Net operating expenses	$ 823,433	$ 751,822	$ 723,930	$ 71,611	$ 27,892

Operating Expenses, Fiscal Year 2015

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2015 and 2014. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.





For the fiscal year ended June 30, 2015, operating expenses before allocation to other airports were $832.5 million, a $71.3 million or 9.4% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $17.3 million, contractual services, up by $13.0 million, and depreciation, up by $36.2 million, offset by the decrease in utilities of $0.7 million.

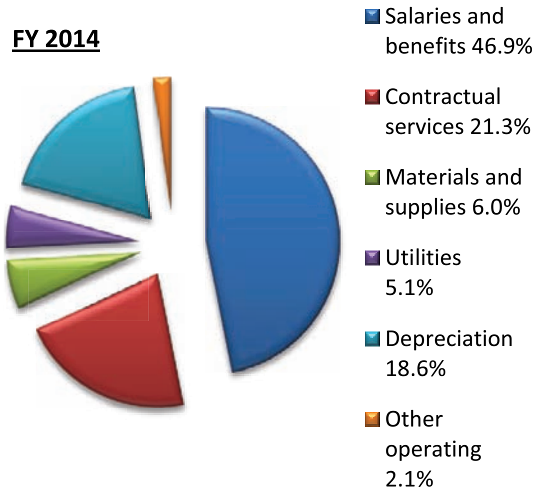
Salaries and overtime before capitalized charges had an increase of $12.7 million or 4.7% due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $1.9 million, or 1.9%. The increase in provision for workers' compensation liability was mainly due to the increase in number of cases as well as the increase in some high value cases during fiscal year 2015. The increase in contractual services was mainly due to the surge in legal services expenses of $6.7 million for lawsuit relating to local control of the LA/ONT International Airport. The increase in depreciation charges from $141.8 million in fiscal year 2014 to $178.0 million was due to the completion of major projects including the Bradley West North and South Gates, and the core area improvements at LAX. During fiscal year 2015, $168.9 million was reclassified from construction work in progress to depreciable capital asset categories. The decrease in utilities from $39.1 million to $38.4 million in fiscal year 2015 was due to the decrease of electricity of $1.3 million, or 4.4%, decrease of gas and telephone of $0.8 million, or 17.4%, offset by the increase of $1.3 million, or 26.6% of water charges. The decrease was a result of the replacement of the Central Utility Plant (CUP) with an energy efficient facility which saves electrical and natural gas usage in fiscal year 2015.

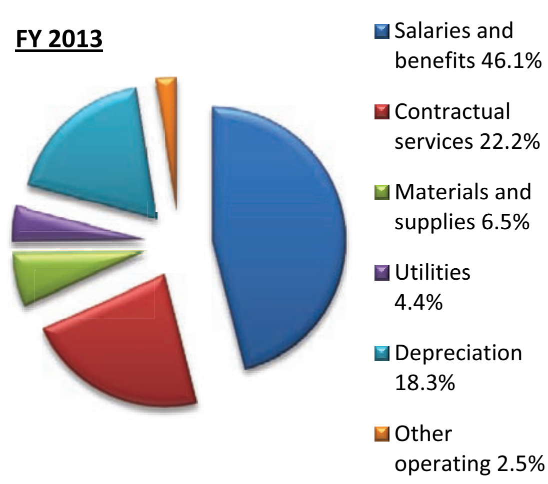
Materials and supplies, and other operating expenses increased by $0.4 million, or 0.8% and $5.1 million, or 31.8%, respectively. The increase in other operating expenses was mainly caused by a reduction in the reversal of bad debts allowance from $4.4 million in fiscal year 2014 to $0.3 million in fiscal year 2015. In accordance to LAX's policy, the allowance for bad debt is calculated based on 2% of outstanding month-end receivables plus 80% of all bankruptcy accounts and aged accounts over 120 days that are referred to the City Attorney.

Because of the reduction in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs.

Operating Expenses, Fiscal Year 2014

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2014 and 2013. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.





For the fiscal year ended June 30, 2014, operating expenses before allocation to other airports were $761.2 million, a $27.3 million or 3.7% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by $18.7 million, utilities, up by $6.6 million, and depreciation, up by $7.3 million. The remaining expense accounts had an aggregate net decrease of $5.4 million.

Salaries and overtime before capitalized charges had an increase of $15.5 million due mainly to bargaining agreements with employee unions. The combined increase in retirement contributions, healthcare subsidy, and accrued sick and vacation was $4.3 million while workers' compensation decreased by $1.1 million. The increase in utilities was attributable to a combination of higher electricity rates and consumption as a result of the new Bradley West Project in TBIT, which was opened in September 2013. The increase in depreciation charges from $134.5 million in fiscal year 2013 to $141.8 million was due to the completion of certain major projects at LAX terminals and airfield. During fiscal year 2014, $1,621.9 million was reclassified from construction work in progress to depreciable capital asset categories.

Contractual services, materials and supplies, and other operating expenses decreased by $0.9 million, $2.2 million and $2.3 million, respectively. Lower environmental consultant expenses as well as equipment maintenance and operations expenditures accounted for the decrease in contractual services. The costs for field paint, materials, supplies and services for the airfield marking was significantly lower in fiscal year 2014 following a significant airfield-marking project in fiscal year 2013. The decline in other operating expenses was mainly driven by the continued decrease in provision for bad debts as lesser customer accounts were in bankruptcy. In accordance to LAX's policy, the allowance for bad debt is calculated based on 2% of outstanding month-end receivables plus 80% of all bankruptcy accounts and aged accounts over 120 days that are referred to the City Attorney.

Because of the reduction in their operating costs, allocations to ONT, VNY, and PMD (the other airports) also decreased. A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs.

Non-operating Transactions

Non-operating transactions are activities that do not result from providing services as well as producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2015, 2014, and 2013.

Summary of Non-operating Transactions (amounts in thousands)

	FY 2015	FY 2014	FY 2013	FY 2015 increase (decrease)	FY 2014 increase (decrease)
Nonoperating revenue					
Passenger facility charges	$ 137,855	$ 132,809	$ 124,610	$ 5,046	$ 8,199
Customer facility charges	29,347	28,675	27,295	672	1,380
Interest income	20,327	20,413	25,231	(86)	(4,818)
Net change in fair value of investments	(2,021)	1,799	(22,793)	(3,820)	24,592
Other non-operating revenue	8,618	11,122	12,067	(2,504)	(945)
	$ 194,126	$ 194,818	$ 166,410	$ (692)	$ 28,408
Nonoperating expenses					
Interest expense	$ 166,919	$ 133,694	$ 93,610	$ 33,225	$ 40,084
Other non-operating expenses	9,559	1,928	2,058	7,631	(130)
	$ 176,478	$ 135,622	$ 95,668	$ 40,856	$ 39,954
Federal and other grants	$ 30,964	$ 24,674	$ 12,264	$ 6,290	$ 12,410
Inter-agency transfers	$ 5,303	$ 6,329	$ (2,126)	$ (1,026)	$ 8,455

Non-operating Transactions, Fiscal Year 2015

As a result of the increase in passenger traffic in fiscal year 2015, PFCs increased by $5.0 million, or 3.8%. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, posted an increase of $0.7 million, or 2.3% in fiscal year 2015.

Interest income decreased slightly due to slightly lower average balance of cash and pooled investments held in City Treasury. The net change in fair value of investments reflects the decrease driven by the downward year-end net adjustment to the fair value of investment securities. A component of other non-operating revenue related to reimbursements for certain Transportation Security Administration (TSA) programs was $2.1 million less in fiscal year 2015. Interest expenses increased with additional issuances of revenue bonds in the amount of $497.3 million in fiscal year 2015 to finance capital improvement projects. The increase in other non-operating expenses was mainly due to correction of prior years' expenses of $6.9 million, together with $0.8 million bond issuance expenses.

Non-operating Transactions, Fiscal Year 2014

The increase of $8.2 million in PFCs from fiscal year 2013 represents a 6.6% improvement aligned with the encouraging gain in passenger traffic. CFCs posted an increase, mostly from rental car business buoyed by passenger traffic. CFCs are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX.

Interest income decreased due to lower average balance of cash and pooled investments held in City Treasury and the lower annualized rate of return for the Treasury Pool core portfolio from 0.23% in fiscal year 2013 to 0.16% in fiscal year 2014. Net change in fair value of investments increased as a result of the upward adjustment of the fair value of investment securities at June 30, 2014. Within the non-operating revenue, the increase of $3.8 million reimbursements for certain TSA programs in fiscal year 2014, was offset by the $3.1 million loss on demolition of the South Concourse in TBIT and reduction of $1.6 million in miscellaneous revenue. Interest expenses increased with additional issuances of revenue bonds in the amount of $241.9 million to finance capital improvement projects.

Long-Term Debt

As of June 30, 2015, LAX's outstanding bonded debt before unamortized premium and discount was $4.1 billion. Issuances during the year amounted to $497.3 million, redemption and advanced refunding totaled $190.6 million, and payments for scheduled maturities were $72.4 million. Together with the unamortized premium and discount, bonded debt of LAX increased by $316.5 million to $4,299.3 million.

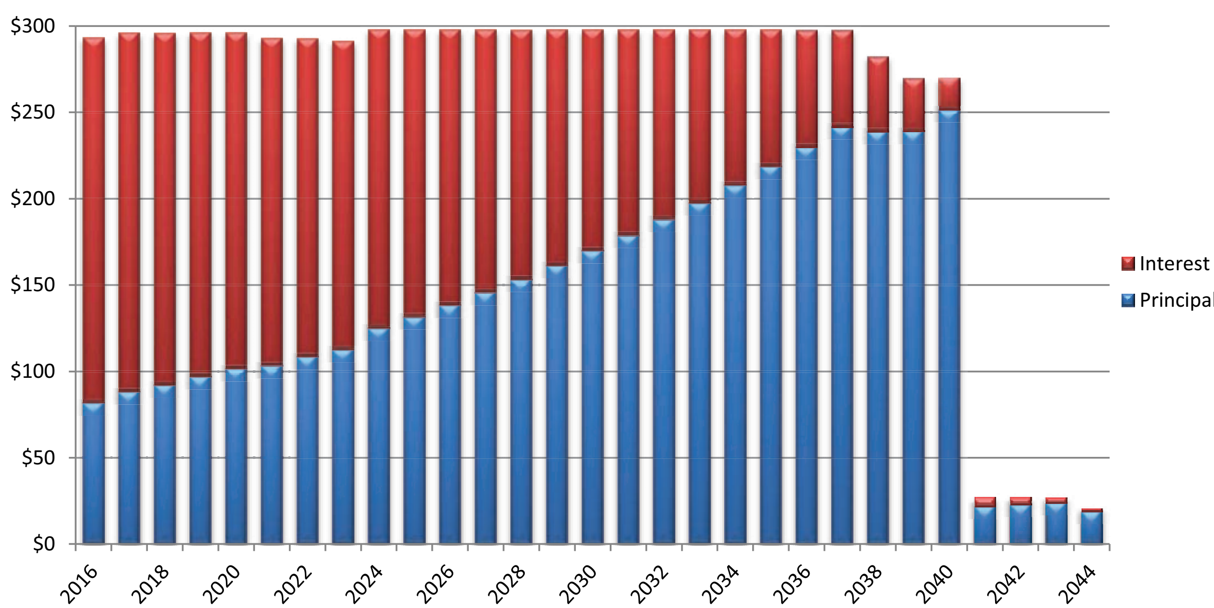
As of June 30, 2014, LAX's outstanding bonded debt before unamortized premium and discount was $3.9 billion. Issuances during the year amounted to $241.9 million, and payments for scheduled maturities were $53.2 million. Together with the unamortized premium and discount, bonded debt of LAX increased by $194.1 million to $3,982.8 million.

As of June 30, 2015 and 2014, LAX had $368.1 million and $350.5 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

As of June 30, 2015 and 2014, the ratings of LAX's outstanding bonds by Standard & Poor's Rating Services, Moody's Investors Service, and Fitch Ratings were as follows: AA, Aa3, and AA respectively for Senior Bonds; AA-, A1, and AA- respectively for Subordinate Bonds.

Additional information regarding LAX's bonded debt can be found in Note 6 of the notes to the financial statements beginning on page 51.

Outstanding principal, plus scheduled interest as of June 30, 2015, is scheduled to mature as shown in the following chart (amounts in millions).



Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2015 and 2014 were $7.0 billion and $6.5 billion, respectively. This investment, which accounts for 74.6% and 72.6% of LAX's total assets as of June 30, 2015 and 2014, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress.

LAX's policy affecting capital assets can be found in Note 1(f) of the notes to the financial statements on page 37. Additional information can be found in Note 4 on pages 48-49.

Capital Assets, Fiscal Year 2015

Major capital expenditure activities during fiscal year 2015 included:

- $228.3 million interior improvements and security upgrades at TBIT and Bradley West
- $118.2 million renovations at Terminals 1 to 8
- $63.5 million replacement of CUP and cogeneration facilities
- $55.0 million residential acquisition, soundproofing and noise mitigation
- $49.2 million Central Terminal Area (CTA) curbside development project and Second Level Roadway Joint and Deck replacement
- $31.7 million replacement and improvements of elevators and escalators
- $26.7 million design and preconstruction of Midfield Satellite Concourse
- $23.5 million in costs related to various Information Technology network and systems projects
- $21.1 million construction of runways and taxiways
- $17.2 million in costs related to construction of West Maintenance Facility

At June 30, 2015, the amounts committed for capital expenditures included $5.0 million for airfield and runways, $7.1 million for noise mitigation program, $75.4 million for terminals and facilities, and $30.9 million for various other projects.

Capital Assets, Fiscal Year 2014

Major capital expenditure activities during fiscal year 2014 included:

- $325.1 million improvements and security upgrades at the TBIT
- $73.6 million renovations at Terminals 1 to 8
- $55.9 million replacement of CUP and cogeneration facilities
- $38.4 million replacement and improvements of elevators and escalators
- $26.5 million residential acquisition, soundproofing and noise mitigation
- $17.9 million CTA curbside development project and Second Level Roadway Joint and Deck replacement
- $12.8 million in costs related to various Information Technology network and systems projects
- $13.7 million in costs related to various other projects

At June 30, 2014, the amounts committed for capital expenditures included $7.5 million for airfield and runways, $6.7 million for noise mitigation program, $92.5 million for terminals and facilities, and $32.8 million for various other projects.

Landing Fees, Fiscal Year 2016

The airline landing fees for fiscal year 2016, which became effective as of July 1, 2015 are as follows:

Permitted air carriers	Non-permitted air carriers	
$ 57.00	$ 71.00	For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less
110.00	138.00	For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds
3.46	4.33	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds
4.38	5.48	Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds

Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a fiscal year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

This report is designed to provide a general overview of the Los Angeles International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Ryan P. Yakubik, Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

2015 ANNUAL FINANCIAL REPORT

Financial Statements

Financial Statements

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Net Position
June 30, 2015 and 2014
(amounts in thousands)

		2015		2014
ASSETS				
Current Assets				
Unrestricted current assets				
Cash and pooled investments held in City Treasury	$	572,908	$	606,903
Investments with fiscal agents		100,913		6,752
Accounts receivable, net of allowance for uncollectible accounts: 2015 - $756; 2014 - $1,478		189		19,237
Unbilled receivables		28,868		26,909
Accrued interest receivable		2,639		2,372
Grants receivable		13,899		14,733
Receivable from City General Fund		2,684		2,606
Due from other agencies		49,594		66,045
Prepaid expenses		4,266		5,139
Inventories		1,552		1,538
Total unrestricted current assets		777,512		752,234
Restricted current assets				
Cash and pooled investments held in City Treasury		913,788		1,047,774
Investments with fiscal agents		653,729		599,590
Accrued interest receivable		1,463		1,785
Passenger facility charges receivable		19,038		20,961
Customer facility charges receivable		2,584		2,986
Total restricted current assets		1,590,602		1,673,096
Total current assets		2,368,114		2,425,330
Noncurrent Assets				
Capital assets				
Not depreciated		3,340,623		2,803,034
Depreciated, net		3,650,877		3,650,218
Total capital assets		6,991,500		6,453,252
Other noncurrent assets				
Receivable from City General Fund, net of current portion		8,550		11,235
Total other noncurrent assets		8,550		11,235
Total noncurrent assets		7,000,050		6,464,487
TOTAL ASSETS		9,368,164		8,889,817
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on debt refunding		25,307		676
Changes of assumptions related to pension		82,071		--
Contribution after measurement date related to pension		49,043		--
TOTAL DEFERRED OUTFLOWS OF RESOURCES		156,421		676

Statements of Net Position (continued)
June 30, 2015 and 2014
(amounts in thousands)

	2015	2014
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	$ 208,250	$ 317,964
Accrued salaries	12,766	11,438
Accrued employee benefits	4,598	4,464
Estimated claims payable	8,332	7,470
Commercial paper	50,123	52,160
Obligations under securities lending transactions	3,881	908
Other current liabilities	16,072	8,268
Total current liabilities payable from unrestricted assets	304,022	402,672
Current liabilities payable from restricted assets		
Contracts and accounts payable	1,893	4,361
Current maturities of bonded debt	81,700	72,390
Accrued interest payable	26,434	25,004
Obligations under securities lending transactions	6,177	1,509
Other current liabilities	10,525	8,853
Total current liabilities payable from restricted assets	126,729	112,117
Total current liabilities	430,751	514,789
Noncurrent Liabilities		
Bonded debt, net of current portion	4,217,562	3,910,421
Accrued employee benefits, net of current portion	37,208	36,122
Estimated claims payable, net of current portion	67,227	61,401
Liability for environmental/hazardous materials cleanup	12,783	12,783
Net pension obligation	--	9,062
Net pension liability	566,613	--
Other long-term liabilities	886	886
Total noncurrent liabilities	4,902,279	4,030,675
TOTAL LIABILITIES	5,333,030	4,545,464
DEFERRED INFLOWS OF RESOURCES		
Differences between expected and actual experience related to pension	16,914	--
Differences between projected and actual investment earnings related to pension	103,501	--
Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension	17,723	--
TOTAL DEFERRED INFLOWS OF RESOURCES	138,138	--
NET POSITION		
Net investment in capital assets	2,952,716	2,667,815
Restricted for:		
Debt service	341,697	325,490
Passenger facility charges funded projects	528,511	710,576
Customer facility charges funded projects	214,231	182,814
Operations and maintenance reserve	174,228	164,284
Federally forfeited property and protested funds	1,289	1,088
Unrestricted	(159,255)	292,962
TOTAL NET POSITION	$ 4,053,417	$ 4,345,029

See accompanying notes to the financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2015 and 2014
(amounts in thousands)

	2015	2014
OPERATING REVENUE		
Aviation revenue		
Landing fees	$ 227,518	$ 222,608
Building rentals	365,296	315,764
Land rentals	90,478	86,534
Other aviation revenue	4,564	3,620
Total aviation revenue	687,856	628,526
Concession revenue	354,082	331,311
Other operating revenue	3,862	1,892
Total operating revenue	1,045,800	961,729
OPERATING EXPENSES		
Salaries and benefits	374,018	356,726
Contractual services	174,745	161,771
Materials and supplies	46,102	45,726
Utilities	38,355	39,089
Other operating expenses	21,205	16,093
Allocated administrative charges	(9,027)	(9,378)
Total operating expenses before depreciation and amortization	645,398	610,027
Operating income before depreciation and amortization	400,402	351,702
Depreciation and amortization	178,035	141,795
OPERATING INCOME	222,367	209,907
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	137,855	132,809
Customer facility charges	29,347	28,675
Interest income	20,327	20,413
Net change in fair value of investments	(2,021)	1,799
Interest expense	(166,919)	(133,694)
Other nonoperating revenue	8,618	11,122
Other nonoperating expenses	(9,559)	(1,928)
Total nonoperating revenue, net	17,648	59,196
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	240,015	269,103
Federal and other government grants	30,964	24,674
Inter-agency transfers	5,303	6,329
CHANGE IN NET POSITION	276,282	300,106
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	4,345,029	4,044,923
Change in accounting principle	(567,894)	--
NET POSITION, BEGINNING OF YEAR, AS RESTATED	3,777,135	4,044,923
NET POSITION, END OF YEAR	$ 4,053,417	$ 4,345,029

See accompanying notes to the financial statements.

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)

Los Angeles International Airport

Statements of Cash Flows
For the Fiscal Years Ended June 30, 2015 and 2014
(amounts in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	$ 1,073,907	$ 976,844
Payments to suppliers	(188,643)	(128,523)
Payments for employee salaries and benefits	(374,789)	(354,124)
Payments for City services	(86,672)	(93,439)
Inter-agency receipts for services, net	9,027	9,378
Net cash provided by operating activities	432,830	410,136
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	10,803	13,253
Inter-agency transfers in (out)	21,754	5,793
Net cash provided by noncapital financing activities	32,557	19,046
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	784,228	253,413
Principal paid on revenue bonds and commercial paper notes	(465,046)	(69,305)
Interest paid on revenue bonds and commercial paper notes	(161,819)	(196,760)
Revenue bonds and commercial paper notes issuance costs	(2,488)	(1,703)
Acquisition and construction of capital assets	(870,564)	(534,351)
Proceeds from passenger facility charges	139,777	132,782
Proceeds from customer facility charges	29,749	28,450
Capital contributed by federal agencies	31,798	24,418
Net cash used for capital and related financing activities	(514,365)	(363,056)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	20,718	22,294
Net change in fair value of investments	(2,021)	1,799
Cash collateral received (paid) under securities lending transactions	7,641	(4,354)
Sales (purchases) of investments	2,959	(3,856)
Net cash provided by investing activities	29,297	15,883
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,681)	82,009
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,261,019	2,179,010
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,241,338	$ 2,261,019

	2015	2014
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	$ 572,908	$ 606,903
Investments with fiscal agents- unrestricted	100,913	6,752
Cash and pooled investments held in City Treasury- restricted	913,788	1,047,774
Investments with fiscal agents- restricted	653,729	599,590
Total cash and cash equivalents	$ 2,241,338	$ 2,261,019
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 222,367	$ 209,907
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	178,035	141,795
Change in provision for uncollectible accounts	(722)	(5,168)
Other nonoperating revenues (expenses), net	(6,219)	740
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	19,770	18,390
Unbilled receivables	(1,959)	5,988
Prepaid expenses and inventories	830	(4,973)
Contracts and accounts payable	8,296	52,355
Accrued salaries	1,328	1,459
Accrued employee benefits	1,220	1,543
Other liabilities	4,141	(11,900)
Net pension liability and related changes in deferred outflows and inflows of resources	5,743	--
Total adjustments	210,463	200,229
Net cash provided by operating activities	$ 432,830	$ 410,136
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	$ 80,815	$ 198,288

See accompanying notes to the financial statements.

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Index to the Notes to the Financial Statements

The notes to the financial statements include disclosures that are necessary for a better understanding of the accompanying financial statements. An index to the notes follows:

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Notes to the Financial Statements
June 30, 2015 and 2014

1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), and Van Nuys Airport (VNY). In addition, LAWA owns property consisting of approximately 17,750 acres of land in the City of Palmdale and retains the rights for future development of the Palmdale property.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop, and operate all property, plant, and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for the use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The accompanying financial statements present the net position and changes in net position and cash flows of LAX. These financial statements are not intended to present the financial position and changes in financial position of LAWA or the City, or cash flows of LAWA or the City's enterprise funds.

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the three airports referred to above and the Palmdale property.

c. Cash, Cash Equivalents, and Investments

LAX's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAX's portion of the pool is presented on the statements of net position as "Cash and Pooled Investments Held in City Treasury." LAX's investments, including its share in the City's investment pool, are stated at fair value based on quoted market prices except for money market investments that have remaining maturities of one year or less at time of purchase, which are reported at amortized cost. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period.

As permitted by the California Government Code, the City engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net position.

LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents. LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

d. Accounts Receivable and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus 80% of all bankruptcy accounts and all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

Unbilled receivables balances are the result of revenue accrued for services that exceed $5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal year period might not get processed through the billing system for up to sixty days into the next fiscal year.

e. Inventories

LAX's inventories consist primarily of general custodial supplies and are recorded at cost on a first-in, first-out basis.

f. Capital Assets

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of $5,000 for all capital assets other than internally generated computer software where the threshold is $500,000.

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

LAX capitalizes interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds). Net interest capitalized in fiscal years 2015 and 2014 were $33.8 million and $57.6 million, respectively.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; airfield and other improvements, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service. Also, no depreciation is taken on air easements and emission reduction credits because they are considered inexhaustible.

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.

h. Operating and Non-operating Revenues and Expenses

LAX distinguishes between operating revenues and expenses, and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

i. Landing Fees

Landing fee rates determine the charges to the airlines each time that a qualified aircraft lands at LAX and landing fees assessed to air carriers are based on cost recovery methodologies. The landing fee is calculated annually to recover the costs of constructing, maintaining and operating airfield facilities. Costs recovered through these fees are identified using allocation methods of relevant costs attributable to that airfield. Landing fees are initially set using estimates of cost and activity and are reconciled to actual results following the end of each fiscal year.

j. Terminal Rates and Charges

On September 17, 2012, the Board approved a new methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The new rates, which will recover the costs of acquiring, constructing, operating and maintaining terminal facilities, are as follows: terminal building rate, federal inspection services area (FIS) rate, common use holdroom rate, common use baggage claim rate, common use outbound baggage system rate, common use ticket counter rate, and terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The new rates were effective beginning January 1, 2013 for airlines and airline consortia agreeing to the new methodology and executing a rate agreement with LAWA (signatory airlines). Agreements with signatory airlines terminate on December 31, 2022. The new rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period. In addition, signatory airlines will share in the concession revenue derived from the terminals based on prescribed two-tiered formulae. Tier One Revenue Sharing has the effect of reducing the calculated terminal building rate (beginning calendar year 2014) and FIS rate (beginning calendar year 2016). Tier Two Revenue Sharing is distributed to signatory airlines in the form of a credit at the end of each calendar year beginning in 2014, subject to certain conditions.

Airlines with existing leases that opt not to sign an agreement under the new methodology (non-signatory tenant airlines) will continue to pay rates and charges based on their current leases until they sign the new rate agreement. Airlines with no existing leases that opt not to sign the new rate agreement (non-signatory tariff airlines) are charged the tariff rates effective January 1, 2013. Non-signatory airlines are not eligible to participate in the STP and revenue sharing programs.

k. Concession Revenue

Concession revenues are generated through LAX terminal concessionaires, tenants or airport service providers who pay monthly fees for using or accessing 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 these parties to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAX in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded will determine when accruals are required for each tenant.

l. Unearned Revenue

Unearned revenue consists of concessionaire rentals and payments received in advance, which will be amortized to revenue on the straight-line basis over the applicable period.

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leaves. LAX employees accumulate annual vacation and sick leaves in varying amounts based on length of service. Vacation and sick leaves are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leaves. Accrued employee benefits as of June 30, 2015 and 2014 are as follows (amounts in thousands):

Type of benefit	2015	2014
Accrued vacation leave	$ 21,259	$ 20,930
Accrued sick leave	20,547	19,656
Total	$ 41,806	$ 40,586

n. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, LAX reports a separate section for deferred outflows of resources and deferred inflows of resources, respectively. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and won't be recognized as an outflow of resources until then. Deferred inflows of resources represent an acquisition of resources that is applicable to future reporting period(s) that won't be recognized as an inflow of resources until then.

LAX reported deferred charges on refunding of $25.3 million and $0.7 million for fiscal years 2015 and 2014, respectively, as a result of the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

As a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68,* LAX reported the following deferred outflows and inflows of resources:

Deferred outflows of resources for fiscal year 2015:

- Changes of assumptions related to pension of $82.1 million.
- Contribution after measurement date related to pension of $49.0 million.

Deferred inflows of resources for fiscal year 2015:

- Differences between projected and actual investment earnings related to pension of $103.5 million
- Changes in proportion and differences between employer contributions and proportionate share of contributions related to pension of $17.7 million
- Differences between expected and actual actuarial experience related to pension of $16.9 million.

The data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amounts was not readily available.

o. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as non-operating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

p. Bond Premiums and Discounts

Bond premiums, discounts, and gains and losses on extinguishment of debt are deferred and amortized over the life of the bonds. At the time of bond refunding, the unamortized premiums or discounts are amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. Bonds payable is reported net of the applicable bond premium or discount.

In fiscal year 2015, LAX changed the method of amortizing bond premiums or discounts from straight-line method to effective interest method. The effective interest method allocates bond interest expense over the life of the bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issue of bonds. With effective interest method, the amortization of bond premiums or discounts is calculated using the effective market interest rate versus the coupon rate used in straight-line method.

q. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets* – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Position* – This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to 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, 2015 and 2014, net position of $742.7 million and $893.4 million, respectively, are restricted by enabling legislation.

- *Unrestricted Net Position* – This category represents net position of LAX that is not restricted for any project or other purpose.

r. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes of which both restricted and unrestricted resources are available, LAX's policy is to apply restricted resources first.

s. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

t. Restatement of Net Position

The net position at July 1, 2014 was restated by $567.9 million to adjust for the change in accounting principle as a result of the implementation of GASB Statements No. 68 and 71:

	2015
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	$ 4,345,029
Change in accounting principle as a result of implementation of GASB Statement No. 68	(567,894)
NET POSITION, BEGINNING OF YEAR, AS RESTATED	$ 3,777,135

The beginning of the year net position for fiscal year 2014 was not restated because all of the information available to restate prior year amounts was not readily available.

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2015.

Issued in June 2012, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27,* replaces the requirements of previously issued statements as they relate to governments that provide pensions through pension plans administered by trusts or similar arrangements that meet certain criteria. This statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability. Governments will report in their financial statements a net pension liability that represents the difference between the total pension liability and the pension plan's fiduciary net position. This statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including descriptive information about the types of benefits available, how to determine the amount of pension plan contributions, and assumptions and methods used in calculating the pension liability. This statement requires LAX to record a liability and expense equal to their proportionate share of the collective net pension liability and expense of the City's single-employer defined benefit pension plan.

Issued in November 2013, GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68,* amends GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. GASB Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68.

As of July 1, 2014, LAX adopted the provisions of GASB Statements No. 68 and No. 71 and restated the beginning net position by $567.9 million to recognize the proportionate shares of net pension liability as of June 30, 2014. Additional information can be found in Note 1(t) on page 41.

Issued in January 2013, GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* establishes accounting and financial reporting standards related to mergers, acquisitions, transfers of operations, and disposal of operations applicable to state and local governmental entities. This statement had no impact on LAX's financial statements for fiscal year 2015.

The GASB has issued several pronouncements that have effective dates that may impact future presentations. LAX is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in February 2015, GASB Statement No. 72, *Fair Value Measurement and Application,* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. Implementation of this statement is effective fiscal year 2016.

Issued in June 2015, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, this statement also clarifies the application of certain provisions of GASB Statement No. 68 with regard to the information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported. Implementation of this statement is effective fiscal year 2017.

Issued in June 2015, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended*, and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. Implementation of this statement is effective fiscal year 2017.

Issued in June 2015, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* addresses accounting and financial reporting for other postemployment benefit (OPEB) that is provided to the employees of state and local governmental employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Implementation of this statement is effective fiscal year 2018.

Issued in June 2015, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles (GAAP) for State and Local Governments,* consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this statement is effective fiscal year 2016.

Issued in August 2015, GASB Statement No. 77, *Tax Abatement Disclosures*, requires disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. Implementation of this statement is effective fiscal year 2017.

3. Cash and Investments

a. Pooled Investments

Pursuant to the California Government Code and the Los Angeles City Council File No. 94-2160, the City Treasurer provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City's pooled investment practices with the following objectives, in order of priority, safety of capital, liquidity, and rate of return. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted under California law.

Each investment transaction and the entire portfolio must comply with the California Government Code and the Policy. Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund (LAIF).

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of the Pool of $1.5 billion and $1.7 billion as of June 30, 2015 and 2014 represented approximately 17.8% and 21.2%, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated shares for fiscal years 2015 and 2014 were $17.1 million and $14.2 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash, U.S. government securities, and federal agency issued securities as collateral on loaned securities. The cash collateral is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and the related obligation for the general investment pool. The City temporarily suspended its securities lending program in May 2012 and resumed in December 2012. At June 30, 2015, LAX's portion of the cash collateral and the related obligation in the City's program was $10.1 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2015 was $10.1 million. Such securities are stated at fair value and reported under the cash and pooled investments held in City Treasury. LAX's portion of the noncash collateral at June 30, 2015 was $126.8 million. At June 30, 2014, LAX's portion of the cash collateral and the related obligation in the City's program was $2.4 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2014 was $2.4 million. Such securities are stated at fair value. LAX's portion of the noncash collateral at June 30, 2014 was $66.7 million.

During the fiscal years, collateralizations on all loaned securities were within the required 102.0% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City at June 30, 2015 and 2014 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

The investment practices of the fiscal agents that relate to LAX's portfolio are similar as those of the City Treasurer's, and have similar objectives. LAX's investments held by fiscal agents are for the following purposes (amounts in thousands):

	2015	2014
Unrestricted, current		
Commercial paper and cash at bank	$ 100,913	$ 6,752
Restricted, current and noncurrent		
Bond security funds	368,130	350,494
Construction funds	285,599	249,096
Subtotal	653,729	599,590
Total	$ 754,642	$ 606,342

The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

At June 30, 2015, the investments and their maturities are as follows (amounts in thousands):

		Investment maturities	
	Amount	1 to 60 days	61 to 365 days
Money market mutual funds	$ 226,765	$ 226,765	$ --
State of California LAIF	423,614	--	423,614
Subtotal	650,379	$ 226,765	$ 423,614
Bank deposit accounts	104,263		
Total	$ 754,642		

At June 30, 2014, the investments and their maturities are as follows (amounts in thousands):

		Investment maturities	
	Amount	1 to 60 days	61 to 365 days
Money market mutual funds	$ 383,436	$ 383,436	$ --
State of California LAIF	216,154	--	216,154
Subtotal	599,590	$ 383,436	$ 216,154
Bank deposit accounts	6,752		
Total	$ 606,342		

Interest Rate Risk. LAX adopts the City's policy that limits the maturity of investments to five years for U.S. Treasury and government agency securities. The policy allows funds with longer term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2015 and 2014, the money market mutual funds were rated AAAm by Standard and Poor's, and Aaa by Moody's.

As of June 30, 2015, LAX's investments in LAIF held by fiscal agents totaled $423.6 million. The total amount invested by all public agencies in LAIF at that date was $21.5 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2015, the investments in the PMIA totaled $69.7 billion, of which 97.9% is invested in non-derivative financial products and 2.1% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 239 days as of June 30, 2015. LAIF is not rated.

As of June 30, 2014, LAX's investments in LAIF held by fiscal agents totaled $216.2 million. The total amount invested by all public agencies in LAIF at that date was $21.1 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2014, the investments in the PMIA totaled $64.9 billion, of which 98.1% is invested in non-derivative financial products and 1.9% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 232 days as of June 30, 2014. LAIF is not rated.

The Local Investment Advisory Board (the Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn anytime, is determined on a historical basis, which is different than the fair value of LAX's position in the pool.

The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2015 (amounts in thousands):

	Balance at July 1, 2014	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2015
Capital assets not depreciated					
Land and land clearance	$ 840,530	$ --	$ --	$ --	$ 840,530
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	1,912,240	706,474	--	(168,885)	2,449,829
Total capital assets not depreciated	2,803,034	706,474	--	(168,885)	3,340,623
Capital assets depreciated					
Buildings	2,112,285	--	(12,413)	155,084	2,254,956
Improvements	3,028,121	5,335	--	10,499	3,043,955
Equipment and vehicles	203,328	7,511	(2,234)	3,302	211,907
Computer software	3,611	--	--	--	3,611
Total capital assets depreciated	5,347,345	12,846	(14,647)	168,885	5,514,429
Less accumulated depreciation					
Buildings	(380,974)	(14,396)	9,625	--	(385,745)
Improvements	(1,164,248)	(149,836)	--	--	(1,314,084)
Equipment, vehicles and computer software	(151,905)	(13,803)	1,985	--	(163,723)
Total accumulated depreciation	(1,697,127)	(178,035)	11,610	--	(1,863,552)
Capital assets depreciated, net	3,650,218	(165,189)	(3,037)	168,885	3,650,877
Total capital assets	$ 6,453,252	$ 541,285	$ (3,037)	$ --	$ 6,991,500

LAX had the following activities in capital assets during fiscal year 2014 (amounts in thousands):

	Balance at July 1, 2013	Interagency transfers and additions	Interagency transfers, retirements & disposals	Interaccount transfers	Balance at June 30, 2014
Capital assets not depreciated					
Land and land clearance	$ 840,530	$ --	$ --	$ --	$ 840,530
Air easements	44,346	--	--	--	44,346
Emission reduction credits	5,918	--	--	--	5,918
Construction work in progress	2,843,537	690,560	--	(1,621,857)	1,912,240
Total capital assets not depreciated	3,734,331	690,560	--	(1,621,857)	2,803,034
Capital assets depreciated					
Buildings	633,575	--	(15,558)	1,494,268	2,112,285
Improvements	2,887,179	14,692	(194)	126,444	3,028,121
Equipment and vehicles	199,513	4,888	(1,073)	-	203,328
Computer software	2,466	--	--	1,145	3,611
Total capital assets depreciated	3,722,733	19,580	(16,825)	1,621,857	5,347,345
Less accumulated depreciation					
Buildings	(378,247)	(15,190)	12,463	--	(380,974)
Improvements	(1,047,387)	(117,055)	194	--	(1,164,248)
Equipment and vehicles	(143,428)	(9,550)	1,073	--	(151,905)
Total accumulated depreciation	(1,569,062)	(141,795)	13,730	--	(1,697,127)
Capital assets depreciated, net	2,153,671	(122,215)	(3,095)	1,621,857	3,650,218
Total capital assets	$ 5,888,002	$ 568,345	$ (3,095)	$ --	$ 6,453,252

5. Commercial Paper

As of June 30, 2015 and 2014, LAX had outstanding commercial paper (CP) notes of $50.1 million and $52.2 million, respectively. The respective average interest rates in effect as of June 30, 2015 and 2014 were 0.20% and 0.24%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

LAX entered into a letter of credit (LOC) and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Bank of the West for $54.5 million to expire on October 2, 2017; Sumitomo Mitsui Bank for $109.0 million to expire on October 2, 2017; Wells Fargo Bank for $218.0 million to expire on October 2, 2017; and Barclays Bank PLC for $163.5 million to expire on January 16, 2018. LAX paid the LOC banks an annual commitment fee ranging from 0.27% and 0.35% on the stated amount of the LOC. LOC fees of $1.8 million were paid for each of the fiscal year 2015 and 2014.

LAX had the following CP activity during fiscal year 2015 (amounts in thousands):

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Series B	$ -	$ 200,000	$ (200,000)	$ -
Series C	52,160	65	(2,102)	50,123
Total	$ 52,160	$ 200,065	$ (202,102)	$ 50,123

LAX had the following CP activity during fiscal year 2014 (amounts in thousands):

	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Series C	$ 68,086	$ 159	$ (16,085)	$ 52,160

6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2015 and 2014 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled	Original principal	Outstanding principal 2015	2014
Issue of 2008, Series A	8/06/08	3.750% - 5.500%	2038	602,075	518,115	529,515
Issue of 2008, Series B	8/06/08	3.000% - 5.000%	2015	7,875	--	1,365
Issue of 2008, Series C	8/06/08	3.000% - 5.250%	2038	243,350	22,100	217,640
Issue of 2009, Series A	12/03/09	2.000% - 5.250%	2039	310,410	284,770	291,495
Issue of 2009, Series C	12/03/09	5.175% - 6.582%	2039	307,350	307,350	307,350
Issue of 2009, Series D	12/03/09	2.500% - 5.000%	2015	31,815	--	7,955
Issue of 2009, Series E	12/03/09	2.000% - 5.000%	2020	39,750	20,805	24,450
Issue of 2010, Series A	4/08/10	3.000% - 5.000%	2040	930,155	905,090	923,325
Issue of 2010, Series B	11/04/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/04/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	854,555	863,225
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	94,380	100,665
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	139,180	141,895
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	27,460	27,870
Issue of 2013, Series A	11/19/13	5.000%	2043	170,685	170,685	170,685
Issue of 2013, Series B	11/19/13	4.625% - 5.000%	2038	71,175	71,175	71,175
Issue of 2015, Series A	2/24/15	3.230% - 5.000%	2045	267,525	267,525	--
Issue of 2015, Series B	2/24/15	2.920% - 5.000%	2045	47,925	47,925	--
Issue of 2015, Series C	2/24/15	3.000% - 5.000%	2035	181,805	181,805	--
Total principal amount				$4,560,850	4,106,960	3,872,650
Unamortized premium					198,252	117,890
Unamortized discount					(5,950)	(7,729)
Net revenue bonds					4,299,262	3,982,811
Less- current portion of debt					(81,700)	(72,390)
Net noncurrent debt					$ 4,217,562	$3,910,421

b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. Significant covenants include the requirement that LAX's pledged revenues, as defined in the master senior and subordinate indentures, shall be the security and source of payment for the bonds.

LAX has received approval from the Federal Aviation Administration to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. Board of Airport Commissioners authorized amounts of $91.0 million and $96.5 million were used for debt service in fiscal years 2015 and 2014, respectively.

The total principal and interest remaining to be paid on the bonds is $7.5 billion. Principal and interest paid during fiscal year 2015 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the $91.0 million PFCs funds discussed in the preceding paragraph), were $275.5 million and $512.0 million, respectively. Principal and interest paid during fiscal year 2014 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, together with the $96.5 million PFCs funds discussed in the preceding paragraph), were $249.4 million and $472.5 million, respectively. Based on provisions of the bond indenture in calculating debt service coverage, PFCs reimbursements are excluded from senior lien bonds debt service, and interest expenses from commercial papers are included in the subordinate lien bonds debt service.

c. Bond Issuances

On February 24, 2015, LAX issued senior lien LAX revenue bonds Series 2015A of $267.5 million, Series 2015B of $47.9 million, and LAX subordinate revenue bonds Series 2015C of $181.8 million. The premium for these issuances totaled $86.9 million. The bonds were issued to pay for certain capital projects at LAX and to advance refund and defease a portion of the Series 2008C subordinate revenue bonds in the amount of $190.6 million. These transactions resulted in a cash flow savings of $25.7 million and economic gain of $16.9 million.

On November 19, 2013, LAX issued Series 2013A LAX senior revenue bonds of $170.7 million and Series 2013B LAX subordinate revenue bonds of $71.2 million. The premium for these issuances totaled $11.4 million. The bonds were issued to provide ongoing funding for the Terminal 4 Connector, Bradley West Core Renovations, and various other capital projects.

d. Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

Fiscal year(s) ending	Principal	Interest	Total
2016	$ 81,700	$ 211,467	$ 293,167
2017	88,065	207,786	295,851
2018	91,970	203,737	295,707
2019	96,910	199,308	296,218
2020	101,480	194,562	296,042
2021 - 2025	580,510	891,722	1,472,232
2026 - 2030	768,175	720,748	1,488,923
2031 - 2035	990,365	498,562	1,488,927
2036 - 2040	1,200,660	216,148	1,416,808
2041 - 2045	107,125	15,659	122,784
Total	$ 4,106,960	$ 3,359,699	$ 7,466,659

e. Build America Bonds

LAX Subordinate Revenue Bonds 2009 Series C and 2010 Series C with par amounts of $307.4 million and $59.4 million, respectively, were issued as federally taxable Build America Bonds (BABs) under the American Recovery and Reinvestment Act of 2009. LAX receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as “sequestration”) for the federal fiscal years ending September 30, 2015 and September 30, 2014 reduced the subsidy. The interest subsidy on the BABs was $7.7 million each for fiscal year 2015 and 2014. The subsidy is recorded as a noncapital grant, a component of other non-operating revenue.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2015 (amounts in thousands):

	Balance at July 1, 2014	Additions	Reduction	Balance at June 30, 2015	Current Portion
Revenue bonds	$ 3,872,650	$ 497,255	$ (262,945)	$ 4,106,960	$ 81,700
Add unamortized premium	117,890	91,717	(11,355)	198,252	--
Less unamortized discount	(7,729)	--	1,779	(5,950)	--
Net revenue bonds	3,982,811	588,972	(272,521)	4,299,262	81,700
Accrued employee benefits	40,586	5,684	(4,464)	41,806	4,598
Estimated claims payable	68,871	14,158	(7,470)	75,559	8,332
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,062	--	(9,062)	--	--
Net pension liability	--	566,613	--	566,613	
Other long-term liabilities	886	--	--	886	--
Total long-term liabilities	$ 4,114,999	$ 1,175,427	$ (293,517)	$ 4,996,909	$ 94,630

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2014 (amounts in thousands):

	Balance at July 1, 2013	Additions	Reduction	Balance at June 30, 2014	Current Portion
Revenue bonds	$ 3,684,010	$ 241,860	$ (53,220)	$ 3,872,650	$ 72,390
Add unamortized premium	112,779	11,394	(6,283)	117,890	--
Less unamortized discount	(8,053)	--	324	(7,729)	--
Net revenue bonds	3,788,736	253,254	(59,179)	3,982,811	72,390
Accrued employee benefits	39,043	5,838	(4,295)	40,586	4,464
Estimated claims payable	67,665	7,470	(6,264)	68,871	7,470
Unearned revenue	9,536	--	(9,536)	--	--
Liability for environmental/ hazardous materials cleanup	12,783	--	--	12,783	--
Net pension obligation	9,462	--	(400)	9,062	--
Other long-term liabilities	3,791	--	(2,905)	886	--
Total long-term liabilities	$ 3,931,016	$ 266,562	$ (82,579)	$ 4,114,999	$ 84,324

8. Leases and Agreements

a. Operating Leases and Agreements As Lessor

LAX has entered into numerous rental agreements with concessionaires for food and beverage, gift and news, duty-free, rental car facilities, and advertisements. In general, the agreements provide for cancellation on a 30-day notice by either party; however, they are intended to be long-term in nature with renewal options. Accordingly, these agreements are considered operating leases for purposes of financial reporting.

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2015 and 2014, revenues from such agreements were approximately $257.2 million and $241.5 million, respectively. The respective amounts over MAG were $56.1 million and $64.3 million.

Minimum future rents or payments under these agreements over the next five years, assuming that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2016	$ 189,455
2017	186,960
2018	155,570
2019	36,039
2020	36,039
Total	$ 604,063

The increase in minimum future rents was mainly due to the higher MAG and extension of the term of agreement for most concessionaires in fiscal year 2015. This includes MAG of $83.1 million for Duty Free Service Group, $42.5 million for JC Decaux and $36.7 million for Hertz Corporation from fiscal years 2016 to 2020.

On March 1, 2012, LAWA and Westfield Concession Management, LLC (Westfield) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT) and Terminal 2 for a term of 17 years consisting of two-year development period and fifteen-year operational period. Since then, the Terminal 2 portion has been amended with an expiration date no later than July 31, 2029, and the TBIT portion has been amended with an expiration date no later than January 31, 2032. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $81.9 million in initial improvements and $16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 3-1-12 Agreement, the MAG will be adjusted each year by the greater of (a) $210 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX beginning January 1, 2014.

For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and Westfield entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for Westfield to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Westfield will select concessionaires subject to LAWA approval. Concession agreements awarded by Westfield shall have a term no longer than ten years. The agreement requires Westfield and its concessionaires to invest no less than $78.6 million in initial improvements and $15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to Westfield or the issuance of rent credit.

Under the 6-22-12 Agreement, the MAG will be adjusted each year by the greater of (a) $240 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAX. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis beginning January 1, 2014.

Minimum future rents under these two agreements with Westfield over the next five years are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2016	$ 35,314
2017	36,197
2018	37,102
2019	38,030
2020	38,980
Total	$ 185,623

LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from less than 10 years to 40 years and generally expire between 2017 and 2025. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the fiscal years ended June 30, 2015 and 2014, revenues from these leases were $455.8 million and $402.3 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the assumption that current agreements are carried to contractual termination. The future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2016	$ 457,880
2017	453,077
2018	439,270
2019	417,477
2020	396,614
Total	$ 2,164,318

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2015 and 2014 are as follows (amounts in thousands):

	2015	2014
Buildings and facilities	$ 3,270,702	$ 3,133,865
Less- Accumulated depreciation	(510,978)	(522,955)
Net	2,759,724	2,610,910
Land	555,997	555,997
Total	$ 3,315,721	$ 3,166,907

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2015 and 2014 were $6.3 million and $6.0 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2016	$ 6,044
2017	6,038
2018	6,038
2019	6,038
2020	4,907
2021 - 2025	16,625
2026 - 2030	10,915
2031 - 2032	3,586
Total	$ 60,191

On June 25, 2013, LAX purchased a 17.6 acres commercial real estate property (known as Skyview Center) located adjacent to the airport. The $111.5 million acquisition includes the land, two 12 and 11 story office buildings, a parking structure, and a 14.4 acres parking lot. Prior to the purchase of the property, LAX leased certain areas of one of the buildings for office space and LAX continues to use them.

9. Passenger Facility Charges

PFCs are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as non-operating revenue and presented as restricted assets in the financial statements. LAX has received approvals from FAA to impose PFCs for various projects. The current PFCs is $4.50 per enplaned passenger.

As previously discussed, LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Projects. Board authorized amounts of $91.0 million and $96.5 million were used for debt service in fiscal years 2015 and 2014, respectively.

The following project summary has been approved by FAA as of June 30, 2015 (amounts in thousands):

Terminal development	$ 2,148,395
Noise mitigation	863,745
Airfield development and equipment	83,620
Total	$ 3,095,760

PFCs collected and the related interest earnings through June 30, 2015 and 2014 were as follows (amounts in thousands):

	2015	2014
Amount collected	$ 1,965,334	$ 1,827,480
Interest earnings	197,226	189,565
Total	$ 2,162,560	$ 2,017,045

As of June 30, 2015 and 2014, cumulative expenditures to date on approved PFCs projects totaled $1.6 billion and $1.3 billion, respectively.

10. Customer Facility Charges

In November 2001, the Board approved the collection of a state-authorized Customer Facility Charges (CFCs) from car rental agencies serving LAX. State law allows airports to collect a fee of $10 per on-airport rental car agency transaction to fund the development of consolidated car rental facility and common-use transportation system. CFCs are recorded as non-operating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2015 and 2014 were as follows (amounts in thousands):

	2015	2014
Amount collected	$ 202,128	$ 172,781
Interest earnings	11,789	9,660
Total	$ 213,917	$ 182,441

As of June 30, 2015 and 2014, cumulative expenditures to date on approved CFCs projects totaled $3.0 million.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled $31.0 million and $24.7 million in fiscal years 2015 and 2014, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.

12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for the fiscal years ended June 30, 2015 and 2014 were $89.7 million and $89.1 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2015 and 2014 were $8.8 million and $7.9 million, respectively.

LAX shares certain administrative functions with ONT, VNY, and PMD including, but not limited to, legal, human services, and financial services. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent for fiscal years 2015 and 2014 was $1.10 million and $1.08 million, respectively. The details are as follows (amounts in thousands):

	FY 2015	FY 2014
Allocated administrative costs		
ONT	$ 6,932	$ 7,160
VNY	1,747	1,832
PMD	348	386
Total	9,027	9,378
Land rental	(1,103)	(1,083)
Net	$ 7,924	$ 8,295

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of $43 million out of approximately $58 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling $17.7 million plus 3.0% interest for a total of $21.3 million. The installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. At June 30, 2015 and 2014, the respective outstanding principal amount of $8.5 million and $11.2 million payable beyond one year were reported under other noncurrent assets while the balance of $2.7 million and $2.6 million payable within one year were reported under unrestricted current assets.

13. Pension and Other Postemployment Benefit Plans

a. Description of Plans

The City contributes to a single-employer defined benefit pension plan, the Los Angeles City Employees' Retirement System (LACERS), to provide retirement benefits to its civilian (other than Department of Water and Power) employees. The City also provides single-employer other postemployment benefit (OPEB) healthcare plan through LACERS. All full-time employees of LAWA are eligible to participate in both plans. The City Charter assigns the administration of the plans to the LACERS Board of Administration. The LACERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. That report may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328. As a City department, LAWA shares in the risks and costs with the City. LAWA presents the related defined benefit disclosures as a participant in a single employer plan of the City.

Pension and other postemployment benefits are established pursuant to the City ordinance. The City Council may, by an ordinance adopted pursuant to specific requirements (approved by not less than 2/3 of the City Council, subject to the veto of the Mayor and override by City Council by 3/4 of City Council), modify or add to the benefits set forth in the Los Angeles Administrative Code or change conditions of entitlement. However, the City Council may not increase or modify benefits if doing so would violate limitations imposed by federal or state law. As a further condition to the final adoption of benefit modifications, it shall be required that the City Council be advised in writing by an enrolled actuary as to the cost of benefit increases.

i) Pension Plan

LACERS provides service retirement, disability, death and survivor benefits to eligible employees. Employees of the City become members of LACERS on the first day of employment in a position with the City in which the employee is not excluded from membership. Members employed prior to July 1, 2013 are designated as Tier 1 and those employed on or after July 1, 2013 are designated as Tier 2 (unless a specific exemption applies to the employee, providing a right to Tier 1 status). Membership to Tier 1 is now closed to new entrants.

Tier 1 members are eligible for normal service retirement benefits once they attain the age of 70, or the age of 60 with 10 or more years of continuous service, or the age of 55 with 30 or more years of service. Tier 2 members are eligible for normal service retirement benefits once they attain the age of 70, or the age of 65 with 10 or more years of continuous service.

Tier 1 members are eligible for disability retirement once they have 5 or more years of continuous service. Tier 2 members are eligible for disability retirement once they have 10 or more years of continuous service.

Under the Tier 1 formula, the monthly service retirement allowance at normal retirement age is 2.16% of final average monthly compensation per year of service credit. Reduced retirement allowances are available for early retirement for Tier 1 members reaching age 55 with 10 or more years of continuous service, or at any age with 30 or more years of service.

Under the Tier 2 formula, the monthly service retirement allowance at normal retirement age is 2.00% of final average monthly compensation per year of service credit. Reduced retirement allowances are available for early retirement for Tier 2 members reaching age 55 with 10 or more years of continuous service.

Under Tier 1, pension benefits are calculated based on the highest average salary earned during a 12-month period (including base salary plus regularly assigned bonuses or premium pay). Under Tier 2, pension benefits are calculated based on the highest average salary earned during a 36-month period (limited to base pay).

For Tier 1 members, the maximum monthly retirement allowance is 100% of the final average monthly compensation. For Tier 2 members, the maximum monthly retirement allowance is 75% of the final average monthly compensation.

In lieu of the service retirement allowance under the Tier 1 or Tier 2 formula ("unmodified option"), the member may choose an optional retirement allowance. The unmodified option provides the highest monthly benefit and a 50% continuance to an eligible surviving spouse or domestic partner for Tier 1 members (no continuance is provided to beneficiaries of Tier 2 members under the unmodified option). The optional retirement allowances require a reduction in the unmodified option amount in order to allow the member the ability to provide various benefits to a surviving spouse, domestic partner, or named beneficiary.

LACERS provides annual cost-of-living adjustments (COLAs) to all retirees. The cost-of-living adjustments are made each July 1 based on the percentage change in the average of the Consumer Price Index for the Los Angeles-Riverside-Orange County Area--All Items For All Urban Consumers. It is capped at 3.0% for Tier 1 and 2.0% for Tier 2. Tier 2 members may purchase additional 1% COLA protection at full actuarial cost.

The City contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Administration. Employer contribution rates are adopted annually based upon recommendations received from LACERS' actuary after the completion of the annual actuarial valuation. The average employer contribution rates were 20.77% and 19.84% of compensation[4] as of June 30, 2015 and June 30, 2014, respectively.

All members are required to make contributions to LACERS regardless of the tier in which they are included. Currently, most Tier 1 members contribute at 11% of compensation and all Tier 2 members contribute at 10% of compensation.

Funding Policy for the Pension Plan

The City makes contributions equal to the normal cost adjusted by an amount to amortize any surplus or unfunded actuarial accrued liability (UAAL). Both the normal cost and the actuarial accrued liability are determined under the Entry Age cost method and are calculated on an individual basis. Entry age is calculated as age on the valuation date minus years of service.

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[4] *After adjustments to phase in over five years the impact of new actuarial assumptions (as a result of the June 30, 2011 Triennial Experience Study) on the City's contributions.*

Under the current funding policy, changes in the UAAL due to actuarial gains/losses are amortized over separate 15 year periods. Any changes in the UAAL due to assumption or method changes are amortized over separate 20 year periods. Plan changes, including the 2009 ERIP, are amortized over separate 15 year periods. Future Early Retirement Incentive Program (ERIP) will be amortized over 5 years. Any actuarial surplus is amortized over 30 years. All the bases on or before June 30, 2012, except those arising from the 2009 ERIP and the two GASB Statements No. 25[5] and 27[6], were combined and amortized over 30 years effective June 30, 2012.

The recommended contribution is set equal to the greater of the current funding policy or the minimum Annual Required Contribution (ARC) as determined by the then current GASB Statements No. 25 and 27. In particular, an additional contribution due to the application of the 40-year minimum amortization requirement for both fiscal years 2004 and 2005 is included in the calculation of the recommended contribution.

LAX's Contributions to the Pension Plan

LAX's contributions to the Pension Plan for the year ended June 30 (amounts in thousands):

	2015	2014
LAX's required contributions to the Pension Plan	$ 49,043	$ 45,460

The LAX contributions made for the Pension Plan under the required contribution category in the amount of $49.0 million and $45.5 million for fiscal year 2015 and 2014, respectively, were equal to 100% of the actuarially determined contribution of the employer.

ii) Other Postemployment Benefit Healthcare Plan (OPEB)

LACERS provides postemployment health care benefits to eligible retirees of OPEB, and, if the member retires under Tier 1 membership, to their spouses/domestic partners as well. Prior to the retirement effective date of July 1, 2011, the benefits of this single employer postemployment benefit health care plan were available to all employees who 1) participate in the Pension Plan; 2) have at least 10 years of service with LACERS; and 3) enrolled in a system-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). The retiree or Tier 1 surviving spouse/domestic partner can choose from the health plans that are available, which include medical, vision, and dental benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. The retiree or Tier 1 surviving spouse/domestic partner receives medical subsidies based on service years. The dental subsidies are provided to the retirees only, based on years of service. The maximum subsidies are set annually by the LACERS Board of Administration.

[5] *GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, issued in November 1994, was amended by GASB Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25, issued in June 2012.*

[6] *GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, issued in November 1994, was amended by GASB Statement No. 68, Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27, issued in June 2012.*

During the 2011 fiscal year, the City adopted an ordinance (Freeze Ordinance) to freeze the maximum medical subsidy at $1,190 for those members who retire on or after July 1, 2011. However, members who at any time prior to retirement contribute the additional 2% or 4% of pay pursuant to specific ordinances are exempted from the freeze and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. Postemployment health care benefits for the Tier 2 members differ from those for the Tier 1 members in their annual subsidy accrual after 10 years of service; Tier 1 earns 4% per year while Tier 2 earns 3% per year. As mentioned above, spouses/domestic partners of Tier 2 members are not entitled to OPEB.

Funding Policy for OPEB

The City Charter requires periodic employer contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll together with certain fixed amounts, are sufficient to accumulate the required assets to pay benefits when due.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment returns, and the health care cost trends. The funded status of the plan and the annual required contributions of the employer, determined by the annual actuarial valuations, are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future.

LAX's Contributions to OPEB

LAX's contributions to OPEB for the year ended June 30 (amounts in thousands):

	2015	2014
LAX's required contributions to OPEB	$ 13,043	$ 12,436

LAX's contributions made for OPEB, in the amount of $13.0 million and $12.4 million for fiscal year 2015 and 2014, respectively, represents 100% of the Annual Required Contribution (ARC) as defined by GASB Statements No. 43[7] and No. 45[8].

[7] *GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued in April 2004.*

[8] *GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension, issued in June 2004.*

b. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions for Fiscal Year 2015

As of the reporting date June 30, 2015 (measurement date of June 30, 2014), LAX reported its proportionate shares of Net Pension Liability (NPL)[9] as follows (amounts in thousands):

	Reporting date 6/30/15 Measurement date 6/30/14 FY 2015
LAX's proportionate share of NPL	$ 566,613

LAX's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAX during fiscal year 2014. The NPL was measured as of June 30, 2014 and determined based upon the Pension Plan's Fiduciary Net Position (plan assets) and Total Pension Liability from actuarial valuations as of June 30, 2014.

LAX's proportionate share of the NPL as of June 30, 2015 (measurement date June 30, 2014) and 2014 (measurement date June 30, 2013) was as follows (amounts in thousands):

	NPL	Proportion (%)
Proportion - Reporting date June 30, 2015 (measurement date June 30, 2014)	$ 566,613	12.711%
Proportion - Reporting date June 30, 2014 (measurement date June 30, 2013)	$ 622,416	13.167%
Change - Decrease	$ (55,803)	(0.456%)

[9] The NPL data for prior year, fiscal year 2014, was not restated because all of the information available to restate prior year amounts was not readily available.

For the year ended June 30, 2015, LAX recognized pension expense of $45.7 million. At June 30, 2015, LAX reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	$ 49,043	$ --
Differences between expected and actual experience	--	16,914
Changes of assumptions	82,071	--
Net difference between projected and actual earnings on pension plan investments	--	103,501
Differences arising from changes proportion and differences between employer contributions and proportionate share of contributions	--	17,723
Total	$ 131,114	$ 138,138

$49.0 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2016	$ (15,608)
2017	(15,608)
2018	(15,608)
2019	(15,608)
2020	6,365

c. Actuarial Assumptions for the June 30, 2014 Measurement Date for Fiscal Year 2015

The total pension liability as of June 30, 2014 was measured by an actuarial valuation as of June 30, 2014 using the following actuarial assumptions[10], applied to all periods included in the measurement:

Inflation:	3.25%
Discount rate:	7.50%
Salary increases:	Ranges from 4.40% to 10.50% based on years of service, including inflation
Investment rate of return:	7.50%, net of pension plan investment expense, including inflation
Post-Retirement Mortality Rates:	
Healthy Members and all Beneficiaries:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Disabled Members:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set forward seven years for males and set forward eight years for females.
Termination Rates before Retirement:	
Pre-Retirement Mortality:	RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020, set back one year for males and with no setback for females.
Retirement Age and Benefit for Inactive Vested Participants:	Pension benefit paid at the later of age 58 or the current attained age. For reciprocals, 4.40% compensation increases per annum.
Exclusion of Inactive Members:	All inactive participants are included in the valuation.
Definition of Active Members:	First day of biweekly payroll following employment for new department employees or immediately following transfer from other city department.
Unknown Data for Members:	Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.
Percent Married/Domestic Partner:	76% of male participants; 50% of female participants.
Age of Spouse:	Male retirees are assumed to be 4 years older than their female spouses. Female retirees are assumed to be 2 years younger than their male spouses.
Service:	Employment service is used for eligibility determination purposes. Benefit service is used for benefit calculation purposes.
Future Benefit Accruals:	1.0 year of service per year.
Other Reciprocal Service:	5% of future inactive vested members will work at a reciprocal system.
Consumer Price Index:	Increase of 3.25% per year; benefit increases due to CPI subject to 3.00% maximum for Tier 1 and 2.00% maximum for Tier 2.
Employee Contribution Crediting Rate:	Based on average of 5-year Treasury note rate. An assumption of 3.25% is used to approximate that crediting rate in this valuation.
Actuarial Cost Method:	Entry Age Cost Method.

[10] *The actuarial assumptions used in this June 30, 2014 valuation were based on the results of an experience study for the period from July 1, 2011 through June 30, 2014. They are the same as the assumptions used in the June 30, 2014 funding actuarial valuation for LACERS.*

d. Discount Rate for Fiscal Year 2015

The discount rate used to measure the total pension liability was 7.50% as of June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation, and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term (Arithmetic) Expected Real Rate of Return
U.S. Large Cap Equity	20.40%	5.94%
U.S. Small Cap Equity	3.60%	6.64%
Developed	21.75%	6.98%
Emerging Market	7.25%	8.48%
Core Bonds	16.53%	0.71%
High Yield Bonds	2.47%	2.89%
Private Real Estate	5.00%	4.69%
Cash	1.00%	-0.46%
Credit Opportunities	5.00%	3.07%
Public Real Assets	5.00%	3.41%
Private Equity	12.00%	10.51%
Total	100.00%	

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents LAX's proportionate share of the NPL as of June 30, 2014, calculated using the discount rate of 7.50%, as well as what LAX's proportionate share of NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.50%) or 1 percentage point higher (8.50%) than the current rate (amounts in thousands):

	LAX
1% decrease	6.50%
Net Pension Liability	$845,900
Current discount rate	7.50%
Net Pension Liability	$566,613
1% increase	8.50%
Net Pension Liability	$334,512

Pension Plan Fiduciary Net Position

The Pension Plan's fiduciary net position has been determined on the same basis used by the Pension Plan and the plans basis of accounting, including policies with respect to benefit payments and valuation of investments. Detailed information about LACERS' net position is available in the separately issued LACERS' financial reports, which can be found on the LACERS website.

e. Payable to the Pension Plan for Fiscal Year 2015

At June 30, 2015, LAX did not have any payable to be reported for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

f. Funding Policy for Fiscal Year 2014

The City's annual costs for the plans are calculated based on the annual required contribution of the employer, an amount actuarially determined in accordance with the parameters of the applicable GASB statements. The actuarially determined contribution rates as a percentage of covered payroll were 25.33% and 18.32% for Tier 1 and Tier 2 members respectively, in fiscal year 2014. The required contribution rates were based on the June 30, 2012 actuarial valuations. LAX paid 100% of its annual contributions of $45.5 million for the fiscal year ended June 30, 2014.

g. Net Pension Obligation for Fiscal Year 2014

The City allocated a portion of its net pension obligation (NPO) to LAX based upon its percentage of payroll benefit costs for all City employees. The allocated NPO at June 30, 2014 was $9.0 million.

14. Risk Management

The Risk Management Division (RMD) administers LAWA's risk and claims management program. By implementing a comprehensive risk identification, assessment, and treatment process, the program addresses key risks that may adversely affect LAWA's ability to meet its business goals and objectives.

LAWA maintains insurance coverage of $1.3 billion for general aviation liability and $1.0 billion for war and allied perils. Additional insurance coverage is carried for general all risk property insurance for $2.3 billion, that includes $250.0 million for boiler and machinery, and $25.0 million for earthquake. Deductibles for these policies are $10,000 per claim with a $400,000 annual aggregate for general liability, and $100,000 per occurrence and annual aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits.

Additionally, LAX maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits or where insurance is not available or viable. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. For fiscal years 2015, 2014, and 2013, no claims were in excess of LAX's insurance coverage.

A number of lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. The City Attorney provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The liability for litigation and other claims at June 30, 2015 and 2014 was $11.7 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by the City. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liability at June 30, 2015 and 2014 was $63.9 million and $57.2 million, respectively.

The changes in LAX's estimated claims payable are as follows (amounts in thousands):

	June 30		
	2015	2014	2013
Balance at beginning of year	$ 68,871	$ 67,665	$ 65,334
Provision for current year's events and changes in provision for prior years' events	14,158	7,470	8,185
Claims payments	(7,470)	(6,264)	(5,854)
Balance at end of year	$ 75,559	$ 68,871	$ 67,665
Current portion	$ 8,332	$ 7,470	$ 6,264

15. Commitments, Litigations, and Contingencies

a. Commitments

Commitments for acquisition and construction of capital assets, and purchase of materials and supplies were $127.7 million and $146.8 million as of June 30, 2015 and 2014, respectively. Significant amounts were committed for terminals and facilities, airfield and runways, and noise mitigation program.

b. LAX Master Plan

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

Settlement agreements were entered into by the City and several entities that filed lawsuits in connection with the LAX Master Plan. Among other things, the agreements require LAWA to limit the number of terminal gates; involve the surrounding communities in project planning; provide funding for traffic and noise mitigation and abatement, job training and opportunities, street and street lighting improvements, and air quality and environmental programs; and develop a regional initiative to encourage passenger and cargo activity at other airports. LAWA is continuing to perform its obligations pursuant to these agreements conditioned upon FAA's approval of expenditures and use of airport revenues for the specified purposes.

In connection with the approval of the LAX Master Plan, the City Council amended the City's general plan to include a component specific to LAX, the LAX Plan. Along with the approval of the LAX Master Plan in 2004, the City Council also adopted the LAX Specific Plan, an ordinance that establishes zoning and development regulations consistent with the LAX Plan. The LAX Specific Plan required LAWA to prepare a Specific Plan Amendment Study (SPAS) to address, among other things, security, traffic, aviation activity, and corresponding environmental analysis consistent with the California Environmental Quality Act (CEQA).

On February 5, 2013, the board certified the Environmental Impact Report (EIR) prepared for the LAX SPAS under CEQA and determined that the LAX SPAS was complete. It also selected the Staff-Recommended Alternative, including the proposed amendments to Section 7.H of the LAX Specific Plan and all amendments to the City's general plan, including the LAX Plan, and the LAX Specific Plan, as the best alternative to the problems that the so-called "Yellow Lights Projects" were designed to address, subject to future detailed planning, engineering, and project-level environmental review, such as project-level review of individual improvements under CEQA and the evaluation and approval processes of FAA. Approval of the SPAS Staff-Recommended Alternative would provide the platform from which the specific details of the proposed improvements would be further defined and evaluated in connection with current and future FAA standards.

On April 30, 2013, the City Council certified the LAX SPAS EIR and selected the Staff-Recommend Alternative, subject to the same provisions set forth above. On May 30, 2013, the Alliance for a Regional Solution to Airport Congestion, the City of Inglewood, the City of Culver City, the City of Ontario, the County of San Bernardino, and SEIU United Service Workers West (Petitioners) filed three separate petitions for writ of mandate in the Los Angeles Superior Court against the City alleging that the SPAS final environmental impact report (SPAS Final EIR) was not completed in compliance with CEQA and requested, among other things, the Court to set aside all approvals based upon the SPAS Final EIR. The three cases were deemed related on June 24, 2013, and consolidated on September 18, 2013. On February 28, 2014, they were transferred to the Ventura County Superior Court. Certification of the administrative record was completed on June 12, 2015. Petitioners' opening briefs were filed on July 31, 2015. Respondents' opposition briefs were filed on September 30, 2015. Petitioners' reply briefs are due November 12, 2015. The trial on the merits is currently scheduled for January 11-13, 2016.

c. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns. Intensified security precautions have been instituted by government agencies, airlines, and airport operators since the September 11, 2001 terrorist attacks. Intelligence reports have indicated that LAX was a target of a terrorist bombing plot as well as a potential terrorist target. LAX is unable to predict: (a) the likelihood of future incidents of terrorism and other airline travel disruptions; (b) the impact of the aforementioned security issues on its operations and revenues; and (c) financial impact to the airlines operating at LAX.

d. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy.

As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The liability accrued at June 30, 2015 and 2014 was $12.8 million. LAX does not expect any recoveries reducing this obligation.

The State Water Resources Control Board (SWRCB) issued a Notice of Violation (NOV) to LAWA generally alleging violations of underground storage tank (UST) construction, monitoring, and testing laws at facilities where LAWA owns and operates USTs. LAWA owns and/or operates six USTs at LAX. The NOV did not specify any particular violations but the SWRCB subsequently identified a number of alleged violations that are under review along with continued improvement of LAWA's overall UST compliance program. The Board approved a consent judgment settlement with the SWRCB in October 2015 with a total civil penalty amount of $2.3 million to be paid or suspended on condition that LAWA complies with the terms of the consent judgment.

The California Regional Water Quality Control Board, Lahontan Region (Water Board) issued a Notice of Revised Proposed Cleanup and Abatement Order (Order) to Los Angeles County Sanitation District No. 20 (District) and the City of Los Angeles (City), as Dischargers, with respect to discharges to underground water from the Palmdale Reclamation Plant (Reclamation Plant) owned by the District. The Order states that the discharges have resulted in violations of waste discharge requirements for the Reclamation Plant and prohibitions contained in the Water Quality Control Plan for the Lahontan Region, and that discharges from the Reclamation Plant to unlined ponds and to the Effluent Management Site (owned by the City and now known as the Agricultural Site) have adversely affected and polluted groundwater in the area of the discharges. The Water Board issued an order to the District and LAX to submit technical reports that include feasibility and costs to remove nitrate from groundwater to certain acceptable levels. The costs and timeframe to perform the Order, along with the apportionment of liability, are uncertain at this time.

e. Terminal Leases

In January 2007, American Airlines, Inc. ("American") filed a complaint in Federal District Court alleging that LAWA had imposed new maintenance and operation charges in violation of its lease at LAX. In 2008, LAWA and American entered into an interim settlement agreement (the "ISA") and pursuant to the ISA, the parties filed a joint stipulation for dismissal of the litigation without prejudice to renew litigation. In January 2014, American and LAWA entered into a settlement agreement ("Final Settlement") which settled, among other things, the maintenance and operation charges in the lease. Under the Final Settlement, LAWA and American agreed that the dismissal filed in 2008 was deemed to be a dismissal with prejudice; American paid $14.0 million in compromise and settlement of all disputes regarding the maintenance and operation charges for the period from January 2011 through December 2013; and LAWA paid for the purchase of certain pavement and terminal improvements, busing credit related to the employee parking lot, and Terminal 4 connector design plans.

16. Other Matter

City Financial Challenges

Based on the most recent General Fund Budget Outlook prepared by the City Administrative Officer (CAO) in connection with the fiscal year 2016 adopted budget, the City would face a budget gap of $90.0 million in fiscal year 2017 and $51.0 million in fiscal year 2018 without corrective action. Based on the assumptions of the Budget Outlook, this deficit would be eliminated by fiscal year 2019. The City generally accomplishes such balancing through a combination of revenue increases, expenditure reductions and transfer from reserves.

LAWA, as a proprietary department under the City Charter, is vested with the management and control of its assets. The budgetary challenges of the City's General Fund as well as the mitigating measures implemented by the Mayor and City Council do not directly affect LAX's operations. However, auxiliary services provided to LAWA by other City departments may be impacted. In addition, the City's budget challenges may have an adverse effect on the trading value of LAX's outstanding and future bond issues.

17. Subsequent Events

a. Runway 6R-24L Safety Area Improvement Project

On July 16, 2015, the Board awarded a $45.5 million contract to Griffith/Coffman JV for the Runway 6R-24L Safety Area Improvement Project at LAX in order to bring the runway into compliance with the FAA mandated passenger safety standards. The Runway 6R-24L Safety Area Improvement and Taxiway portions of the project are eligible for 75% reimbursement from the FAA under an Airport Improvement Program (AIP) grant. All non-federally funded project costs will be recovered from airfield users through terminal rates and charges.

b. Revenue Bonds Issuance

On October 15, 2015, the Board authorized the issuance of the Series 2015D and 2015E LAX revenue bonds in an aggregate par amount not to exceed $350.0 million. The proceeds of the issuance will be used to provide ongoing funding for various capital projects at LAX.

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2015 ANNUAL FINANCIAL REPORT

Required Supplementary Information

Required Supplementary Information

Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
(amounts in thousands)

Schedule of LAX's Proportionate Share of the Net Pension Liability

	2015
LAX's Proportion of the Net Pension Liability	12.71%
LAX's Proportionate share of the Net Pension Liability	$ 566,613
LAX's Covered-employee payroll [(1)]	$ 229,535
LAX's Proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	246.85%
LAX's Proportionate share of Pension Plan's Fiduciary Net Position	$ 1,498,732
LAX's Proportionate share of Pension Plan's Total Pension Liability	$ 2,065,347
Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability	72.57%

Notes to schedule:

(1) Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.

(2) Changes of assumptions:
The June 30, 2014 calculations reflected various assumptions changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of the Pension Plan's Total Pension Liability is primarily due to the lowered assumed investment rate of return, from 7.75% in fiscal year 2013 to 7.50% in fiscal year 2014, and longer assumed life expectancies for members and beneficiaries.

* Since fiscal year 2015 was the first year of implementation, only one year is shown.

Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
(amounts in thousands)

Schedule of Contributions

		2015
Contractually required contribution (actuarially determined)	$	49,043
Contributions in relation to the actuarially determined contributions		49,043
Contribution deficiency (excess)	$	--
LAX's covered-employee payroll [(1)]	$	229,535
LAX's Contributions as a percentage of covered-employee payroll		21.37%

Notes to schedule:

(1) Covered-employee payroll represents the collective total of the LACERS eligible wages of all LACERS membership tiers. Non-pensionable wages was not included because the information was not readily available.

* Since fiscal year 2015 was the first year of implementation, only one year is shown.

Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
(amounts in thousands)

Notes to schedule:

Valuation date:	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates

Actuarial cost method	Entry age actuarial cost method, level percent of salary.
Amortization method	Level percent of payroll - assuming a 4.0% increase in total covered payroll.
Amortization period	Multiple layers - closed amortization period. Actuarial gains/losses are amortized over 15 years. Assumption or method changes are amortized over 20 years. Plan changes, including the 2009 ERIP, are amortized over 15 years. Future ERIPs will be amortized over five years. Actuarial surplus is amortized over 30 years. The existing layers on June 30, 2012, except those arising from the 2009 ERIP and the two GASB 25/27 layers, were combined and amortized over 30 years.
Asset Valuation Method	Market valuse of assets less unrecognized returns in each of the last seven years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a seven-year period. The actuarial value of assets cannot be less than 60% or great than 140% of the market value of assets. An ad hoc change was made in 2014 to combine the unrecognized returns and losses of prior years as of June 30, 2013 into one layer and recognize it evenly over six years from fiscal year 2013-14 through fiscal year 2018-19.

* Since fiscal year 2015 was the first year of implementation, only one year is shown.

Required Supplementary Information
Last Ten Fiscal Years Ended June 30*
(amounts in thousands)

Notes to schedule (continued):

	June 30, 2013
Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.75%
Projected salary increases [(1)]	Ranges from 11.25% to 6.50% for members with less than five years of service, and from 6.50% to 4.65% for members with five or more years of service.
Cost of living adjustment [(2)]	Tier 1: 3.00% Tier 2: 2.00%
Mortality	Healthy: RP-2000 Combined Healthy Mortality Table, set back two years for males and set back one year for females.

(1) Includes inflation at 3.50% as of June 30, 2013 plus across-the-board salary increases of 0.75% plus merit and promotional increases.

(2) Actual increases are contingent upon CPI increases with a 3.00% maximum for Tier 1 and a 2.00% maximum for Tier 2.

* Since fiscal year 2015 was the first year of implementation, only one year is shown.

2015 ANNUAL FINANCIAL REPORT

Compliance Section

Compliance Section Contents

- Independent Auditor’s Report on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance
- Schedule of Passenger Facility Charge Revenues and Expenditures
- Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
- Independent Auditor’s Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance
- Schedule of Customer Facility Charge Revenues and Expenditures
- Notes to the Schedule of Customer Facility Charge Revenues and Expenditures

MGO Certified Public Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE PASSENGER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* (Guide), issued by the Federal Aviation Administration, applicable to its passenger facility charge program for the fiscal year ended June 30, 2015.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its passenger facility charge program for the fiscal year ended June 30, 2015.

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the Guide. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
November 5, 2015

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2015 and 2014
(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of June 30, 2013	$ 1,694,671	$ 178,934	$ 1,873,605	$ 1,142,696	$ 730,909
Fiscal year 2013-14 transactions					
Quarter ended September 30, 2013	30,963	2,331	33,294	695	32,599
Quarter ended December 31, 2013	27,943	2,804	30,747	50,989	(20,242)
Quarter ended March 31, 2014	37,419	2,791	40,210	8,165	32,045
Quarter ended June 30, 2014	36,484	2,705	39,189	109,231	(70,042)
Program to date as of June 30, 2014	1,827,480	189,565	2,017,045	1,311,776	705,269
Fiscal year 2014-15 transactions					
Quarter ended September 30, 2014	31,368	2,123	33,491	25,456	8,035
Quarter ended December 31, 2014	29,618	1,954	31,572	25,025	6,547
Quarter ended March 31, 2015	37,759	1,996	39,755	21,181	18,574
Quarter ended June 30, 2015	39,109	1,588	40,697	254,837	(214,140)
Unexpended passenger facility charge revenues and interest earned June 30, 2015	$ 1,965,334	$ 197,226	$ 2,162,560	$ 1,638,275	$ 524,285

Note: LAX changed the basis of presentation of this schedule from cash basis to accrual basis in fiscal year 2015. The prior year amounts were adjusted to reflect this change.

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2015 and 2014

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects.

The current PFC rate is $4.50 per enplaned passenger. The PFCs collection authority approved to date by FAA is $3.1 billion. The details are as follows (amounts in thousands):

Application number	Charge effective date	Approval of use date	Amount approved for use
96-02-U-00-LAX, closed 6/2/03	03/26/93	05/06/96	$ 116,371
96-03-C-00-LAX, closed 10/1/08	05/10/96	05/10/96	50,223
97-04-C-02-LAX	11/28/97	11/28/97	610,000
97-04-C-02-LAX	10/31/98	10/31/98	90,000
05-05-C-00-LAX	12/01/05	12/01/05	229,750
05-05-C-01-LAX	12/01/05	12/01/05	468,030
07-06-C-00-LAX	01/01/08	01/01/08	85,000
10-07-C-00-LAX	06/01/12	06/01/12	855,000
11-08-C-00-LAX	03/01/19	03/01/19	27,801
13-09-C-00-LAX	06/01/19	06/01/19	44,379
14-10-C-00-LAX	10/01/19	10/01/19	516,091
15-11-U-00-LAX	03/01/19	03/01/19	3,115
Subtotal- LAX			$ 3,095,760

In May 1996, FAA approved LAWA's request to transfer a portion of PFCs revenues collected at LAX to fund certain projects at ONT. Accordingly, PFCs revenues totaling $126.1 million collected at LAX were transferred to ONT.

In April 2008, FAA approved LAWA's amendment request that increased application number 05-05-C-01-LAX to $468.0 million to pay for debt service on bonds issued to finance the Tom Bradley International Terminal Renovations and Bradley West Project. The amounts used for this purpose were $91.0 million and $96.5 million in fiscal years 2015 and 2014, respectively.

The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date June 30	
		2015	2014
ONT- Terminal Development Program	$ 116,371	$ 116,371	$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT- Airport Drive - West End	3,462	3,462	3,462
ONT- Access Control Monitoring System	808	808	808
ONT- Taxiway North Westerly Extension	7,349	7,349	7,349
Apron Lighting Upgrade	1,873	1,412	1,412
SAIP and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	--	--
Aircraft Noise Mitigation and Management System	3,450	3,652	3,652
South Airfield Improvement Program - Airfield Intersection Improvement	28,000	8,987	8,987
South Airfield Improvement Program - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	266,034	175,078
Implementation of IT Security Master Plan	56,573	33,463	33,448
Noise Mitigation - Land Acquisitions	485,000	350,530	349,829
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	90,000	90,000	90,000
Residential Soundproofing Phase II	35,000	33,756	33,201
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	47,252
Bradley West	855,000	180,000	180,000
Lennox Schools Soundproofing Program	30,916	15,294	11,215
Inglewood USD Soundproofing Program	44,379	--	--
Terminal 6 Improvements	210,131	--	--
Elevators/Escalators/Moving Walkways Replacement	110,000	30,400	--
Midfield Satelite Concourse North Project	5,960	5,960	--
Central Utility Plant Replacement	190,000	190,000	--
Total	$ 3,095,760	$ 1,638,276	$ 1,311,776

2. Basis of Accounting – Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (Schedule) represents amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports. The Schedule was prepared using the accrual basis of accounting.

3. Excess Project Expenditures

The expenditures for Aircraft Noise Monitoring and Management System project were in excess of the authorized amount. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15% or less.

Certified
Public
Accountants

Sacramento
Walnut Creek
Oakland
Los Angeles
Century City
Newport Beach
San Diego

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE REQUIREMENTS OF THE CUSTOMER FACILITY CHARGE PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Members of the Board of Airport Commissioners
City of Los Angeles, California

Compliance

We have audited the compliance of Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, with compliance requirements described in the *California Civil Code Section 1936, as amended by Senate Bill (SB) 1192 and Assembly Bill (AB) 359*, applicable to its customer facility charge program for the fiscal year ended June 30, 2015.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of LAX's management.

Auditor's Responsibility

Our responsibility is to express an opinion on LAX's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*. Those standards and the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the customer facility charge program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of LAX's compliance with those requirements.

Opinion

In our opinion, LAX complied, in all material respects, with the compliance requirements referred to above that are applicable to its customer facility charge program for the fiscal year ended June 30, 2015.

Independent Auditor's Report on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance
(continued)

Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered LAX's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *California Civil Code Section 1936, as amended by SB 1192 and AB 359*. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Los Angeles, California
November 5, 2015

Los Angeles World Airports
(Department of Airports of the City of Los Angeles)
Los Angeles International Airport

Schedule of Customer Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2015 and 2014
(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of June 30, 2013	$ 144,106	$ 7,997	$ 152,103	$ 3,026	$ 149,077
Fiscal year 2013-14 transactions					
Quarter ended September 30, 2013	7,663	393	8,056	--	8,056
Quarter ended December 31, 2013	6,754	445	7,199	--	7,199
Quarter ended March 31, 2014	6,366	397	6,763	--	6,763
Quarter ended June 30, 2014	7,892	428	8,320	--	8,320
Program to date as of June 30, 2014	172,781	9,660	182,441	3,026	179,415
Fiscal year 2014-15 transactions					
Quarter ended September 30, 2014	7,891	535	8,426	--	8,426
Quarter ended December 31, 2014	6,791	542	7,333	--	7,333
Quarter ended March 31, 2015	6,607	560	7,167	--	7,167
Quarter ended June 30, 2015	8,058	492	8,550	--	8,550
Unexpended customer facility charge revenues and interest earned June 30, 2015	$ 202,128	$ 11,789	$ 213,917	$ 3,026	$ 210,891

Note: LAX changed the basis of presentation of this schedule from cash basis to accrual basis in fiscal year 2015. The prior year amounts were adjusted to reflect this change.

See accompanying notes to the schedule of customer facility charge revenues and expenditures.

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2015 and 2014

1. General

Assembly Bill 491 of the 2001-2002 California Legislature (codified in California Civil Code Section 1936 et seq.) (Code) authorized the imposition of Customer Facility Charges (CFCs) and use of CFC revenue to plan, finance, design, and construct on-airport consolidated rental car facilities (CRCF).

On March 5, 2007, the Board found that the CRCF proposed by management was sufficiently definitive and authorized the collection of CFCs of $10 on each car rental transaction at LAX. The authorization included a two-year collection period of July 1, 2007 through June 30, 2009. On June 22, 2009, the Board resolved to extend the collection period until a determination is made that the project will not proceed.

The proposed CRCF at LAX will enhance efforts to reduce traffic congestion while also providing an efficient, secure, safe, and reliable transportation system.

CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2015	2014
Amount collected	$ 202,128	$ 172,781
Interest earnings	11,789	9,660
Subtotal	213,917	182,441
Expenditures		
CRCF planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	$ 210,891	$ 179,415

2. Basis of Accounting – Schedule of Customer Facility Charge Revenues and Expenditures

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the accrual basis of accounting.

Los Angeles World Airports
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Los Angeles, CA 90009-2216
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Los Angeles International Airport
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Telephone: (310) 646-5252

LA/Ontario International Airport
1923 East Avion Street
Ontario, CA 91761
Telephone: (909) 937-2700

Van Nuys Airport
16461 Sherman Way, Suite 300
Van Nuys, CA 91406
Telephone: (818) 442-6500

APPENDIX C

CERTAIN DEFINITIONS AND SUMMARIES OF THE MASTER SUBORDINATE INDENTURE AND THE ELEVENTH SUPPLEMENTAL SUBORDINATE INDENTURE

The Amendments Not Requiring Bondholder Consent described in Appendix D-1 of this Official Statement have been incorporated in the summaries provided in this Appendix C.

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Subordinate Indenture and the Eleventh Supplemental Subordinate Indenture found in this Appendix C.

"*Accreted Value*" means (a) with respect to any Capital Appreciation Subordinate Obligations, as of any date of calculation, the sum of the amount set forth in a Supplemental Subordinate Indenture, as the amount representing the initial principal amount of such Capital Appreciation Subordinate Obligations, plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Subordinate Obligations, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Subordinate Obligations, plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Subordinate Indenture authorizing the issuance of such Capital Appreciation Subordinate Obligation or Original Issue Discount Subordinate Obligation.

"*Aggregate Required Deposits*" means, for any month, the sum of the Required Deposits under all Supplemental Subordinate Indentures becoming due in such month.

"*Airport Revenue Fund*" means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

"*Airport System*" means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, LA/Ontario International Airport, Van Nuys Airport and LA/Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

"*Authorized Representative*" means the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer or such other officer or employee of the Board or the Department or other person which other officer, employee or person has been designated by the Board or the Department as an Authorized Representative by written notice delivered by the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Subordinate Trustee.

"*Balloon Indebtedness*" means, with respect to any Series of Subordinate Obligations twenty five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Subordinate Obligations of a Series 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 Subordinate Obligations scheduled to be amortized by prepayment or redemption prior to their stated maturity date. 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 Subordinate Indenture and which are acceptable to the Department.

"*Bondholder,*" "*holder*," "*owner*" or "*registered owner*" means the person in whose name any Subordinate Obligation or Subordinate Obligations are registered on the books maintained by the Subordinate Registrar and will include any Credit Provider or Liquidity Provider to which a Subordinate Repayment Obligation is then owed, to the extent that such Subordinate Repayment Obligation is deemed to be a Subordinate Obligation under the provisions of the Subordinate Indenture.

"*Business Day*" means a day on which banks located in New York, New York, in Los Angeles, California and in the city in which the principal corporate trust office of the Subordinate Trustee is located are open, provided that such term may have a different meaning for any specified Series of Subordinate Obligations if so provided by Supplemental Subordinate Indenture.

"*Capital Appreciation Subordinate Obligations*" means Subordinate Obligations all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Subordinate Indenture and is payable only upon redemption or on the maturity date of such Subordinate Obligations. Subordinate Obligations which are issued as Capital Appreciation Subordinate Obligations, but later convert to Subordinate Obligations on which interest is paid periodically will be Capital Appreciation Subordinate Obligations until the conversion date and from and after such conversion date will no longer be Capital Appreciation Subordinate Obligations, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

"*Charter*" means the Charter of the City of Los Angeles, as amended from time to time, and any other article or section of the Charter of the City of Los Angeles, as amended from time to time, in which the provisions relating to the Board and the Department are set forth or may hereafter be set forth, and any predecessor provisions thereof which will be deemed to continue in force.

"*Chief Financial Officer*" means the person at a given time who is the chief financial officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the 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 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 Subordinate Program adopted by the Board.

"*Consultant*" means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Department to perform acts and carry out the duties provided for such consultant in the Subordinate Indenture.

"*Costs*" or "*Costs of a Project*" means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Subordinate Obligations, costs of Credit Facilities, Liquidity Facilities, Subordinate Capitalized Interest, any Subordinate Debt Service Reserve Fund, and Subordinate Trustee's fees and expenses; (6) any Subordinate Swap Termination Payments due in connection with a Series of Subordinate Obligations or the failure to issue such Series of Subordinate Obligations, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. Costs of a Project will also include (i) 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, and (ii) the financing and/or refinancing of any other lawful purpose relating to the Department.

"*Credit Facility*" means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, 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 Subordinate Trustee for the payment of the principal of and/or interest on Subordinate Obligations whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

"*Credit Provider*" means the party obligated to make payment of principal of and interest on the Subordinate Obligations under a Credit Facility.

"*Customer Facility Charges*" means all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

"*Department*" means the Department of Airports of the City of Los Angeles, or any successor thereto performing the activities and functions of the department under the Charter.

"*Eleventh Supplemental Subordinate Indenture*" means the Eleventh Supplemental Subordinate Trust Indenture, to be dated as of June 1, 2016, by and between the Department and the Subordinate Trustee.

"*Executive Director*" means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Subordinate Trustee by the Department.

"*Facilities Construction Credit*" and "*Facilities Construction Credits*" means the amounts further described in 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. and its successors and its assigns, and, if Fitch for any reason no longer performs the functions of a Nationally Recognized 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, dated as of August 1, 2008, by and between the Department and the Subordinate Trustee.

"*Government Obligations*" means (a) United States Obligations (including obligations issued or held in book-entry form); (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest Rating Category by one or more of the Rating Agencies; and (c) any other type of security or obligation which the Rating Agencies that then maintain ratings on the Subordinate Obligations to be defeased have determined to be permitted defeasance securities.

"*Implemented*" means a Subordinate Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Subordinate Program, the provisions of the Master Subordinate Indenture have been complied with.

"*Independent*" means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Department or the City, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Department, the City or the Board as an official, officer or employee.

"*LAX Airport Facilities*" or "*LAX Airport Facility*" means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

"*LAX Maintenance and Operation Expenses*" means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

"*LAX Maintenance and Operation Reserve Account*" means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173,232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

"*LAX Revenue Account*" means the account established pursuant to the Master Senior Indenture and Section 23.10(a) of the Los Angeles Administrative Code.

"*LAX Revenues*" means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Department from the Los Angeles International Airport, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (1) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at Los Angeles International Airport, (2) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at Los Angeles International Airport, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of Los Angeles International Airport (or any LAX Airport Facilities or activities and undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto, all of which is required to be deposited in the Airport Revenue Fund pursuant to the Charter and the LAX Revenue Account pursuant to the Master Senior Indenture. "LAX Revenues" include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Subordinate Construction Fund allowed to be pledged by the terms of a Supplemental Subordinate Indenture, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

"*LAX Special Facilities*" or "*LAX Special Facility*" means, with respect to Los Angeles International Airport, a facility or group of facilities or improvements or category of facilities or improvements which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Senior Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

"*LAX Special Facilities Revenue*" means the contractual payments and all other revenues derived by or available to or receivable by the Department from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

"*LAX Special Facility Obligations*" means bonds or other debt instruments issued pursuant to an indenture other than the Senior Indenture or the Subordinate Indenture to finance LAX Special Facilities and which, except as otherwise provided in the Master Senior Indenture, are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

"*Liquidity Facility*" means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Subordinate Obligations.

"*Liquidity Provider*" means the entity, including the Credit Provider, which is obligated to provide funds to purchase Subordinate Obligations under the terms of a Liquidity Facility.

"*Los Angeles International Airport*" and "*LAX*" means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Department at such location or in which the Department has other rights or from which the Department derives revenues at such location.

"*Mail*" means by first-class United States mail, postage prepaid.

"*Maintenance and Operation Expenses of the Airport System*" means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

"*Maintenance and Operation Reserve Fund*" means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and the provisions of the Master Senior Indenture.

"*Master Senior Indenture*" means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department and the Senior Trustee, as amended.

"*Master Subordinate Indenture*" means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Subordinate Trustee, as amended.

"*Moody's*" means Moody's Investors Service, and its successors and its assigns, and, if Moody's for any reason no longer performs the functions of a Nationally Recognized Rating Agency, "*Moody's*" will be deemed to refer to any other Nationally Recognized Rating Agency designated by the Department (other than Fitch or S&P).

"*Nationally Recognized Rating Agency*" means a nationally recognized statistical rating organization identified by the United States Securities and Exchange Commission.

"*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 Subordinate Trustee) incurred in the collection of such proceeds or award.

"*Non-Qualified Swap*" means any Swap which is not a senior qualified swap or a Subordinate Qualified Swap.

"*Ordinance No. 173,232*" means the City of Los Angeles Ordinance No. 173,232 which became effective on June 19, 2000.

"*Original Issue Discount Subordinate Obligations*" means Subordinate Obligations which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Subordinate Obligations by the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued.

"*Outstanding*" means all Subordinate Obligations which have been authenticated and delivered under the Subordinate Indenture, except:

(a) Subordinate Obligations cancelled or purchased by the Subordinate Trustee for cancellation or delivered to or acquired by the Subordinate Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Subordinate Obligations deemed to be paid in accordance with the Master Subordinate Indenture;

(c) Subordinate Obligations in lieu of which other Subordinate Obligations have been authenticated under the provisions of the Master Subordinate Indenture;

(d) Subordinate Obligations that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Subordinate Trustee or a Subordinate Paying Agent;

(e) Subordinate Obligations which, under the terms of the Supplemental Subordinate Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Subordinate Repayment Obligations deemed to be Subordinate Obligations under the Master Subordinate Indenture to the extent such Subordinate Repayment Obligations arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Subordinate Obligations acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Subordinate Obligations under the Master Subordinate Indenture, Subordinate Obligations held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Subordinate Obligations are pledged to secure a debt to an unrelated party.

"*Passenger Facility Charges*" or "*PFCs*" means all or a designated portion of charges collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) and 14 CFR Part 158, all as amended from time to time, or any other applicable federal law, in respect of any component of LAX and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

"*Payment Date*" means, with respect to any Subordinate Obligations, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

"*Pledged Revenues*" means, except to the extent specifically excluded herein or under the terms of any Supplemental Senior Indenture (only with respect to the Series of Senior Bonds issued pursuant to such Supplemental Senior Indenture), LAX Revenues. "Pledged Revenues" will also include such additional revenues, if any, as are designated as "Pledged Revenues" under the terms of any Supplemental Senior Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Department from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of "LAX Revenues" which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from "Pledged Revenues," unless designated as "Pledged Revenues" under the terms of a Supplemental Senior Indenture: (a) any senior swap termination payments paid to the Department pursuant to a senior qualified swap or any Subordinate Swap Termination Payments paid to the Department pursuant to a Subordinate Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture, (d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Customer Facility Charges in respect of LAX may be so pledged), (e) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (f) Released LAX Revenues. Further, interest earnings or other investment earnings on any senior construction fund 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 Subordinate Obligations.

"*RAIC*" means the Regional Airports Improvement Corporation, a California nonprofit corporation.

"*Rating Agency*" and "*Rating Agencies*" means Fitch, Moody's or S&P, or any other Nationally Recognized Rating Agency.

"*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 Subordinate Indenture in connection with the issuance of the Subordinate Obligations or any Series of Subordinate Obligations for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

"*Record Date*" means, with respect to any Series of Subordinate Obligations, the record date as specified in the Supplemental Subordinate Indenture which provides for the issuance of such Series of Subordinate Obligations. With respect to the Series 2016A Subordinate 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 Subordinate Obligations*" means any Subordinate Obligations issued pursuant to the Master Subordinate Indenture to refund or defease all or a portion of any Series of Outstanding Subordinate Obligations, any Senior Bonds or any Third Lien Obligations.

"*Regularly Scheduled Swap Payments*" means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

"*Released LAX Revenues*" means LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS—Flow of Funds" in the forepart of this Official Statement, or (B) an amount not less than 150% of the average aggregate annual debt service on the Senior Bonds for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS—Flow of Funds" in the forepart of this Official Statement, or (B) an amount not less than 150% of the average aggregate annual debt service on the Senior Bonds for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of the Master Senior Indenture will not, in and of itself, cause the interest on any outstanding Senior Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody's (provided such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds and such Rating Agencies are then maintaining a rating on any of the Senior Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of the Master Senior Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Senior Bonds.

For purposes of subparagraph (b) above, no Transfer will be taken into account in the computation of Net Pledged Revenues.

Additionally, the Department will give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Senior Bonds and S&P is then maintaining a rating on any of the Senior Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of the Master Senior Indenture as proved in this definition of "*Released LAX Revenues*."

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Senior Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Senior Indenture pursuant to a Supplemental Senior Indenture.

"*Required Deposits*" means, with respect to any Series of Subordinate Obligations, the amount determined in accordance with the terms of the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued and/or incurred, required to be deposited into funds and accounts created under such Supplemental Subordinate Indenture for the purpose of paying principal and interest on Subordinate Obligations or accumulating funds from which to make such payments and to pay other obligations specifically secured by the Subordinate Pledged Revenues under such Supplemental Subordinate Indenture. On or before the Payment Date, if any, in each month, the Subordinate Trustee will determine the aggregate Required Deposits from the Required Deposits described under each Supplemental Subordinate Indenture.

"*Responsible Officer*" means an officer or assistant officer of the Subordinate Trustee assigned by the Subordinate Trustee to administer the Subordinate Indenture.

"*S&P*" means Standard & Poor's Ratings Services, and its successors and assigns, and if S&P for any reason no longer performs the functions of a Nationally Recognized Rating Agency, "*S&P*" will be deemed to refer to any other Nationally Recognized Rating Agency designated by the Department (other than Fitch or Moody's).

"*Senior Bond*" or "*Senior Bonds*" means any debt obligation of the Department issued under and in accordance with the provisions of the Master Senior Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Senior Repayment Obligations to the extent provided in the Master Senior Indenture. The term "*Senior Bond*" or "*Senior Bonds*" does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Senior Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations or Third Lien Obligations will be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term "*Senior Bond*" and "*Senior Bonds*" includes Senior Program Bonds.

"*Senior Indenture*" means the Master Senior Indenture, together with all Supplemental Senior Indentures.

"*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 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 Subordinate Obligations*" means Subordinate Obligations for which no sinking installment payments are provided.

"*Series*" or "*series*" means Subordinate Obligations designated as a separate Series by a Supplemental Subordinate Indenture and, with respect to Subordinate Program Obligations or a Subordinate Commercial Paper Program, means the full Subordinate Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Subordinate Indenture, designated as a separate Series.

"*Series 2016A Subordinate Bonds*" means the $289,210,000 original principal amount of Subordinate Obligations under the Master Subordinate Indenture and the Eleventh Supplemental Subordinate Indenture and designated "Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series A."

"*Significant Portion*" means 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 or Subordinate Obligations, and S&P, if S&P then maintains a rating on any of the Senior Bonds or Subordinate Obligations, 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 Subordinate Indenture, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate described in the additional bonds tests under the Master Subordinate Indenture.

"*State*" means the State of California.

"*Subordinate Aggregate Annual Debt Service*" means for any Fiscal Year the aggregate amount of Subordinate Annual Debt Service on all Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations. For purposes of calculating Subordinate Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(a) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Subordinate Obligations and Unissued Subordinate Program Obligations in accordance with any amortization schedule established by the governing documents setting forth the terms of such Subordinate Obligations, including, as a principal payment, the Accreted Value of any Capital Appreciation Subordinate Obligations or Original Issue Discount Subordinate Obligations maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Subordinate Obligations will be excluded to the extent such payments are to be paid from Subordinate Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Subordinate Obligations or Unissued Subordinate Program Obligations constitute Balloon Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon

Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer,* or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Subordinate Obligations, Unissued Subordinate Program Obligations or Subordinate Program Obligations, only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (a) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Subordinate Program Obligations or Subordinate Program Obligations, or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (a) above or such other provision of this definition as will be applicable;

(c) any maturity of Subordinate Obligations which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Subordinate Aggregate Annual Debt Service is made, will be assumed to become due and payable on the stated maturity date and provision (b) above will not apply thereto unless there is delivered to the entity making the calculation of Subordinate Aggregate Annual Debt Service a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Subordinate Aggregate Annual Debt Service, provided that such assumption will not result in an interest rate lower than that which would be assumed under provision (b) above and will be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Subordinate Obligations (including Subordinate Program Obligations) or any Subordinate Obligations which are then proposed to be issued constitute Subordinate Tender Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, Subordinate Tender Indebtedness will be treated as if (i) the principal amount of such Subordinate Obligations were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Subordinate Annual Debt Service payments and extending not later than 30 years from the date such Subordinate Tender Indebtedness was originally issued, provided, however, notwithstanding the previous provisions of this clause (i), any principal amortization schedule set forth in a Supplemental Subordinate Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) will be applied to determine the principal amortization of such Subordinate Obligations; (ii); the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; and (iii) with respect to all principal and interest payments becoming due prior to the year in which such Subordinate Tender Indebtedness is first subject to tender, such payments will be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Subordinate Obligations constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Subordinate Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Subordinate Program Obligations or Unissued Subordinate Program Obligations (other than a Subordinate Commercial Paper Program) (i) debt service on such Subordinate Program Obligations then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (ii) with respect to Unissued Subordinate Program Obligations, it will be assumed that the full principal amount of such Unissued Subordinate Program Obligations will be amortized over a term certified by an Authorized Representative at the time the initial Subordinate Program Obligations of such Subordinate Program are issued to be the expected duration of such Subordinate Program or, if such expectations have changed, over a term certified by an Authorized Representative to the expected duration of such Subordinate Program at the time of such calculation, but not to exceed 30 years from the date of the initial issuance of such Subordinate Program Obligations and it will be assumed that debt service will be paid in substantially level Subordinate Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Subordinate Repayment Bonds, to the extent such obligations constitute Subordinate Obligations under the Master Subordinate Indenture, will be calculated as provided in the Master Subordinate Indenture;

(h) (i) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, if the Department elects, be that rate payable by the Department as provided for by the terms of the Swap or the net interest rate payable by the Department pursuant to offsetting indices, as applicable, or if the Department does not elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Master Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(ii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Obligations to which such Swap pertains will be included in the calculation of Subordinate Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Obligations will be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Subordinate Designated Debt and the rate received from the Swap Provider;

(iii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap in the form of an "interest rate cap" (or a similarly structured financial arrangement) has been entered into by the Department, the interest payable thereon will be the lower of (A) the effective capped rate provided by the terms of the Swap and (B) the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Master Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(i) with respect to any Subordinate Commercial Paper Program which has been Implemented and not then terminated or with respect to any Subordinate Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Subordinate Authorized Amount of such Implemented Subordinate Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Subordinate Commercial Paper Program is Implemented and with substantially level annual debt service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;

(j) if moneys, Subordinate Permitted Investments or any other amounts not included in Subordinate Pledged Revenues have been used to pay or have been irrevocably deposited with and are held by the Subordinate Trustee or another fiduciary to pay or Subordinate Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such moneys, Subordinate Permitted Investments, other amounts not included in Subordinate Pledged Revenues or Subordinate Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Subordinate Aggregate Annual Debt Service; and;

(k) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Subordinate Pledged Revenues have been irrevocably committed or are held by the Subordinate Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Subordinate Pledged Revenues or from earnings thereon will be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in Pledged Revenues) and not included in calculating Subordinate Aggregate Annual Debt Service.

"*Subordinate Aggregate Annual Debt Service For Reserve Requirement*" means the computation of Subordinate Aggregate Annual Debt Service for a Subordinate Debt Service Reserve Fund with respect to all Outstanding Subordinate Obligations participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Obligations, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in a Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Obligations containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

"*Subordinate Annual Debt Service*" means, with respect to any Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Subordinate Qualified Swap is in effect for such Subordinate Obligation, plus the amount payable by the Department (or the Subordinate Trustee) under the Subordinate Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Subordinate Qualified Swap Provider pursuant to the Subordinate Qualified Swap, calculated using the principles and assumptions set forth in the definition of Subordinate Aggregate Annual Debt Service. Principal of and/or interest on Subordinate Obligations paid during any Fiscal Year with Passenger Facility Charges, Customer Facility Charges, state and/or federal grants, Capitalized Interest 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, Capitalized Interest or other moneys are included in Pledged Revenues) and not included in calculating Annual Debt Service.

"*Subordinate Authorized Amount*" means, when used with respect to Subordinate Obligations, including Subordinate Program Obligations, the maximum Subordinate Principal Amount of Subordinate Obligations which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to the Master Subordinate Indenture to be Outstanding at any one time under the terms of such Subordinate Program or Supplemental Subordinate Indenture. If the maximum Subordinate Principal Amount of Subordinate Obligations or Subordinate Program Obligations authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to the Master Subordinate Indenture exceeds the maximum Subordinate Principal Amount of Subordinate Obligations set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such Subordinate Obligations are issued or such Subordinate Program is established, the Subordinate Principal Amount of such Subordinate Obligations or Subordinate Program Obligations as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department will be deemed to be the "Subordinate Authorized Amount." Notwithstanding the provisions of this definition of "Subordinate Authorized Amount," in connection with the issuance of additional Subordinate Obligations and the calculation of Subordinate Maximum Aggregate Annual Debt Service and Subordinate Aggregate Annual Debt Service with respect to a Subordinate Commercial Paper Program, "Subordinate Authorized Amount" means the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Subordinate Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Subordinate Commercial Paper Program.

"*Subordinate Capitalized Interest*" means proceeds of Subordinate Obligations or other moneys not included in Subordinate Pledged Revenue that are deposited with the Trustee in a Debt Service Fund as shall be described in a Supplemental Subordinate Indenture upon issuance of such Subordinate Obligations that are to be used to pay interest on Subordinate Obligations.

"*Subordinate Commercial Paper Notes*" means the commercial paper notes issued on parity with the other Subordinate Obligations from time to time under the terms of the Subordinate Indenture, designated the "Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Commercial Paper Notes, Series A (Governmental – Non-AMT), Series B (Private Activity - AMT), Series C (Federally Taxable) and Series D (Private Activity – Non-AMT)," which may be issued from time to time pursuant to the Subordinate Indenture in an aggregate principal amount not to exceed $500,000,000 at any one time.

"*Subordinate Commercial Paper Program*" means a Subordinate Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Subordinate Program.

"*Subordinate Construction Fund*" means any of the Subordinate Construction Funds authorized to be created as provided by the Master Subordinate Indenture.

"*Subordinate Debt Service Fund*" or "*Subordinate Debt Service Funds*" means a Subordinate Debt Service Fund or any of the Subordinate Debt Service Funds required to be created as provided in the Master Subordinate Indenture.

"*Subordinate Debt Service Reserve Fund*" means any Subordinate Debt Service Reserve Fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of any Series of Subordinate Obligations and that is required to be funded for the purpose of providing additional security for such Series of Subordinate Obligations and under certain circumstances to provide additional security for such other designated Series of Subordinate Obligations issued pursuant to the terms of the Master Subordinate Indenture and as specified in any Supplemental Subordinate Indenture.

"*Subordinate Debt Service Reserve Fund Surety Policy*" means an insurance policy or surety bond, or a letter of credit, deposited with the Subordinate Trustee for credit to a Subordinate Debt Service Reserve Fund created for one or more Series of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. Except as otherwise provided in a Supplemental Subordinate Indenture, the entity providing such Subordinate Debt Service Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

"*Subordinate Designated Debt*" means a specific indebtedness designated by the Department in which such debt will be offset with a Swap, such specific indebtedness to include all or any part of a Series or multiple Series of Subordinate Obligations.

"*Subordinated Obligation*" means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operations Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish any senior debt service reserve fund. "*Subordinated Obligations*" are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Department may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations will be secured on a junior and subordinate basis to the Senior Bonds from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a "*Subordinated Obligation*" for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Department as a "*Subordinated Obligation*" in a Supplemental Senior Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in effect, the term "*Subordinated Obligation*" includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Department under each such Swap, as the context requires. The term "*Subordinated Obligations*" also includes a Swap or the obligations of the Department under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term "*Subordinated Obligation*" includes any senior swap termination payment under a senior qualified swap with respect to any Senior Bonds payable on parity with Subordinated Obligations. Subordinate Obligations issued under the Master Subordinate Indenture are Subordinated Obligations.

"*Subordinate Event of Default*" means any occurrence or event specified as a "Subordinate Event of Default" in the Subordinate Indenture. See "SUMMARY OF THE MASTER SUBORDINATE INDENTURE—Subordinate Events of Default and Remedies" below.

"*Subordinate Indenture*" means the Master Subordinate Indenture, together with all Supplemental Subordinate Indentures.

"*Subordinate Investment Agreement*" means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term Rating Category (if the term of the Subordinate Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Subordinate Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) and (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

"*Subordinate Maximum Aggregate Annual Debt Service*" means the maximum amount of Subordinate Aggregate Annual Debt Service with respect to all Subordinate Obligations, Unissued Subordinate Program

Obligations, and the Subordinate Authorized Amount of all Subordinate Obligations then proposed to be issued in the then current or any future Fiscal Year.

"*Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement*" means the computation of Subordinate Maximum Aggregate Annual Debt Service for a Subordinate Debt Service Reserve Fund with respect to all Outstanding Subordinate Obligations participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Obligations the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in an identified Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Obligations containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

"*Subordinate Notes*" means Subordinate Obligations issued under the provisions of the Master Subordinate Indenture which have a maturity of one year or less from their original date of issue and which are not part of a Subordinate Commercial Paper Program.

"*Subordinate Obligation*" or "*Subordinate Obligations*" means any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Subordinate Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Subordinate Repayment Obligations to the extent provided in the Master Subordinate Indenture. The terms "*Subordinate Obligation*" and "*Subordinate Obligations*" do not include any Third Lien Obligation; provided, however, the Department may provide in a Supplemental Subordinate Indenture that Third Lien Obligations may be issued thenceforth pursuant to the Master Subordinate Indenture having the terms applicable to the Subordinate Obligations, except that such Third Lien Obligations will be junior and subordinate in payment of such Third Lien Obligations from the Subordinate Pledged Revenues. The terms "*Subordinate Obligation*" and "*Subordinate Obligations*" include Subordinate Program Obligations. The Series 2016A Subordinate Bonds are Subordinate Obligations.

"*Subordinate Paying Agent*" or "*Subordinate Paying Agents*" means, with respect to the Subordinate Obligations or any Series of Subordinate Obligations, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Subordinate Indenture or a resolution of the Department as the place where such Subordinate Obligations will be payable.

"*Subordinate Permitted Investments*" means to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

(a) Government Obligations;

(b) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;

(c) direct and general long-term obligations of any state, which obligations are rated in either of the two highest Rating Categories by two or more Rating Agencies;

(d) direct and general short-term obligations of any state, which obligations are rated in the highest Rating Category by two or more Rating Agencies;

(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 in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies or (ii) fully secured by obligations described in items (a) or (b) of this definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Subordinate Trustee (who cannot 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 two or more Rating Agencies in either of the 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 two or more of the Rating Agencies; and (ii) fully secured by investments specified in items (a) or (b) of this definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements; (B) held by the Subordinate Trustee (who cannot 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 in the highest short-term Rating Category by two or more Rating Agencies;

(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 one or more of the Rating Agencies, or (ii) a money market fund or account of the Subordinate Trustee or any state or federal bank that is rated in (A) the highest short-term Rating Category by two or more Rating Agencies or (B) either of the two highest long-term Rating Categories by two or more Rating Agencies, or whose own bank holding company parent is rated in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies, or that has a combined capital and surplus of not less than $50,000,000;

(j) Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Subordinate Trustee to invest; provided that there is delivered to the Subordinate Trustee a certificate of an Authorized Representative stating that each of the Rating Agencies then maintaining a rating on the Subordinate Obligations has been informed of the proposal to invest in such investment."

"*Subordinate Pledged Revenues*" means for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the aggregate annual debt service on the Outstanding Senior Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Senior Indenture as described under the paragraph labeled THIRD described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS—Flow of Funds" in the forepart of this Official Statement.

"*Subordinate Principal Amount*" or "*Subordinate principal amount*" means, as of any date of calculation, (a) with respect to any Capital Appreciation Subordinate Obligations, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (b) with respect to any Original Issue Discount Subordinate Obligations, the Accreted Value thereof, unless the Supplemental Subordinate Indenture under which such Subordinate Obligation was issued will specify a different amount, in which case, the terms of the Supplemental Subordinate Indenture will control, and (c) with respect to any other Subordinate Obligations, the principal amount of such Subordinate Obligation payable at maturity.

"*Subordinate Program*" means a financing program identified in a Supplemental Subordinate Indenture, including but not limited to a Subordinate Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Subordinate Indenture have been filed with the Subordinate Trustee, (b) wherein the Board has authorized the issuance, from time to time, of notes, bonds, commercial paper or other indebtedness in a Subordinate Authorized Amount, and (c) the Subordinate Authorized Amount of which has met the additional bonds test set forth in the Master Subordinate Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Subordinate Authorized Amount.

"*Subordinate Program Obligations*" means Subordinate Obligations issued and Outstanding pursuant to a Subordinate Program, other than Unissued Subordinate Program Obligations.

"*Subordinate Qualified Swap*" means any Swap (a) whose Subordinate Designated Debt is all or part of a particular Series of Subordinate Obligations; (b) whose Swap Provider is a Subordinate Qualified Swap Provider or has been a Subordinate Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Subordinate Annual Debt Service or Subordinate Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Subordinate Designated Debt or to a specified mandatory tender or redemption of such Subordinate Designated Debt; (d) which has been designated in writing to the Subordinate Trustee by the Department as a Subordinate Qualified Swap with respect to such Subordinate Obligations; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Obligations, and Moody's, if Moody's has an outstanding rating on the Subordinate Obligations.

"*Subordinate Qualified Swap Provider*" means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Subordinate Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least "Aa," in the case of Moody's and "AA," in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) whose obligations under a Subordinate Qualified Swap are fully secured by obligations described in items (a) or (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

"*Subordinate Registrar*" means, with respect to the Subordinate Obligation or any Series of Subordinate Obligations, the bank, trust company or other entity designated in a Supplemental Subordinate Indenture or a resolution of the Board to perform the function of Subordinate Registrar under the Master Subordinate Indenture or any Supplemental Subordinate Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Subordinate Indenture. The Subordinate Trustee will act as the Subordinate Registrar with respect to the Series 2016A Subordinate Bonds.

"*Subordinate Repayment Obligatio*ns" means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Subordinate Obligations and all other amounts due and owing to a Credit Provider under a Credit Facility, or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Subordinate Obligations and all other amounts due and owing to a Liquidity Provider under a Liquidity Facility.

"*Subordinate Reserve Fund*" means the Subordinate Debt Service Reserve Fund of such designation created under the Fourth Supplemental Subordinate Indenture as security for any Subordinate Obligations which may participate in the Subordinate Reserve Fund as provided in Fourth Supplemental Subordinate Indenture. The Department will specify in the Eleventh Supplemental Subordinate Indenture that the Series 2016A Subordinate Bonds will participate in the Subordinate Reserve Fund.

"*Subordinate Reserve Requirement*" means an amount equal to the least of (a) Subordinate Maximum Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Obligations participating in the Subordinate Reserve Fund, (b) 10% of the principal amount of the Subordinate Obligations that have been issued and are participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to such Subordinate Obligations if such original issue discount exceeded 2% on such Subordinate Obligations at the time of their original sale, and (c) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Obligations participating in the Subordinate Reserve Fund.

"*Subordinate Swap Termination Payment*" means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Subordinate Qualified Swap, to compensate the other party to the Subordinate Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Subordinate Qualified Swap.

"*Subordinate Tender Indebtedness*" means any Subordinate Obligations or portions of Subordinate Obligations a feature of which is an option and/or an obligation on the part of the holders, under the terms of such Subordinate Obligations, to tender all or a portion of such Subordinate Obligations to the Department, the Subordinate Trustee, the Subordinate Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Subordinate Obligations or portions of Subordinate Obligations be purchased if properly presented.

"*Subordinate Trustee*" means U.S. Bank National Association, also known as U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor

"*Supplemental Senior Indenture*" means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior Indenture.

"*Supplemental Subordinate Indenture*" means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Subordinate Obligations and entered into as provided in the Master Subordinate Indenture.

"*Swap*" means any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Subordinate Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid *after* it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement. Swap includes, but is not be limited to, (i) caps, floors and collars, (ii) forward rate, future rate, swap (such swap may be based on an amount equal either to the principal amount of such Subordinate Obligations as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Subordinate Obligations), asset, index, price or market-linked transactions or agreements, (iii) other exchange or rate protection transaction agreements, (iv) other similar transactions (however designated), or (v) any combination thereof, or any option with respect thereto, in each case executed by the Department for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Subordinate Obligations or Variable Rate Indebtedness on a synthetic basis or otherwise.

"*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 Subordinate Designated Debt, with a Subordinate Qualified Swap, and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

"*Tax Compliance Certificate*" means the certificate of the Department prepared by Bond Counsel and delivered by the Department at the time of issuance and delivery of any Series of Subordinate Obligations, the interest on which is excluded from gross income for federal income tax purposes pursuant to a favorable opinion of such Bond Counsel, making certifications and representations of the Department as to the status of such Subordinate Obligations under the Code.

"*Term Subordinate Obligations*" means Subordinate Obligations of a Series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental

Subordinate Indenture for such Series for that purpose and calculated to retire the Subordinate Obligations on or before their specified maturity dates.

"*Third Lien Obligation*" means any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Senior Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Senior Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish any senior debt service reserve fund and any debt service reserve fund(s) established for the Subordinated Obligations. "*Third Lien Obligations*" are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Board may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations will be secured on a junior and subordinate basis to the Senior Bonds and the Subordinated Obligations from the Net Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a "*Third Lien Obligation*" for purposes of the Master Senior Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Board as a "*Third Lien Obligation*" in a Supplemental Senior Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term "*Third Lien Obligation*" includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term "*Third Lien Obligations*" also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term "*Third Lien Obligation*" includes any senior swap termination payment under a senior qualified swap with respect to any Senior Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

"*Transfer*" means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through NINTH described under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS—Flow of Funds" in the forepart of this Official Statement 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 two or more of the Rating Agencies.

"*Unissued Subordinate Program Obligations*" means the bonds, notes or other indebtedness authorized to be issued pursuant to a Subordinate Program and payable from Subordinate Pledged Revenues, issuable in an amount up to the Subordinate Authorized Amount relating to such Subordinate Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Subordinate Program the items required pursuant to the Master Subordinate Indenture have been filed with the Subordinate Trustee but which have not yet been authenticated and delivered pursuant to the Subordinate Program documents.

"*United States Bankruptcy Code*" means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

"*United States Obligations*" means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. "*United States Obligations*" will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

"*Variable Rate Indebtedness*" means any Subordinate Obligation or Subordinate Obligations the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

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SUMMARY OF THE MASTER SUBORDINATE INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2016A SUBORDINATE BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Subordinate Indenture.

Grant to Secure Subordinate Obligations; Pledge of Subordinate Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Subordinate Obligations and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Subordinate Indenture or contained in the Subordinate Obligations, the Department has pledged and assigned to the Subordinate Trustee and granted to the Subordinate Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provided that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Subordinate Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Subordinate Rebate Fund) held from time to time by the Subordinate Trustee under the Subordinate Indenture, and to the extent provided in any Supplemental Subordinate Indenture moneys and securities held in any Subordinate Construction Fund whether or not held by the Subordinate Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause, and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Subordinate Trustee as additional security under the Master Subordinate Indenture, for the equal and proportionate benefit and security of all Subordinate Obligations, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Subordinate Obligation over any other Subordinate Obligation or Subordinate Obligations, except as to the timing of payment of the Subordinate Obligations. Any Subordinate Debt Service Reserve Fund and any Subordinate Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Subordinate Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Subordinate Obligations, a specific Series of Subordinate Obligations or one or more Series of Subordinate Obligations may, as provided by a Supplemental Subordinate Indenture, secure only such specific Subordinate Obligations, Series of Subordinate Obligations or one or more Series of Subordinate Obligations and, therefore, will not be included as security for all Subordinate Obligations under the Master Subordinate Indenture unless otherwise provided by a Supplemental Subordinate Indenture and moneys and securities held in trust as provided in the Master Subordinate Indenture exclusively for Subordinate Obligations which have become due and payable and moneys and securities which are held exclusively to pay Subordinate Obligations which are deemed to have been paid under the Master Subordinate Indenture will be held solely for the payment of such specific Subordinate Obligations. All amounts held in the funds and accounts created under the Senior Indenture will not be included as security for any Subordinate Obligations under the Master Subordinate Indenture.

Subordinate Repayment Obligations Afforded Status of Subordinate Obligations

If a Credit Provider or Liquidity Provider makes payment of principal and/or interest on a Subordinate Obligation or advances funds to purchase or provide for the purchase of Subordinate Obligations and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department's Subordinate Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Subordinate Obligation issued under the Master Subordinate Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Holder of such Subordinate Obligation, and such Subordinate Obligation will be deemed to have been issued at the time of the original Subordinate Obligation for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Subordinate Indenture; provided, however, the payment terms of the Subordinate Obligation held by the Credit Provider or Liquidity Provider hereunder will be as follows (unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which the Subordinate Obligations are issued or in the agreement with the Credit Provider or Liquidity Provider): (a) interest will be due and payable semiannually and (b) principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(A) a term extending to the maturity date of the enhanced

Subordinate Obligations or (B) if later, the final maturity of the Subordinate Repayment Obligation under the written agreement, and providing substantially level annual debt service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Subordinate Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Subordinate Repayment Obligation. Any amount which comes due on the Subordinate Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Obligation will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund). This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Subordinate Indenture. The Subordinate Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Subordinate Repayment Obligation is to be afforded the status of a Subordinate Obligation under the Master Subordinate Indenture.

Obligations Under Subordinate Qualified Swap; Non-Qualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Subordinate Qualified Swap with respect to a Series of Subordinate Obligations may be on a parity with the obligation of the Department to make payments with respect to such Series of Subordinate Obligations and other Subordinate Obligations under the Master Subordinate Indenture, except as otherwise provided by Supplemental Subordinate Indenture and elsewhere in the Master Subordinate Indenture with respect to any Subordinate Swap Termination Payments. The Department may provide in any Supplemental Subordinate Indenture that Regularly Scheduled Swap Payments under a Subordinate Qualified Swap will be secured by a pledge of or lien on the Subordinate Pledged Revenues on a parity with the Subordinate Obligations of such Series and all other Subordinate Obligations, regardless of the principal amount, if any, of the Subordinate Obligations of such Series remaining Outstanding. The Subordinate Trustee will take all action consistent with the other provisions of the Master Subordinate Indenture as will be requested in writing by the Subordinate Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Subordinate Trustee either to exercise the remedies granted in the Master Subordinate Indenture or to institute any action, suit or proceeding in its own name, the Subordinate Qualified Swap Provider will provide to the Subordinate Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Subordinate Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Subordinate Qualified Swap, such Subordinate Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Obligations of the Department to make payments, including termination payments, under a Non-Qualified Swap will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund LAX Maintenance and Operation Expenses, Senior Bonds, any reserve funds established with respect to Senior Bonds, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Deposits and Withdrawals from the Subordinate Debt Service Funds

Deposits into the Subordinate Debt Service Funds. The Subordinate Trustee will, at least fifteen Business Days prior to each Payment Date on any Subordinate Obligation, give the Department notice by telephone, promptly confirmed in writing, of the amount, after taking into account Subordinate Capitalized Interest, if any, on deposit in the Subordinate Debt Service Funds, required to be deposited with the Subordinate Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

So long as any of the Subordinate Obligations are Outstanding, the Authorized Representative will deliver to the Treasurer, at least ten Business Days prior to each Payment Date, as to each Series of Subordinate Obligations Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than five Business Days prior to each Payment Date, transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each Series of Outstanding Subordinate Obligations the full amount required to pay the principal of and/or interest on Subordinate Obligations of that Series due on such Payment Date.

On any day on which the Subordinate Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Obligations, the Subordinate Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Subordinate Debt Service Funds for the Series of Subordinate Obligations for which such payments were made and any excess funds will be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Subordinate Debt Service Fund for any Series of Subordinate Obligations for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Subordinate Obligations on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series of Subordinate Obligations Outstanding, any amounts required to be transferred to and paid into a Subordinate Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Subordinate Debt Service Fund, and in that event any subsequently scheduled transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (a price not greater than par) prior to notice of redemption of such Series. Such Subordinate Obligations so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Subordinate Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Obligations of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Subordinate Obligations to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Subordinate Trustee in writing.

Money set aside and placed in a Subordinate Debt Service Fund for any Series of Subordinate Obligations will remain therein from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Subordinate Debt Service Fund may be temporarily invested as provided in the Master Subordinate Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Subordinate Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Obligations of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of a Subordinate Event of Default, such earnings will remain in the Subordinate Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Subordinate Debt Service Fund established to pay principal of and interest on any Series of Subordinate Obligations will be held by the Subordinate Trustee or any agent of the Subordinate Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Subordinate Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Subordinate Trustee or any agent of the Subordinate Trustee in the various Subordinate Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Subordinate Trustee or such agents as will be provided by the Supplemental Subordinate Indenture.

The moneys in each Subordinate Debt Service Fund established for any issue, Series will be held in trust and applied as provided in the Master Subordinate Indenture and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance with the Master Subordinate Indenture and with the provisions of such Supplemental Subordinate Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Obligations of such Series.

Withdrawals From Subordinate Debt Service Funds. On each Payment Date for any Outstanding Subordinate Obligations, the Subordinate Trustee will pay to the Owners of the Subordinate Obligations of a given Series from the appropriate Subordinate Debt Service Fund or Subordinate Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Subordinate Obligations.

On or before a mandatory redemption date from sinking installment payments for Term Subordinate Obligations of a Series of Subordinate Obligations, the Subordinate Trustee will transfer from the Subordinate Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Obligations of a Series are to be mandatorily redeemed from sinking installment payments, the Subordinate Trustee will pay to the Owners of Subordinate Obligations of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Subordinate Obligations of such Series to be mandatorily redeemed on such date.

On each date on which Subordinate Obligations of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Subordinate Indenture, the Subordinate Trustee will pay to the Owners of such Subordinate Obligations from the redemption account, an amount of interest and principal, and premium, if any, on such Subordinate Obligations to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Obligations are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Obligations on such redemption date.

The payments made by the Subordinate Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Subordinate Debt Service Fund.

All money remaining in a Subordinate Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Obligations of the Series for which that Subordinate Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Obligations of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Subordinate Trustee will, at least two Business Days prior to each Payment Date on any Subordinate Obligation, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Subordinate Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Obligation, in the event the amount then on deposit in any Subordinate Debt Service Fund is insufficient to pay the amounts due on any Series of Subordinate Obligations on such Payment Date. With respect to any Series of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

If, on any Payment Date, the Subordinate Trustee does not have sufficient amounts in the Subordinate Debt Service Funds (without regard to any amounts which may be available in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) to pay in full with respect to Subordinate Obligations of all Series all amounts of principal and/or interest due on such date, the Subordinate Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Obligations of any Series, in the order in which such interest came due, then to the payment of past due principal on Subordinate Obligations of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Subordinate Obligations of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Subordinate Obligations then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Subordinate Obligations and, if the amount available will not be sufficient to pay in full all principal on the Subordinate Obligations then due, then pro rata among the Series according to the Principal Amount then due on the Subordinate Obligations.

If the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Obligations secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Subordinate Obligations which have become due and payable have been paid in full, (b) the required payments to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund exceeds the amount available for such purpose, the payments made to the Subordinate Trustee for such purpose will be allocated among the Subordinate Reserve Fund or the various Subordinate Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Obligations secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series of Subordinate Obligations, provide for different provisions and timing of deposits with the Subordinate Trustee and different methods of paying principal of or interest on such Subordinate Obligations depending upon the terms of such Subordinate Obligations and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Subordinate Debt Service Fund created for the Series of Subordinate Obligations for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Obligations, the Department may, at its election, pay to the Subordinate Trustee funds from any available sources with the direction that such funds be deposited into the Subordinate Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Subordinate Pledged Revenues and the other security provided in the Granting Clauses of the Master Subordinate Indenture, secure all Subordinate Obligations issued under the terms of the Maser Subordinate Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Subordinate Obligations or Series of Subordinate Obligations with no obligation to provide such additional security or credit enhancement to other Subordinate Obligations.

Payment of Principal and Interest

The Department covenants and agrees that it will duly and punctually pay or cause to be paid from the Subordinate Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Subordinate Obligation at the place and on the dates and in the manner set forth herein, and in the Supplemental Subordinate Indentures and in the Subordinate Obligations specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Subordinate Indenture and in the Subordinate Obligations contained, provided that the Department's obligation to make payments of the principal of, premium, if any, and interest on the Subordinate Obligations will be limited to payment from the Subordinate Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master

Subordinate Indenture and any other source which the Department may specifically provide for such purpose and no Holder will have any right to enforce payment from any other funds of the Department.

Junior and Subordinated Obligations

The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that: (a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations (including, but not limited to, Third Lien Obligations) will specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Obligations; and (b) payment of principal of and interest on such subordinated obligations (including, but not limited to, Third Lien Obligations) will be permitted, provided that all deposits required to be made to the Subordinate Trustee to be used to pay debt service on the Subordinate Obligations and to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund, if any, are then current in accordance with the Master Subordinate Indenture.

Maintenance and Operation of LAX Airport Facilities

Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any part of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of the LAX Airport Facilities.

Insurance; Application of Insurance Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(1) the Department will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self-Insurance with respect to the facilities constituting Los Angeles International Airport and public liability insurance in the form of commercial insurance or Qualified Self-Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Department, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self-insured programs provided by similar airports;

(2) the Department will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Financial Officer and on any other employees of the Board or the Department who handle or are responsible for funds of the Department; and

(3) the Department will place on file with the Subordinate 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 Subordinate Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required in the Master Subordinate Indenture or obtained by the Department.

"Qualified Self-Insurance" means insurance maintained through a program of self-insurance or insurance maintained with a fund, company or association in which the Department may have a material interest and of which the Department may have control, either singly or with others. Each plan of Qualified Self-Insurance will be established in accordance with law, will provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Department determines to be reasonable to protect against risks assumed under the Qualified Self-Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self-Insurance, and such self-insurance program will be reviewed at least once every 12 months by a Consultant who will deliver to the Department a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he will make a recommendation as to the amount of reserves that should be established and maintained, and the Department will comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Department.

If, as a result of any event, any part of an LAX Airport Facility or any LAX Airport Facilities is destroyed or severely damaged, the Department will create within the LAX Revenue Account a special subaccount and will credit the Net Proceeds received as a result of such event of damage or destruction to such subaccount and such Net Proceeds will, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (1) repair or replace the LAX Airport Facilities, or portion thereof, which were damaged or destroyed, (2) provide additional revenue-producing LAX Airport Facilities, (3) redeem Senior Bonds, (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, (5) redeem Subordinate Obligations, or (6) create an escrow fund pledged to pay specified Subordinate Obligations and thereby cause such Subordinate Obligations to be deemed to be paid as provided in the Master Subordinate Indenture; provided, however, that the Department will first deliver to the Subordinate Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Subordinate Obligations, the rate covenant set forth in the Master Subordinate 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 and the Subordinate Obligations 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 covenants set forth in the Master Senior Indenture and the Master Subordinate 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 or the Master Subordinate Indenture.

Investments

Moneys held by the Subordinate Trustee in the funds and accounts created in the Master Subordinate Indenture and under any Supplemental Subordinate Indenture will be invested and reinvested as directed by the Department, in Subordinate Permitted Investments subject to the restrictions set forth in the Master Subordinate Indenture and such Supplemental Subordinate Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Subordinate Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Subordinate Trustee will, to the extent practicable, invest in Subordinate Permitted Investments specified in (i) of the definition thereof.

The Subordinate Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Subordinate Permitted Investment is held.

The Subordinate Trustee may buy or sell any Subordinate Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Subordinate Obligations or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture except for the purposes of payment from moneys or Government Obligations held by the Subordinate Trustee or a Subordinate Paying Agent for such purpose. When all Subordinate Obligations which have been issued under the Master Subordinate Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Subordinate Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Subordinate Trustee, the Subordinate Registrar and the Subordinate Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues and the other assets pledged to secure the Subordinate Obligations under the Master Subordinate Indenture will thereupon cease, terminate and become void, and thereupon the Subordinate Trustee will cancel, discharge and release the Master Subordinate Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Subordinate Indenture which may then be in the Subordinate Trustee's possession, except funds or securities in which such funds are invested and are held by the Subordinate Trustee or the Subordinate Paying Agent for the payment of the principal of, premium, if any, and interest on the Subordinate Obligations.

A Subordinate Obligation will be deemed to be paid within the meaning of the Master Subordinate Indenture when payment of the principal, interest and premium, if any, either (a) has been made or caused to be made in accordance with the terms of the Subordinate Obligations and the Master Subordinate Indenture or (b) has been provided for by depositing with the Subordinate Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Subordinate Obligations will be deemed to be paid under the Master Subordinate Indenture, such Subordinate Obligations will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Subordinate Obligations. Once such deposit has been made, the Subordinate Trustee will notify all Holders of the affected Subordinate Obligations that the deposit required by (b) above has been made with the Subordinate Trustee and that such Subordinate Obligations are deemed to have been paid in accordance with the Master Subordinate Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Subordinate Indenture under which such Subordinate Obligations were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Subordinate Indenture under which such Subordinate Obligations were issued, modify or otherwise change the scheduled date for the redemption or payment of any Subordinate Obligation deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Subordinate Obligations or the Master Subordinate Indenture subject to (i) receipt of an approving opinion of Bond Counsel that such action will not adversely affect the tax-exemption of any Subordinate Obligation or Subordinate Obligations then Outstanding and (ii) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Subordinate Obligations. Notwithstanding anything in this section to the contrary, moneys from the trust or escrow established for the defeasance of Subordinate Obligations may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (i) and (ii) above are met prior to or concurrently with any such withdrawal.

Subordinate Events of Default and Remedies

Subordinate Events of Default. Each of the following events will constitute and is referred to as a "*Subordinate Event of Default*":

(a) a failure to pay the principal of or premium, if any, on any of the Subordinate Obligations, when the same will become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Subordinate Obligations when such interest will become due and payable;

(c) failure to pay the purchase price of any Subordinate Obligation when such purchase price will be due and payable upon an optional or mandatory tender date as provided in a Supplemental Subordinate Indenture;

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Subordinate Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under the rate covenant set forth in the Master Subordinate Indenture which will be controlled by the provisions set forth therein, will continue for a period of 90 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Subordinate Trustee, which notice may be given at the discretion of the Subordinate Trustee and will be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding, unless the Subordinate Trustee, or the Subordinate Trustee and the Holders of Subordinate Obligations in a Principal Amount not less than the Principal Amount of Subordinate Obligations the Holders of which requested such notice, agree in writing to an extension of such period prior to its expiration; provided, however, that the Subordinate Trustee or the Subordinate Trustee and the Holders of such principal amount of Subordinate Obligations will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution;

(f) the occurrence of any other Subordinate Event of Default as is provided in a Supplemental Subordinate Indenture; or

(g) a default in the payment of principal of or interest on any Senior Bonds.

Remedies.

(a) Upon the occurrence and continuance of any Subordinate Event of Default, the Subordinate Trustee in its discretion may, and upon the written direction of the Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Subordinate Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Subordinate Holders, and require the Department to carry out any agreements with or for the benefit of the Subordinate Holders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Subordinate Indenture;

(ii) bring suit upon the Subordinate Obligations;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Subordinate Holders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Holders.

(b) The Subordinate Trustee will be under no obligation to take any action with respect to any Subordinate Event of Default unless the Subordinate Trustee has actual knowledge of the occurrence of such Subordinate Event of Default.

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Subordinate Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider (subject to the prior lien on Pledged Revenues granted to the Senior Bonds pursuant to the Senior Indenture), in no event, upon the occurrence and continuation of a Subordinate Event of Default, will the Subordinate Trustee, the Holders of Subordinate Obligations, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Obligations Outstanding.

Holders' Right To Direct Proceedings. Anything in the Master Subordinate Indenture to the contrary notwithstanding, Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Subordinate Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Subordinate Trustee under the Master Subordinate Indenture to be taken in connection with the enforcement of the terms of the Master Subordinate Indenture or exercising any trust or power conferred on the Subordinate Trustee by the Master Subordinate Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Subordinate Indenture and that there will have been provided to the Subordinate Trustee security and indemnity satisfactory to the Subordinate Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Subordinate Trustee.

Limitation on Right To Institute Proceedings. No Subordinate Holder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy under the Master Subordinate Indenture or on such Subordinate Obligations, unless such Subordinate Holder or Holders previously has given to the Subordinate Trustee written notice of a Subordinate Event of Default as hereinabove provided and unless also Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding has made written request of the Subordinate Trustee to do so, after the right to institute such suit, action or proceeding under the Master Subordinate Indenture will have accrued, and will have afforded the Subordinate Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Subordinate Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Subordinate Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Subordinate Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Subordinate Holders will have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Master Subordinate Indenture, or to enforce any right under the Master Subordinate Indenture or under the Subordinate Obligations, except in the manner provided in the Master Subordinate Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Subordinate Indenture and for the equal benefit of all Subordinate Holders.

Application of Moneys. If a Subordinate Event of Default will occur and be continuing, all amounts then held or any moneys received by the Subordinate Trustee, by any receiver or by any Subordinate Holder pursuant to any right given or action taken under the provisions of the Master Subordinate Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Subordinate Trustee (including attorneys' fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Obligations, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Subordinate Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Subordinate Obligations which have become due with interest on such Subordinate Obligations at such rate as provided in a Supplemental Subordinate Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Subordinate Obligations on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Subordinate Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Subordinate Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Subordinate Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Subordinate Holders and will not be required to make payment to any Subordinate Holder until such Subordinate Obligations will be presented to the Subordinate Trustee for appropriate endorsement or for cancellation if fully paid.

The Subordinate Trustee

Duties. If a Subordinate Event of Default has occurred and is continuing, the Subordinate Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Subordinate Trustee will perform the duties set forth in the Subordinate Indenture and no implied duties or obligations will be read into the Subordinate Indenture against the Subordinate Trustee. Except during the continuance of a Subordinate Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Subordinate Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Subordinate Trustee and conforming to the requirements of the Master Subordinate Indenture. However, the Subordinate Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Subordinate Indenture.

The Subordinate Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Subordinate Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Subordinate Trustee was negligent in ascertaining the pertinent facts; and (b) the Subordinate Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Subordinate Holders or the Department in the manner provided in the Master Subordinate Indenture.

The Subordinate Trustee will not, by any provision of the Master Subordinate Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Subordinate Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (a) a Subordinate Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be a Subordinate Event of Default and, with respect to such events for which notice to the Department is required before such events will become Subordinate Events of Default, such notice has been given, then the Subordinate Trustee will promptly, after obtaining actual notice of such Subordinate Event of Default or event described in (b) above, give notice thereof to each Subordinate Holder. Except in the case of a default in payment or purchase on any Subordinate Obligations, the Subordinate Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Subordinate Holders.

Eligibility of Subordinate Trustee. The Master Subordinate Indenture will always have a Subordinate Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least $100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Subordinate Trustee. The Subordinate Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may remove the Subordinate Trustee by notifying the removed Subordinate Trustee and may appoint a successor Subordinate Trustee with the Department's consent. The Department may remove the Subordinate Trustee, by notice in writing delivered to the Subordinate Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Subordinate Trustee during any time when a Subordinate Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Subordinate Event of Default.

No resignation or removal of the Subordinate Trustee will be effective until a new Subordinate Trustee has taken office and delivered a written acceptance of its appointment to the retiring Subordinate Trustee and to the Department. Immediately thereafter, the retiring Subordinate Trustee will transfer all property held by it as Subordinate Trustee to the successor Subordinate Trustee, the resignation or removal of the retiring Subordinate Trustee will then (but only then) become effective and the successor Subordinate Trustee will have all the rights, powers and duties of the Subordinate Trustee under the Subordinate Indenture.

If the Subordinate Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Subordinate Indenture, the Department will promptly appoint a successor Subordinate Trustee.

If a Subordinate Trustee is not performing its duties under the Subordinate Indenture and a successor Subordinate Trustee does not take office within 60 days after the retiring Subordinate Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Subordinate Trustee, the Department or the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may petition any court of competent jurisdiction for the appointment of a successor Subordinate Trustee.

Amendments and Supplements

Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations. The Department may, from time to time and at any time, without the consent of or notice to the Holders of the Subordinate Obligations, execute and deliver Supplemental Subordinate Indentures supplementing and/or amending the Master Subordinate Indenture or any Supplemental Subordinate Indenture, as follows:

(a) to provide for the issuance of a Series or multiple Series of Subordinate Obligations under the provisions of the Master Subordinate Indenture and to set forth the terms of such Subordinate Obligations and the special provisions which will apply to such Subordinate Obligations;

(b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Subordinate Indenture or any Supplemental Subordinate Indenture, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(c) to add to the covenants and agreements of the Department in the Master Subordinate Indenture or any Supplemental Subordinate Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Subordinate Holders;

(d) to confirm, as further assurance, any interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues or in and to the funds and accounts held by the Subordinate Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Subordinate Indenture or to otherwise add additional security for the Subordinate Holders;

(e) to evidence any change made in the terms of any Series of Subordinate Obligations if such changes are authorized by a Supplemental Subordinate Indenture at the time the Series of Subordinate

Obligations is issued and such change is made in accordance with the terms of such Supplemental Subordinate Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(g) to provide for uncertificated Subordinate Obligations or for the issuance of coupons and bearer Subordinate Obligations or Subordinate Obligations registered only as to principal;

(h) to qualify the Subordinate Obligations or a Series of Subordinate Obligations for a rating or ratings from a Rating Agency;

(i) to accommodate the technical, operational and structural features of Subordinate Obligations which are issued or are proposed to be issued or of a Subordinate Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Subordinate Obligations or a specific Series of Subordinate Obligations, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Obligations, including, without limitation, the segregation of Pledged Revenues, Net Pledged Revenues and Subordinate Pledged Revenues into different funds; and

(l) to modify, alter, amend or supplement the Master Subordinate Indenture or any Supplemental Subordinate Indenture in any other respect which is not materially adverse to the Subordinate Holders.

Before the Department executes, pursuant to this section, any Supplemental Subordinate Indenture, there will be delivered to the Department and Subordinate Trustee an opinion of Bond Counsel to the effect that such Supplemental Subordinate Indenture is authorized or permitted by the Master Subordinate Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Subordinate Obligations which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations.

(a) Except for any Supplemental Subordinate Indenture entered into pursuant to the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above and any Supplemental Subordinate Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this section and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Subordinate Indenture or in a Supplemental Subordinate Indenture; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations then Outstanding or unless such change affects less than all Series of Subordinate Obligations and the following subsection (b) is applicable, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Obligations or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations or the rate of interest thereon; and provided that nothing contained in the Master Subordinate Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Subordinate Obligations then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Subordinate Indenture) upon or pledge of the Subordinate Pledged Revenues created by the Master

Subordinate Indenture, ranking prior to or on a parity with the claim created by the Master Subordinate Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Subordinate Obligations, a preference or priority of any Subordinate Obligation or Subordinate Obligations over any other Subordinate Obligation or Subordinate Obligations with respect to the security granted therefor under the Granting Clauses of the Master Subordinate Indenture, or (v) a reduction in the aggregate Principal Amount of Subordinate Obligations the consent of the Subordinate Holders of which is required for any such Supplemental Subordinate Indenture. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Subordinate Holders of the execution of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above, including the granting, for the benefit of particular Series of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Subordinate Indenture which amends the provisions of an earlier Supplemental Subordinate Indenture under which a Series or multiple Series of Subordinate Obligations were issued. If such Supplemental Subordinate Indenture is executed for one of the purposes described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above, no notice to or consent of the Subordinate Holders will be required. If such Supplemental Subordinate Indenture contains provisions which affect the rights and interests of less than all Series of Subordinate Obligations Outstanding and the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations of all Series of Subordinate Obligations Outstanding which are affected by such changes will have the right from time to time to consent to any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Subordinate Indenture and affecting only the Subordinate Obligations of such Series; provided, however, that, unless approved in writing by the Holders of all the Subordinate Obligations of all the affected Series then Outstanding, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Obligations of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Obligations of such Series or the rate of interest thereon. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Holders of the adoption of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under "—Supplemental Subordinate Indentures Not Requiring Consent of Holders of Subordinate Obligations" above, including the granting, for the benefit of particular Series of Subordinate Obligations, security in addition to the pledge of the Subordinate Pledged Revenues.

Amendments to the Senior Indenture

The Holders of the Subordinate Obligations have no right to consent to or reject any amendments to the Senior Indenture that require the consent of the holders of the Senior Bonds, except for amendments to the flow of funds that require the consent of the holders of the Senior Bonds.

Rights of Credit Provider

The Master Subordinate Indenture provides that if a Credit Facility is provided for a Series of Subordinate Obligations or for specific Subordinate Obligations, the Department may in the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued, provide any or all of the following rights to the Credit Provider as the Department deems to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Subordinate Trustee or to otherwise direct proceedings all as provided in the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Obligations which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Subordinate Obligations; (b) the right to act in place of the owners of the Subordinate Obligations which are secured by the Credit Facility for purposes of removing a Subordinate Trustee or appointing a Subordinate Trustee under the

Subordinate Indenture; and (c) the right to consent to Supplemental Subordinate Indentures, which would otherwise require the consent of the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations, entered into pursuant to the provisions set forth under the caption "—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations" above, except with respect to any amendments described in subsections (a)(i) through (iv) and (b)(i) or (ii) under the caption "—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Holders of Subordinate Obligations" above, which consent of the actual Subordinate Holders will still be required, of the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Obligations which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Holder of such Subordinate Obligations.

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SUMMARY OF THE ELEVENTH SUPPLEMENTAL SUBORDINATE INDENTURE

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2016A SUBORDINATE BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS" in the forepart of this Official Statement, the following is a summary of certain provisions of the Eleventh 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 Eleventh Supplemental Subordinate Indenture.

Terms of the Bonds

The Eleventh Supplemental Subordinate Indenture sets forth the terms of the Series 2016A Subordinate Bonds, most of which terms are described in the forepart of this Official Statement under "DESCRIPTION OF THE SERIES 2016A SUBORDINATE BONDS."

Establishment of Funds and Accounts

Pursuant to the Eleventh Supplemental Subordinate Indenture the Subordinate Trustee will establish and maintain the following funds and accounts: the Series 2016A Subordinate Debt Service Fund, (and within such Series 2016A Subordinate Debt Service Fund, an Interest Account, a Principal Account and a Redemption Account), the Series 2016A Subordinate Construction Fund, the Series 2016A Subordinate Costs of Issuance Fund, the Series 2016A Subordinate Reserve Account to be established in the Subordinate Reserve Fund and the Series 2016A Subordinate Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2016A Subordinate Bonds as described in the forepart of this Official Statement under "ESTIMATED SOURCES AND USES OF FUNDS."

Series 2016A Subordinate Debt Service Fund. The Subordinate Trustee will deposit in the Interest Account of the Series 2016A 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 2016A Subordinate Bonds. The Subordinate Trustee will also deposit into the Interest Account of the Series 2016A 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 2016A Subordinate Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2016A Subordinate Bonds at maturity or mandatory sinking fund redemption, if any. The Subordinate Trustee will also deposit into the Principal Account of the Series 2016A 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 2016A Subordinate Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of and interest on the Series 2016A Subordinate Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of mandatory sinking fund redemption, if any). Earnings on the Redemption Account will be retained in such account or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Subordinate Trustee by an Authorized Representative at the time of such deposit.

The Series 2016A Subordinate Debt Service Fund will be invested and reinvested in Subordinate Permitted Investments as directed by an Authorized Representative.

Series 2016A Subordinate Construction Fund. Amounts in the Series 2016A 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 projects for which the Series 2016A Subordinate

Bonds were issued. While held by the Subordinate Trustee, amounts in the Series 2016A Subordinate Construction Fund will not secure the Outstanding Series 2016A Subordinate Bonds. Amounts in the Series 2016A Subordinate Construction Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such fund will be credited to such fund.

Series 2016A Subordinate Costs of Issuance Fund. The proceeds of the Series 2016A Subordinate Bonds deposited into the Series 2016A Subordinate Costs of Issuance Fund will be disbursed by the Subordinate Trustee, from time to time, to pay costs of issuance of the Series 2016A Subordinate Bonds. Amounts in the Series 2016A 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 2016A Subordinate Reserve Account. For a description of the Subordinate Reserve Fund, see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016A SUBORDINATE BONDS—Subordinate Reserve Fund" in the forepart of this Official Statement.

Series 2016A Subordinate Rebate Fund. The Eleventh Supplemental Subordinate Indenture creates the Series 2016A Subordinate Rebate Fund for the Series 2016A 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 2016A 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 2016A Subordinate Bonds. Such excess is to be deposited into the Series 2016A Subordinate Rebate Fund and periodically paid to the United States of America. The Series 2016A 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 2016A Subordinate Bonds.

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APPENDIX D-1

AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE

Amendments Not Requiring Bondholder Consent

Pursuant to the Eleventh Supplemental Subordinate Indenture, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Subordinate Indenture that do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds), or any other parties, and will go into effect on the date of issuance of the Series 2016A Subordinate Bonds (the "Amendments Not Requiring Bondholder Consent"). *Any purchaser of the Series 2016A Subordinate Bonds will be purchasing the Series 2016A Subordinate Bonds subject to the Amendments Not Requiring Bondholder Consent, and the Department will not be requesting a separate written consent from the purchasers of the Series 2016A Subordinate Bonds for the Amendments Not Requiring Bondholder Consent.*

The Amendments Not Requiring Bondholder Consent are set forth below. 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 (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 **payable by the Department** as provided for by the terms of the Swap or the net interest rate payable **by the Department** pursuant to offsetting indices, as applicable, or if the Department 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 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;

(iii) for purposes of computing the Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap in the form of an "interest rate cap" (or a similarly structured financial arrangement) has been entered into by the Department, the interest payable thereon shall be the lower of (A) the effective capped rate provided by the terms of the Swap and (B) 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;

(b) The definition of "Annual Debt Service"

"Annual Debt Service" shall mean, with respect to any Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Qualified Swap is in effect for such Subordinate Obligation, plus the amount payable by the Department (or the Trustee) under the Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Qualified Swap Provider pursuant to the Qualified Swap, calculated using the principles and assumptions set forth in the definition of Aggregate Annual Debt Service. **Principal of and/or interest on Subordinate Obligations paid during any Fiscal Year with Passenger Facility Charges, Customer Facility Charges, state and/or federal grants, Capitalized Interest 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, Capitalized Interest or other moneys are included in Pledged Revenues) and not included in calculating Annual Debt Service.**

(c) The definition of "Capitalized Interest"

"Capitalized Interest" shall mean ~~the amount of interest on Subordinate Obligations, if any, funded from the~~ proceeds of ~~the~~ Subordinate Obligations or other moneys **not included in Subordinate Pledged Revenue** that are deposited with the Trustee in ~~the~~ **a** Debt Service Fund as shall be described in a Supplemental Subordinate Indenture upon issuance of **such** Subordinate Obligations **that are** to be used to pay interest on ~~the~~ Subordinate Obligations.

(d) The definition of "Fitch"

"Fitch" shall mean Fitch, Inc.~~, a corporation organized and existing under the laws of the State of Delaware,~~ **and** its successors and its assigns, and, if ~~such corporation~~ **Fitch** shall for any reason no longer perform the functions of a ~~securities rating agency~~ **Nationally Recognized Rating Agency**, "Fitch" shall be deemed to refer to any ~~nationally recognized rating agency~~ **Nationally Recognized Rating Agency** designated by the Department (other than Moody's or S&P).

(e) The definition of "Governmental Obligations"

"Government Obligations" shall mean (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~~ **Rating Category** by one or more of the Rating Agencies~~, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Subordinate Obligations and such Rating Agencies are then maintaining a rating on any of the Subordinate Obligations~~; and (c) any other type of security or obligation which the Rating Agencies **that** then ~~maintaining~~ **maintain** ratings on the Subordinate Obligations to be defeased have determined to be permitted defeasance securities.

(f) The definition of "Moody's"

"Moody's" shall mean Moody's Investors Service, ~~a corporation organized and existing under the laws of the State of Delaware,~~ **and** its successors and its assigns, and, if ~~such corporation~~ **Moody's** shall for any reason no longer perform the functions of a ~~securities rating agency~~ **Nationally Recognized Rating Agency**, "Moody's" shall be deemed to refer to any other ~~nationally recognized rating agency~~ **Nationally Recognized Rating Agency** designated by the Department **(other than Fitch or S&P)**.

(g) The definition "Nationally Recognized Rating Agency"

"Nationally Recognized Rating Agency" shall mean a nationally recognized statistical rating organization identified by the United States Securities and Exchange Commission.

(h) The definition of "Permitted Investments"

"Permitted Investments" shall mean to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

(a) Government Obligations;

(b) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;

(c) direct and general long-term obligations of any state, which obligations are rated in either of the two highest ~~rating categories by Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and by S&P if S&P then maintains a rating on any of the Subordinate Obligations~~ **Rating Categories by two or more Rating Agencies**;

(d) direct and general short-term obligations of any state which obligations are rated in the highest ~~rating category by Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and by S&P if S&P then maintains a rating on any of the Subordinate Obligations~~ **Rating Category by two or more Rating Agencies**;

(e) interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC") or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (i) continuously and fully insured by FDIC and with banks that are rated ~~at least "P-1" or "Aa" by Moody's if any of the Subordinate Obligations are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Subordinate Obligations are then rated by S&P~~ **in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies**; or (ii) fully secured by obligations described in items (a) or (b) of this definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment; (B) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee; (C) subject to a perfected first lien in favor of the Trustee; and (D) free and clear from all third-party liens;

(f) long-term or medium-term corporate debt guaranteed by any corporation that is rated by ~~both Moody's and S&P~~ **two or more Rating Agencies** in either of the two highest ~~rating categories~~ **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 **two or more of the Rating** Agencies ~~Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and from S&P if S&P then maintains a rating on any of the Subordinate Obligations~~; and (ii) fully secured by investments specified in ~~paragraph~~ **items** (a) or (b) of this definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements; (B) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee; (C) subject to a perfected first lien in favor of the Trustee; and (D) free and clear from all third-party liens;

(h) prime commercial paper of a United States corporation, finance company or banking institution rated **in the highest short-term Rating Category by two or more Rating Agencies** ~~at least "P-1" by Moody's if Moody's then maintains a rating on any of the Subordinate~~

~~Obligations and at least "A-1" by S&P if S&P then maintains a rating on any of the Subordinate Obligations~~;

(i) shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (i) a money market fund that has been rated in one of the two highest **<u>Rating Categories by one or more of the Rating Agencies</u>** ~~rating categories by Moody's or S&P~~, or (ii) a money market fund or account of the Trustee or any state or federal bank that is rated ~~at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Subordinate Obligations~~ **<u>in (A) the highest short-term Rating Category by two or more Rating Agencies or (B) either of the two highest long-term Rating Categories by two or more Rating Agencies, or whose own</u>** bank holding company parent is rated ~~at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Subordinate Obligations and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Subordinate Obligations~~ **<u>in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies,</u>** or that has a combined capital and surplus of not less than $50,000,000;

(j) Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Trustee to invest; provided that there is delivered to the Trustee a certificate of an Authorized Representative stating that each of the ~~rating agencies~~ **<u>Rating Agencies</u>** then maintaining a rating on the Subordinate Obligations has been informed of the proposal to invest in such investment ~~and each of such rating agencies has confirmed that such investment will not adversely affect the raring then assigned by such rating agency to any of the Subordinate Obligations~~.

(i) The definition of "Rating Agency" and "Rating Agencies"

"Rating Agency" and "Rating Agencies" shall mean Fitch, Moody's or S&P, or any other **<u>Nationally Recognized Rating Agency</u>** ~~nationally recognized rating agency of municipal obligations, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Subordinate Obligations and such Rating Agencies are then maintaining a rating on any of the Subordinate Obligations~~.

(j) The definition of "S&P"

"S&P"' shall mean Standard & Poor's Ratings **<u>Services</u>** ~~Group, a corporation organized and existing under the laws of the State of New York,~~ **<u>and</u>** its successors and ~~their~~ assigns, and if **<u>S&P</u>** ~~such corporation~~ shall for any reason no longer perform the functions of a ~~securities rating agency~~ **<u>Nationally Recognized Rating Agency</u>**, "S&P" shall be deemed to refer to any other **<u>Nationally Recognized Rating Agency</u>** ~~nationally recognized rating agency~~ designated by the Department **<u>(other than Fitch or Moody's)</u>**.

(k) The definition of "Swap"

"Swap" shall mean any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties shall pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid before it is deemed to have accrued, the amount paid shall 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 shall 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 shall pay to the other any net amount due under such arrangement. **<u>Swap shall include, but not be limited to, (i) caps, floors and collars, (ii) forward rate, future rate, swap (such swap may be based on an amount equal either to the principal amount of such Subordinate</u>**

<u>Obligations as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Subordinate Obligations), asset, index, price or market-linked transactions or agreements, (iii) other exchange or rate protection transaction agreements, (iv) other similar transactions (however designated), or (v) any combination thereof, or any option with respect thereto, in each case executed by the Department for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Subordinate Obligations or Variable Rate Indebtedness on a synthetic basis or otherwise.</u>

(l) 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 **<u>two or more of</u>** the Rating Agencies.

<u>Section 2.13(c)</u>

Section 2.13(c) is to be amended to read as follows:

(c) Obligations of the Department to make payments, including termination payments, under a ~~Nonqualified~~ **<u>Non-Qualified</u>** 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, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

<u>Amendments Requiring CP Bank Consent</u>

Pursuant to the Eleventh Supplemental Subordinate Indenture, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Subordinate Indenture that also do not require the consent of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds), but cannot become effective until the Department receives the written consent of the CP Banks (the "Amendments Requiring CP Bank Consent"). *Any purchaser of the Series 2016A Subordinate Bonds will be purchasing the Series 2016A Subordinate Bonds subject to the Amendments Requiring CP Bank Consent, and the Department will not be requesting a separate written consent from the purchasers of the Series 2016A Subordinate Bonds for the Amendments Requiring CP Bank Consent.* The Department does not expect to seek the written consent of the CP Banks for the Amendments Requiring CP Bank Consent until the CP Letters of Credit are extended and/or replaced (the CP Letters of Credit are scheduled to expire on October 3, 2017 and January 16, 2018 as described under the "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE—Subordinate Bonds and Subordinate Commercial Paper Notes" in the forepart of this Official Statement); and therefore, in all likelihood, the Amendments Requiring CP Bank Consent will not become effective until the expiration and/or replacement date(s) of the CP Letters of Credit.

The Amendments Requiring CP Bank Consent are set forth below. Additions to the Master Subordinate Indenture are shown in **<u>bold and double underline</u>** and deletions are shown ~~in strikethrough~~.

<u>ARTICLE I – Definitions</u>

The definition of "Subordinate Pledged Revenues"

"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 in defined in the Senior Lien Trust Indenture) **<u>or the Annual Debt Service (as such term in defined in the Senior Lien Trust Indenture), as applicable,</u>** 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) THIRD of the Senior Lien Trust Indenture.

<u>Section 2.11</u>

(a) Section 2.11(b)(i) is to be amended to read as follows:

(i) the Subordinate Pledged Revenues, together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series 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) for such Fiscal Year or other applicable period; and

(b) The second paragraph of Section 2.11 is to be amended to read as follows:

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 15% of the **Annual Debt Service or** Aggregate Annual Debt Service**, as applicable**, on the Outstanding Subordinate Obligations, Unissued Program 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.

Section 5.04(b)

Section 5.04(b) is to be amended to read as follows:

(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 Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of ~~Aggregate~~ Annual Debt Service on the Outstanding Subordinate Obligations **for such Fiscal Year**. 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 in such Fiscal Year.

Amendments Requiring Bondholder Consent

Pursuant to the Eleventh Supplemental Subordinate Indenture, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Subordinate Indenture that cannot become effective until the earlier of the following dates occurring: (a) the date none of the Existing Subordinate Bonds remain Outstanding, or (b) the date the Department receives the written consent of 51% or more of the Bondholders of the then-Outstanding Subordinate Obligations (the "Amendments Requiring Bondholder Consent"). *Any purchaser of the Series 2016A Subordinate Bonds will be purchasing the Series 2016A Subordinate Bonds subject to the Amendments Requiring Bondholder Consent, and the Department will not be requesting a separate written consent from the purchasers of the Series 2016A Subordinate Bonds for the Amendments Requiring Bondholder Consent.* As of the date of this Official Statement, the Department has no plans to solicit the written consent of Bondholders of the Existing Subordinate Bonds or any other Subordinate Obligations, and therefore, in all likelihood, the Amendments Requiring Bondholder Consent will not become effective until the date the Existing Subordinate Bonds are no longer Outstanding.

The Amendments Requiring Bondholder Consent are set forth below. Additions to the Master Subordinate Indenture are shown in **bold and double underline** and deletions are shown ~~in strikethrough~~.

ARTICLE I - Definitions

(a) 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. 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~~ **three** highest long-term Rating Categories by one or more ~~of the~~ Rating Agencies**, provided that such entity shall not be rated by any Rating Agency in a long-term Rating Category that is lower than the three highest long-term Rating Categories**.

(b) The definition of "Qualified Swap"

"Qualified Swap" shall mean any Swap (a) whose Designated Debt is all or part of a particular Series or Subseries of Subordinate Obligations; (b) whose Swap Provider is **currently** a Qualified Swap Provider or ~~has been~~ **was** a Qualified Swap Provider **at the time the Swap was originally entered into by the Department** ~~within the 60 day period preceding the date on which the calculation of Annual Debt~~

~~Service or Aggregate Annual Debt Service is being made~~; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; **and** (d) which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Subordinate Obligations~~; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Obligations, and Moody's, if Moody's has an outstanding rating on the Subordinate Obligations~~.

(c) The definition of "Qualified Swap Provider"

"Qualified Swap Provider" shall mean a financial institution (a) whose senior long-term debt obligations, **financial program rating, counterparty rating or claims paying ability, or whose payment** obligations under any Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, **financial program rating, counterparty rating or claims paying ability**, are rated **in one of the top three Rating Categories by each of the Rating Agencies then rating such financial institution** ~~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~~ **any** Qualified Swap are fully secured by obligations described in items (a) or (b) 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.

Section 10.03(g)

Section 10.03(g) is amended to read as follows:

(g) For the purposes of this Section 10.03 the purchasers of the Subordinate Obligations of a Series or Subseries, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Department, may consent to a modification or amendment permitted by this Section 10.03 in the manner provided herein and with the same effect as a consent given by the Holders of such Subordinate Obligations, except that no proof of ownership shall be required; provided, that this provision of Section 10.03 shall be disclosed prominently in the offering document, if any, for each Series or Subseries of Subordinate Obligations issued pursuant to this Indenture, provided that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the purchaser consenting thereto shall be described in the offering document prepared in connection with the primary offering of the Subordinate Obligations of such Series or Subseries by the Department.

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APPENDIX D-2

AMENDMENTS TO THE MASTER SENIOR INDENTURE

Following is a description of certain amendments that are being made to the Master Senior Indenture. This description is for informational purposes only. These amendments do not require the consent of any of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds), and the Department is not requesting consent from any of the Bondholders of the Subordinate Obligations (including the Series 2016A Subordinate Bonds).

Certain of the amendments to the Master Senior Indenture described below do not require the consent of the holders of the Senior Bonds, or any other parties, and will go into effect on the date of issuance of the Series 2016A Subordinate Bonds (see "Amendments to Master Senior Indenture Not Requiring Consent of the Holders of the Senior Bonds" below). Certain of the other amendments to the Master Senior Indenture described below also do not require the consent of the holders of the Senior Bonds, but cannot become effective until the Department receives the written consent of the CP Banks (see "Amendments to Master Senior Indenture Requiring CP Bank Consent" below). Finally, certain of the amendments to the Master Senior Indenture described below cannot become effective until the earlier of the following dates occurring: (a) the date none of the Existing Senior Bonds remain outstanding, or (b) the date the Department receives the written consent of 51% or more of the holders of the then-outstanding Senior Bonds (see "Amendments to Master Senior Indenture Requiring Consent of Holders of the Senior Bonds" below).

Amendments to Master Senior Indenture Not Requiring Consent of the Holders of the Senior Bonds

Pursuant to the Seventeenth Supplemental Trust Indenture, to be dated as of June 1, 2016 (the "Seventeenth Supplemental Senior Indenture"), by and between the Department, acting through the Board, and the Senior Trustee, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Senior Indenture that will not require the consent of the holders of the Senior Bonds or any other parties. Such amendments will become effective on the date of issuance of the Series 2016A Subordinate Bonds.

The amendments to the Master Senior Indenture not requiring the consent of the holders of the Senior Bonds are set forth below. Additions to the Master Senior 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) Subsection (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 **payable by the Board** as provided for by the terms of the Swap or the net interest rate payable **by the Board** 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 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 of Bonds with respect to which a Swap has been entered into whereby the Board has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the 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;

(c) for purposes of computing the Aggregate Annual Debt Service of Bonds with respect to which a Swap in the form of an "interest rate cap" (or a similarly structured financial

arrangement) has been entered into by the Board, the interest payable thereon shall be the lower of (y) the effective capped rate provided by the terms of the Swap and (z) 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 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) The definition of "Annual Debt Service"

"Annual Debt Service" shall mean, with respect to any Bond, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Qualified Swap is in effect for such Bond, plus the amount payable by the Department (or the Trustee) under the Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Qualified Swap Provider pursuant to the Qualified Swap, calculated using the principles and assumptions set forth in the definition of Aggregate Annual Debt Service. **Principal of and/or interest on Bonds paid during any Fiscal Year with Passenger Facility Charges, Customer Facility Charges, state and/or federal grants, Capitalized Interest 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, Capitalized Interest or other moneys are included in Pledged Revenues) and not included in calculating Annual Debt Service.**

(c) The definition of "Capitalized Interest"

"Capitalized Interest" shall mean ~~the amount of interest on Bonds, if any, funded from the~~ proceeds of ~~the~~ Bonds or other ~~monies~~ **moneys not included in Pledged Revenues** that are deposited with the Trustee **in a Debt Service Fund as shall be described in a Supplemental Indenture** upon issuance of **such** Bonds **that are** to be used to pay interest on ~~the~~ Bonds.

(d) The definition of "Fitch"

"Fitch" shall mean Fitch, Inc.~~, a corporation organized and existing under the laws of the State of Delaware,~~ **and** its successors and its assigns, and, if ~~such corporation~~ **Fitch** shall for any reason no longer perform the functions of a ~~securities rating agency~~ **Nationally Recognized Rating Agency**, "Fitch" shall be deemed to refer to any ~~nationally recognized rating agency~~ **Nationally Recognized Rating Agency** designated by the Board (other than Moody's or S&P).

(e) The definition of "Governmental Obligations"

"Government Obligations" shall mean (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 Bonds and by S&P if S&P then maintains a rating on any of the Bonds~~ **Rating Category by two or more Rating Agencies**, and (3) any other type of security or obligation that ~~Moody's if Moody's then maintains a rating on any of the Bonds and S&P if S&P then maintains a rating~~ **the Rating Agencies that then maintain ratings** on any of the Bonds have determined to be permitted defeasance securities.

(f) The definition of "Investment Policy"

"Investment Agreement" shall mean 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~~ **Rating Category** (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term ~~rating categories~~ **Rating Categories** (if the term of the Investment Agreement is three years or longer) ~~by S&P if S&P then maintains a rating on any of the Bonds and by Moody's if Moody's then maintains a rating on any of the Bonds~~ **two or more Rating Agencies** or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) 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, (C) subject to a perfected first lien on behalf of the Trustee, and (D) free and clear from all third party liens.

(g) The definition of "Moody's"

"Moody's" shall mean Moody's Investors Service, ~~a corporation organized and existing under the laws of the State of Delaware,~~ **and** its successors and its assigns, and, if ~~such corporation~~ **Moody's** shall for any reason no longer perform the functions of a ~~securities rating agency~~ **Nationally Recognized Rating Agency**, "Moody's" shall be deemed to refer to any other ~~nationally recognized rating agency~~ **Nationally Recognized Rating Agency** designated by the Board **(other than Fitch or S&P)**.

(h) The definition "Nationally Recognized Rating Agency"

"Nationally Recognized Rating Agency" shall mean a nationally recognized statistical rating organization identified by the United States Securities and Exchange Commission.

(i) The definition of "Permitted Investments"

"Permitted Investments" shall mean to the extent permitted to be invested by the Board 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 Bonds and by S&P if S&P then maintains a rating on any of the Bonds~~ **Rating Categories by two or more Rating Agencies**;

(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 Bonds and by S&P if S&P then maintains a rating on any of the Bonds~~ **Rating Category by two or more Rating Agencies**;

(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 Bonds are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Bonds are then rated by S&P~~ **in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies** or (b) fully secured by obligations described in items (1) or (2)

of this 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 the principal amount of the investment, (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 in favor of the 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~~ **two or more Rating Agencies** in either of ~~their~~ **the** two highest ~~rating categories~~ **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 Bonds and from S&P if S&P then maintains a rating on any of the Bonds~~ **two or more of the Rating Agencies**, and (b) fully secured by investments specified in ~~Section~~ **items** (1) or (2) of this definition of Permitted Investments, which are (i) 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 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 in favor of the 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 Bonds and at least "A-1" by S&P if S&P then maintains a rating on any of the Bonds~~ **in the highest short-term Rating Category by two or more Rating Agencies**;

(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~~ **Rating Categories by one or more of the Rating Agencies**, or (b) a money market fund or account of the Trustee or any state or federal bank that is rated ~~at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Bonds and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Bonds or whose one~~ **in (i) the highest short-term Rating Category by two or more Rating Agencies or (ii) either of the two highest long-term Rating Categories by two or more Rating Agencies, or whose own** 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 Bonds and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Bonds~~ **in (y) the highest short-term Rating Category by two or more Rating Agencies or (z) either of the two highest long-term Rating Categories by two or more Rating Agencies** or that has a combined capital and surplus of not less than $50,000,000;

(10) Investment Agreements; and

(11) Any other type of investment consistent with City policy in which the Board directs the Trustee to invest provided that there is delivered to the Trustee a certificate of an Authorized Board Representative stating that each of the ~~rating agencies~~ **Rating Agencies** then maintaining a rating on the 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 Bonds~~.

(j) The definition of "Rating Agency" and "Rating Agencies"

"Rating Agency" and "Rating Agencies" shall mean 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 Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds~~ **Nationally Recognized Rating Agency**.

(k) The definition of "Significant Portion"

"Significant Portion" shall mean, for purposes of Section 5.12 and Section 5.13 of this Indenture, any LAX Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the ~~Department~~ **Board** 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 shall notify ~~Moody's, if Moody's then maintains a rating on any of~~ **each of the Rating Agencies that have been requested by the Department to maintain a rating on** the Bonds~~, and S&P, if S&P~~ and **that are** then ~~maintains~~ **maintaining** a rating on ~~any of~~ the Bonds, prior to the selling or disposing of a Significant Portion of any LAX Airport Facilities or portions thereof.

(l) The definition of "S&P"

"S&P"' shall mean Standard & Poor's Ratings **Services** ~~Group, a corporation organized and existing under the laws of the State of New York,~~ **and** its successors and ~~their~~ assigns, and if **S&P** ~~such corporation~~ shall for any reason no longer perform the functions of a ~~securities rating agency~~ **Nationally Recognized Rating Agency**, "S&P" shall be deemed to refer to any other **Nationally Recognized Rating Agency** ~~nationally recognized rating agency~~ designated by the Board **(other than Fitch or Moody's)**.

(m) The definition of "Swap"

"Swap" shall mean any financial arrangement between the Board and a Swap Provider which provides that (a) each of the parties shall pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid before it is deemed to have accrued, the amount paid shall 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 shall 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 shall pay to the other any net amount due under such arrangement. **Swap shall include, but not be limited to, (i) caps, floors and collars, (ii) forward rate, future rate, swap (such swap may be based on an amount equal either to the principal amount of such Bonds as may be designated or a notional principal amount relating to all or a portion of the principal amount of such Bonds), asset, index, price or market-linked transactions or agreements, (iii) other exchange or rate protection transaction agreements, (iv) other similar transactions (however designated), or (v) any combination thereof, or any option with respect thereto, in each case executed by the Board for the purpose of moderating interest rate fluctuations, reducing debt service costs or creating either fixed interest rate Bonds or Variable Rate Indebtedness on a synthetic basis or otherwise.**

(n) 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 **two or more of** the Rating Agencies.

Section 2.14(c)

Section 2.14(c) is to be amended to read as follows:

(c) (c) Obligations of the Board to make payments, including termination payments, under a ~~Nonqualified~~ **Non-Qualified** 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 10.02(h)

Section 10.02(h) is to be amended to read as follows:

(h) to qualify the Bonds or a Series of Bonds for a rating or ratings by ~~Moody's and/or S&P~~ **one or more of the Rating Agencies**;

Amendments to Master Senior Indenture Requiring CP Bank Consent

Pursuant to the Seventeenth Supplemental Senior Indenture, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Senior Indenture that will not require the consent of the holders of the Senior Bonds, but require the written consent of the CP Banks. The Department does not expect to seek the written consent of the CP Banks for these amendments until the CP Letters of Credit are extended and/or replaced (the CP Letters of Credit are scheduled to expire on October 3, 2017 and January 16, 2018 as described under "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE—Subordinate Bonds and Subordinate Commercial Paper Notes" in the forepart of this Official Statement); and therefore, in all likelihood, these amendments will not become effective until the expiration and/or replacement date(s) of the CP Letters of Credit.

The amendments to the Master Senior Indenture requiring the consent of the CP Banks are set forth below. Additions to the Master Senior Indenture are shown in **bold and double underline** and deletions are shown ~~in strikethrough~~.

Section 2.11

(a) Section 2.11(b)(1) is to be amended to read as follows:

(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 Bonds or the establishment of a Program, were at least equal to 125% of 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

(b) The second paragraph of Section 2.11 is to be amended to read as follows:

For purposes of subparagraphs (a) and (b) above, the amount of any Transfer taken into account shall not exceed 25% of the **Annual Debt Service or** Aggregate Annual Debt Service**, as applicable,** 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.

Section 5.04(b)

Section 5.04(b) is to be amended to read as follows:

(b) The Board further agrees that it will establish, fix, prescribe and collect tolls, fees, rentals and charges in connection with Los Angeles International Airport and for services rendered in connection therewith, so that during each Fiscal Year the Net Pledged Revenues, together with any Transfer, will be equal to at least 125% of ~~Aggregate~~ Annual Debt Service on the Outstanding Bonds **for such Fiscal Year**. For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 25% of ~~Aggregate~~ Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

Amendments to Master Senior Indenture Requiring Consent of Holders of the Senior Bonds

Pursuant to the Seventeenth Supplemental Senior Indenture, on the date of issuance of the Series 2016A Subordinate Bonds, the Department expects to amend certain provisions of the Master Senior Indenture that cannot become effective until the earlier of the following dates occurring: (a) the date none of the Existing Senior Bonds remain outstanding, or (b) the date the Department receives the written consent of 51% or more of the holders of the then-outstanding Senior Bonds. As of the date of this Official Statement, the Department has no plans to solicit the written consent of the holders of the Senior Bonds, and therefore, in all likelihood, these amendments will not become effective until the date the Existing Senior Bonds are no longer outstanding.

The amendments to the Master Senior Indenture requiring the consent of the holders of the Senior Bonds are set forth below. Additions to the Master Senior Indenture are shown in **bold and double underline** and deletions are shown ~~in strikethrough~~.

ARTICLE I - Definitions

(a) 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. 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~~ **three** highest long-term Rating Categories by ~~both Moody's if Moody's is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds~~ **one or more Rating Agencies, provided that such entity shall not be rated by any Rating Agency in a long-term Rating Category that is lower than the three highest long-term Rating Categories**.

(b) 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) whose Swap Provider is **currently** a Qualified Swap Provider or ~~has been~~ **was** a Qualified Swap Provider ~~within the 60 day period preceding the date on which the calculation of Annual Debt Service or Aggregate Annual Debt Service is being made~~ **at the time the Swap was originally entered into by the Board**; (c) which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; **and** (d) which has been designated in writing to the Trustee by the ~~Department~~ **Board** as a Qualified Swap with respect to such Bonds~~; and (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~~.

(c) The definition of "Qualified Swap Provider"

"Qualified Swap Provider" shall mean a financial institution (a) whose senior long-term debt obligations, ~~or whose~~ **financial program rating, counterparty rating or claims paying ability, or whose payment** obligations under any Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, **financial program rating, counterparty rating or claims paying ability**, 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~~ **in one of the top three Rating Categories by each of the Rating Agencies then rating such financial institution**, or (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.

(d) The definition of "Released LAX Revenues"

"Released LAX Revenues" shall mean LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs SECOND through EIGHTH 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 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; **and**

(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~~ **each of the Rating Agencies that have** been requested by the Department to maintain a rating on the Bonds and ~~S&P is~~ **that are** 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.

(e) The definition of "Reserve Fund Surety Policy"

"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 Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Reserve Fund Surety Policy shall be rated, at the time such instrument is provided, in one of the ~~two~~ **three** highest **long-term** Rating Categories by ~~both Moody's if Moody's is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds~~ **one or more Rating Agencies, provided that such entity shall not be rated by any Rating Agency in a long-term Rating Category that is lower than the three highest long-term Rating Categories**.

Section 10.03(g)

Section 10.03(g) is amended to read as follows:

(g) For the purposes of this Section 10.03, the purchasers of the Bonds of a Series, whether purchasing as underwriters, for resale or otherwise, upon such purchase from the Board, may consent to a modification or amendment permitted by this Section 10.03 in the manner provided herein and with the same effect as a consent given by the Bondholder of such Bonds, except that no proof of ownership shall be required; provided, that this provision of Section 10.03 shall be disclosed prominently in the offering document, if any, for each Series of Bonds issued pursuant to this Indenture, provided that, if such consent is given by a purchaser who is purchasing as an underwriter or for resale, the nature of the modification or amendment and the provisions for the

purchaser consenting thereto shall be described in the offering document prepared in connection with the primary offering of the Bonds of such Series by the Board.

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APPENDIX E

PROPOSED FORM OF BOND COUNSEL'S OPINION

[Closing Date]

Department of Airports of the City of Los Angeles
Los Angeles, California

$289,210,000
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Revenue Bonds
2016 Series A

Ladies and Gentlemen:

We have acted as Bond Counsel to the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board"), in connection with the Department's issuance and sale of $289,210,000 aggregate principal amount of its Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series A (the "Series 2016A Subordinate Bonds"). The Series 2016A 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 Eleventh Supplemental Subordinate Trust Indenture, dated as of June 1, 2016 (the "Eleventh Supplemental Subordinate Indenture," and together with the Master Subordinate Indenture, the "Subordinate Indenture"), by and between the Department and the Subordinate Trustee. Issuance of the Series 2016A Subordinate Bonds has been authorized by Resolution No. 25899, adopted by the Board on February 18, 2016, and approved by the City Council of the City of Los Angeles and the Mayor of the City of Los Angeles on April 12, 2016, and Resolution No. 25952, adopted by the Board on April 21, 2016 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Senior Indenture.

In connection with the issuance of the Series 2016A Subordinate Bonds, we have examined: (a) the Charter; (b) certified copies of the Resolutions; (c) executed copies of the Master Subordinate Indenture and the Eleventh Supplemental Subordinate Indenture; (d) an executed copy of the Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented, by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee; (e) an executed copy of the Tax Compliance Certificate, dated the date hereof, relating to the Series 2016A Subordinate Bonds and other matters (the "Tax Certificate"); (f) certifications of the Department, the Subordinate Trustee, Loop Capital Markets LLC, as representative of the underwriters of the Series 2016A Subordinate Bonds (the "Underwriters"), Public Resources Advisory Group, as co-financial advisor to the Department, the City Clerk of the City of Los Angeles, and others; (g) opinions of the City Attorney, counsel to the Subordinate Trustee, and counsel to the Underwriters; and (h) such other documents as we deemed relevant and necessary in rendering the opinions set forth herein. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and the validity against, any parties, other than the Department, thereto. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in this paragraph.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or whether any other matters come to our attention after the date hereof. We call attention to the fact that the obligations of the Department, the security provided therefor, as contained in the Series 2016A Subordinate Bonds and the 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, fraudulent conveyance, 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 charter cities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the Series 2016A Subordinate Bonds or the Subordinate Indenture. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated May 11, 2016, or any other offering material relating to the Series 2016A Subordinate Bonds and express no opinion relating thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2016A Subordinate Bonds have been duly authorized and all legal conditions precedent to the issuance and delivery of the Series 2016A Subordinate Bonds have been fulfilled.

2. The Series 2016A Subordinate Bonds constitute the valid and binding limited obligations of the Department secured by a pledge of and lien upon and are a charge upon and are payable from the Subordinate Pledged Revenues and certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture.

3. The Master Subordinate Indenture and the Eleventh Supplemental Subordinate Indenture have been duly authorized, executed and delivered by the Department and, assuming the due authorization, execution and delivery by the Subordinate Trustee, constitute the valid and binding obligations of the Department, enforceable against the Department in accordance with their terms. The Subordinate Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2016A Subordinate Bonds, of the Subordinate Pledged Revenues and certain funds and accounts held by the Subordinate Trustee under the Subordinate Indenture, subject to the provisions of the Subordinate Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

4. The Series 2016A Subordinate Bonds are not general obligations of the Department. 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 to the extent of the Subordinate Pledged Revenues, is pledged to the payment of the principal of and interest on the Series 2016A Subordinate Bonds. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Series 2016A Subordinate Bonds. The Department has no power of taxation.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016A Subordinate 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 2016A Subordinate Bond for any period during which such Series 2016A Subordinate Bond is held by a person who is a "substantial user" of the facilities financed or refinanced by the Series 2016A Subordinate Bonds or a "related person" to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Series 2016A Subordinate Bonds constitutes an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations by the Code.

6. Under existing laws, interest on the Series 2016A Subordinate Bonds is exempt from present State of California personal income taxes.

The opinions set forth in numbered paragraph 5 above 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 Subordinate Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2016A Subordinate Bonds to be included in gross income retroactive to the date of issue of the Series 2016A Subordinate Bonds. Although we are of the opinion that interest on the Series 2016A Subordinate Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2016A 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.

Our engagement with respect to the Series 2016A Subordinate Bonds has concluded with their issuance, and we disclaim any obligation to update, revise or supplement this opinion 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 makes any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2016A Subordinate Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NONE OF THE CITY, THE DEPARTMENT OR THE SENIOR TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2016A SUBORDINATE BONDS UNDER THE SENIOR INDENTURE OR THE SUBORDINATE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2016A SUBORDINATE 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 2016A SUBORDINATE BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2016A SUBORDINATE 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 2016A Subordinate Bonds. The Series 2016A Subordinate 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 2016A Subordinate Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Senior Trustee.

DTC, the world's largest securities depository, is a limited–purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non–U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post–trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book–entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of Series 2016A Subordinate Bond certificates. Direct Participants include both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly–owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non–U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC may be found on its web sites. The Department undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC's website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2016A Subordinate Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016A Subordinate Bonds, as applicable, on DTC's records. The ownership interest of each actual purchaser of each Series 2016A Subordinate Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016A Subordinate 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 2016A Subordinate Bonds, except in the event that use of the book–entry system for the Series 2016A Subordinate Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016A Subordinate 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 2016A Subordinate Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016A Subordinate Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016A Subordinate 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 2016A Subordinate Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2016A Subordinate 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 2016A Subordinate 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 2016A Subordinate 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 2016A Subordinate Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department, the Senior Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2016A Subordinate Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Department, the Senior Trustee 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 2016A Subordinate Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department, the Senior Trustee 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 2016A Subordinate Bonds at any time by giving reasonable notice to the Department, the Senior Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. To the extent permitted by law, the Department may decide to discontinue use of the system of book–entry transfers through DTC (or to the extent permitted by law, a successor Security Bonds depository). In that event, bond certificates will be printed and delivered to DTC.

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 2016A SUBORDINATE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2016A SUBORDINATE BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2016A SUBORDINATE 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 2016A Subordinate Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2016A Subordinate 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 2016A Subordinate Bonds, as applicable, will be governed by the provisions of the Senior Indenture.

Risks of Book-Entry System

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2016A Subordinate Bonds.

In addition, Beneficial Owners of the Series 2016A Subordinate Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2016A Subordinate Bonds, as applicable, since such distributions will be forwarded by the Department to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Series 2016A Subordinate Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2016A Subordinate Bonds, to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2016A Subordinate Bonds, as applicable, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Series 2016A Subordinate 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 "Disclosure Certificate") is executed and delivered by the Department of Airports of the City of Los Angeles, California acting by and of through the Board of Airport Commissioners of the City of Los Angeles, California (the "Department") in connection with the issuance by the Department of its Los Angeles International Airport, Senior Revenue Bonds, 2016 Series A (the "Series 2016A Subordinate Bonds"). The Series 2016A Subordinate Bonds are being issued pursuant to a Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the "Master Subordinate Indenture"), by and between the Department and U.S. Bank National Association, also known as U.S. Bank, N.A., as trustee (the "Subordinate Trustee"), and an Eleventh Supplemental Subordinate Trust Indenture, dated as of June 1, 2016, between the Department and the Subordinate Trustee (together with the Master Subordinate Indenture, and all supplements thereto, the "Subordinate Indenture"). The Department hereby covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Senior Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Department pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2016A Subordinate Bonds (including persons holding Series 2016A Subordinate Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2016A Subordinate Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Department, acting in its capacity as Dissemination Agent hereunder, or any other successor Dissemination Agent designated in writing by the Department, and which has filed with the Department a written acceptance of such designation.

"EMMA System" shall mean the MSRB's Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

"Fiscal Year" shall mean the one-year period ending on June 30 of each year or such other period of 12 months designated by the Department as its Fiscal Year.

"GASB" shall mean the Governmental Accounting Standards Board.

"Listed Events" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any successor thereto.

"Official Statement" shall mean the final official statement of the Department relating to the Series 2016A Subordinate Bonds.

"Owner" shall mean a registered owner of the Series 2016A Subordinate Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Series 2016A Subordinate Bonds required to comply with the Rule in connection with offering of the Series 2016A Subordinate Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

Section 2. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Department for the benefit of the Owners and Beneficial Owners of the Series 2016A Subordinate Bonds – and in order to assist the Participating Underwriter in complying with the Rule.

Section 3. Provision of Annual Reports.

(a) The Department shall, or shall cause the Dissemination Agent, if the Dissemination Agent is other than the Department, to, not later than 180 days following the end of each Fiscal Year of the Department (which Fiscal Year currently ends on June 30), commencing with the report for Fiscal Year ending June 30, 2016, provide to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB and/or the Rule, an Annual Report relating to the immediately preceding Fiscal Year that is consistent with the requirements of Section 4 of this Disclosure Certificate, which Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Fiscal Year for the Department changes, the Department shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) If in any year, the Department does not provide the Annual Report to the MSRB by the time specified above, the Department shall file a notice with the MSRB through the EMMA System in substantially the form attached as Exhibit A hereto.

(c) If the Dissemination Agent is not the Department. the Dissemination Agent shall:

1. file a report with the Department certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the date(s) of the filing(s); and

2. take any other actions mutually agreed to between the Dissemination Agent and the Department.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) The Department's audited financial statements for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by GASB and all statements and interpretations issued by the Financial Accounting Standards Board which are not in conflict with the statements issued by GASB, provided however that the Department may from time to time, in order to comply with federal or State legal requirements, modify the basis upon which such financial statements are provided notice. Notice of any such modification shall be provided to the MSRB and shall include a reference to the applicable law or requirement describing such accounting basis. If the Department's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain comparable information derived from unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Information in form and substance similar to the following tables set forth in the Official Statement for the most recently completed Fiscal Year:

1. Table 1 – "Existing Senior Bonds";
2. Table 2 – "Existing Subordinate Bonds and Subordinate Commercial Paper Notes";
3. Table 3 – "Senior Bonds and Subordinate Bonds Debt Service Requirements" (only if such information changes);
4. Table 6 – "Air Carriers Serving LAX" (as of the first day of the current Fiscal Year);
5. Table 8 – "Air Traffic Data";
6. Table 9 – "Historical Total Enplanements by Airline";
7. Table 10 – "Total Revenue Landed Weight";
8. Table 11 – "Enplaned and Deplaned Cargo";
9. Table 14 – "Historical Operating Statements";
10. Table 15 – "Top Ten Revenue Providers";
11. Table 16 – "Top Ten Revenue Sources";
12. Table 18 – "Historical Debt Service Coverage"; and
13. The columns entitled "Department Market Value" and "LAX Market Value" in Table 19 – "City of Los Angeles Pooled Investment Fund"; and
14. Unless otherwise provided in "Historical Operating Statements," the total amount of PFC revenues received by the Department with respect to Los Angeles International Airport.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Department or related public entities that have been submitted to the MSRB through the EMMA System. In the event that information necessary to prepare the tables listed above becomes unavailable due to changes in accounting practices, legislative changes or organizational changes, the Department shall state in its Annual Report that such table will no longer be included in the Annual Report and the reason therefore and the Department will provide comparable information if available.

Section 5. Reporting of Significant Events.

(a) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Subordinate Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the Department;

Note: for the purposes of the event identified in Section 5(a)(9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Department in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Department, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Department.

(b) The Department shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Series 2016A Subordinate Bonds, if material, not later than ten business days after the occurrence of the event:

1. Non-payment related defaults;
2. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Series 2016A Subordinate Bonds or other material events affecting the tax status of the Series 2016A Subordinate Bonds;
3. Modifications to rights of the Owners of the Series 2016A Subordinate Bonds;
4. Series 2016A Subordinate Bond calls;
5. Release, substitution or sale of property securing repayment of the Series 2016A Subordinate Bonds;
6. The consummation of a merger, consolidation, or acquisition involving the Department or the sale of all or substantially all of the assets of the Department, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Department shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 3(a), as provided in Section 3.

(d) If the Department learns of an occurrence of a Listed Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the Department shall within ten business days of occurrence file a notice of such occurrence with the MSRB through the EMMA System in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsections (a)(7) or (b)(4) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2016A Subordinate Bonds pursuant to the Subordnate Indenture.

Section 6. Termination of Obligation. The Department's obligations under this Disclosure Certificate with respect to a Series of the Series 2016A Subordinate Bonds shall terminate upon the maturity, legal defeasance, prior redemption or payment in full of all of such Series of the Series 2016A Subordinate Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the Department with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the Department's obligations hereunder shall terminate to a like extent.

Section 7. Dissemination Agent. The Department may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not any other designated dissemination agent, the Department shall be the dissemination agent. The initial dissemination agent shall he the Department.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, without the consent of the Owners of the Series 2016A Subordinate Bonds, the Department may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is not prohibited by the Rule. The Department shall give notice of any amendment in the same manner as for a Listed Event under Section 5(e).

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Department from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Department chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Department shall not thereby have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Department to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Series 2016A Subordinate Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Department to comply with its obligations under this Disclosure Certificate; provided that any such Owner or Beneficial Owner may not take any enforcement action without the consent of the Owners of not less than 25% (twenty-five percent) in aggregate principal amount of the Series 2016A Subordinate Bonds that at the time are Outstanding. A default under this Disclosure Certificate shall not be deemed a default under the Senior Indenture and the sole remedy under this Disclosure Certificate in the event of any failure of the Department to comply with this Disclosure Certificate shall be an action to compel performance. Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the Department to comply with this Disclosure Certificate. No Owner or Beneficial Owner of the Series 2016A Subordinate Bonds may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Department satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Department shall have refused to comply therewith within a reasonable time.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the Department and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Department, the Dissemination Agent, if any, and the Owners and Beneficial Owners from time to time of the Series 2016A Subordinate Bonds, and shall create no rights in any other person or entity. This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

Section 13. Notices. Any notices or communications to the Department may be given as follows:

Los Angeles World Airports
One World Way
Los Angeles, California 90045
Attention: Ryan Yakubik
Fax: (310) 646-9223
Telephone: (424) 646-5251

Section 14. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Department shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Beneficial Owners of the Series 2016A Subordinate Bonds shall retain all the benefits afforded to them hereunder. The Department hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 15. Governing Law. This Disclosure Certificate was made in the City of Los Angeles and shall be governed by, interpreted and enforced in accordance with the laws of the State of California and the City of Los Angeles, without regard to conflict of law principles. Any litigation, action or proceeding to enforce or interpret any provision of this Disclosure Certificate or otherwise arising out of, or relating to this Disclosure Certificate, shall be brought, commenced or prosecuted in a State or Federal court in the County of Los Angeles in the State of California. By its acceptance of the benefits hereof, any person or entity bringing any such litigation, action or proceeding submits to the exclusive jurisdiction of the State of California and waives any defense of forum non conveniens.

IN WITNESS WHEREOF, the undersigned has executed this Disclosure Certificate this 1st day of June, 2016.

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: ______________________________
Executive Director

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer:	Department of Airports of the City of Los Angeles, California
Name of Bond Issue:	Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2016 Series A
Date of Issuance:	June 1, 2016
CUSIP:	______

NOTICE IS HEREBY GIVEN that the Department of Airports of the City of Los Angeles, California (the "Department") has not provided an Annual Report with respect to the above referenced Bonds as required by Section 3 of the Continuing Disclosure Certificate, dated June 1, 2016, executed by the Department for the benefit of the Owners and Beneficial Owners of the above referenced Bonds. The Department anticipates that the Annual Report will be filed by _________________________________ , 20_.
Dated: _______________

DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA

By: ____
Authorized Representative

APPENDIX H

CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES

The information in APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES" is provided by the City. Appendix H to this Official Statement includes changes to certain information which had been included in Appendix H to the Preliminary Official Statement dated May 4, 2016 with respect to the Series 2016A Subordinate Bonds. See the italicized text under APPENDIX H – "CERTAIN INFORMATION REGARDING THE CITY OF LOS ANGELES – Los Angeles City Employees' Retirement System ("LACERS")". The Department is relying upon, and has not independently confirmed or verified the accuracy or the completeness of, the information in Appendix H or the LACERS Reports, or other information incorporated by reference therein.

INTRODUCTION

GENERALLY, THE INFORMATION IN THIS SECTION HAS BEEN TRUNCATED TO ONLY INCLUDE THOSE PORTIONS OF THIS SECTION THAT REFERENCE THE LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM ("LACERS").

***

Retirement and Pension Systems

General

The City contributes to three single-employer defined benefit pension plans created by the City Charter: the Los Angeles City Employees' Retirement System ("LACERS"), the City of Los Angeles Fire and Police Pension Plan ("FPPP") and, for employees of DWP, the Water and Power Employees' Retirement, Disability and Death Benefit Insurance Plan (the "Water and Power Plan").

Both LACERS and FPPP (collectively, the "Pension Systems") provide retirement, disability, death benefits, post-employment healthcare and annual cost-of-living adjustments to plan members and beneficiaries. Both systems are funded primarily from the City's General Fund. As required by the City Charter, the actuarial valuations for both Pension Systems are prepared on an annual basis and the applicable actuary recommends contribution rates for the fiscal year beginning after the completion of that actuarial valuation. When approved by the respective boards of administration of the Pension Systems, these become the City's contribution rates for such years. The City generally makes its actuarially determined Annual Required Contribution ("ARC"), although phasing-in of assumption changes has resulted in a small net pension obligation for fiscal years ended June 30, 2004 and 2005.

The Pension Systems' annual valuations determine the amount needed to fund the normal retirement costs accrued for current employment and to amortize any unfunded actuarial accrued liability ("UAAL"). The UAAL represents the difference between the present value of estimated future benefits accrued as of the valuation date and the actuarial value of assets currently available to pay these liabilities. The valuation for each plan is an estimate based on relevant economic and demographic assumptions, with the goal of determining the contributions necessary to sufficiently fund over time the accrued costs attributable to currently active, vested former members and retired employees and their beneficiaries. In addition, various actuarial assumptions are used in the valuation process, including the assumed rate of earnings on the assets of the plan in the future, the assumed rates of general inflation, salary inflation, inflation in health care costs, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries. As plan experience differs from adopted assumptions, the actual liabilities will be more or less than the liabilities calculated based on the assumptions. The contribution rates in the following year's valuations are adjusted to take into account actual performance in the current and prior years. In addition, each plan performs an experience study every three years and further adjusts its assumptions accordingly.

The valuations incorporate a variety of actuarial methods, some of which are designed to reduce the volatility of contributions from year to year. When measuring the value of assets for determining the UAAL, many pension plans, including the Pension Systems, "smooth" market value gains and losses over a period of years to reduce volatility. These smoothing methodologies result in an actuarial value of assets that are lower or higher than the market value of assets. As discussed below, both systems amended their smoothing methodologies to address extraordinary losses or gains in the market value of assets.

Both Pension Systems have adopted asset allocation plans to guide their investments in stocks, bonds, real estate, alternatives and cash equivalents over a three- to five-year period. The asset allocations of the Pension Systems are summarized further below. Market value investment returns for the past 10 fiscal years are shown in the table below. Any return below the actuarial assumed rate of return (currently 7.5% for both LACERS and FPPP) represents an actuarial investment loss, while any return above the assumed rate of return represents an actuarial investment gain.

Table 25
LOS ANGELES PENSION SYSTEMS
HISTORICAL MARKET VALUE INVESTMENT RETURNS

Fiscal Year	LACERS	FPPP
2005-06	12.4%	12.5%
2006-07	19.5	18.5
2007-08	(5.7)	(4.6)
2008-09	(19.5)	(20.0)
2009-10	12.9	13.9
2010-11	22.6	22.1
2011-12	1.1	1.9
2012-13	14.3	13.0
2013-14	18.4	17.9
2014-15	2.8	4.2

Source: City of Los Angeles, the respective Pension Systems.

The City has never issued pension obligation bonds to fund either of its Pension Systems. The City does pre-pay its annual contributions out of the proceeds of its annual issuance of tax and revenue anticipation notes.

This section, "**Retirement and Pension Systems**," and the following section, "**Other Post-Employment Benefits**," contain certain information relating to LACERS and FPPP. The information contained in these sections is primarily derived from information produced by LACERS and FPPP and their independent accountants and their actuaries. The City has not independently verified the information provided by LACERS and FPPP. The comprehensive annual financial reports, actuarial valuations for retirement and health benefits, and other information concerning LACERS and FPPP are available on their websites, at www.lacers.org/aboutlacers/reports/index.html and https://www.lafpp.com/about/financial-reports, respectively. Information set forth on such websites is not incorporated by reference herein. For additional information regarding the Pension Systems, see also Note 5 in the "Notes to the City's Basic Financial Statements" in the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015.

Investors are cautioned that, in considering information on the Pension Systems, including the amount of the UAAL for retirement and other benefits, the funded ratio, the calculations of normal cost, and the resulting amounts of required contributions by the City, this is "forward looking" information. Such "forward looking" information reflects the judgment of the boards of the respective Pension Systems and their respective actuaries as to the value of future benefits over the lives of the currently active employees, vested terminated employees, and existing retired employees and beneficiaries. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate and/or be changed in the future.

Los Angeles City Employees' Retirement System ("LACERS")

LACERS, established in 1937 under the Charter, is a contributory plan covering most City employees except uniformed fire and police personnel and employees of the Department of Water and Power. As of June 30, 2015, the date of its most recent actuarial valuation, LACERS had 234,895 active members, 17,932 retired members and beneficiaries, and 6,507 inactive members. The number of retired members was significantly increased, and the number of active members significantly decreased, as a result of the City's Early Retirement Incentive Program in Fiscal Year 2009-10. LACERS is funded pursuant to the Entry Age Cost Method, which is designed to produce stable employer contributions in amounts that increase at the same rate as the employer's payroll (i.e., level percent of payroll).

A number of assumptions are made in calculating the actuarial valuation of retirement benefits. The following are some of the key assumptions used by LACERS' actuary, The Segal Company, in preparing LACERS' actuarial report as of June 30, 2015.

Table 26
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ACTUARIAL ASSUMPTIONS
As of June 30, 2015

Investment rate of return	7.50%
Inflation rate	3.25%
Real across-the-board salary increase	0.75%
Projected salary increases	Ranges from 4.4% to 10.5%, based on service
Cost of living adjustments for pensioners	3.00% for Tier 1; 2.00% for Tier 2

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

Based on the results of its most recent triennial experience study dated October 8, 2014 for the three-year period from July 1, 2011 through June 30, 2014, LACERS adopted new actuarial assumptions, including reducing the assumed investment return from 7.75% to 7.50% and reducing the inflation rate from 3.50% to 3.25%.

As of June 30, 2010, the LACERS' Board adopted a funding corridor of 40%. A "corridor" is used in conjunction with smoothing, in order to keep the actuarial value of assets within a certain percentage of the market value of assets. For example, if a system has a 40% corridor, the actuarial value of assets must be between 60% and 140% of the market value of assets. If the actuarial value falls below 60% or rises above 140%, the system must recognize the excess returns or losses in that year without smoothing, Otherwise, market losses and gains are recognized under a seven-year asset smoothing period, where only 1/7 of annual market gains or losses are recognized in the actuarial value of assets each year. The remaining gains or losses are spread equally over the next six years.

As of June 30, 2015, there was a total unrecognized net gain of $229 million. To limit future fluctuations in asset values due to large unrecognized gains reflecting several years of fairly large annual market gains and losses from a volatile market, the LACERS Board adopted a one-time adjustment, as of June 30, 2014, to its current asset smoothing policy by combining the unrecognized gains and losses of the prior years into one layer and spreading it evenly over six years. The following table shows the original market gains and losses, and the unrecognized gains and losses as of June 30, 2015.

Table 27
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
CALCULATION OF UNRECOGNIZED RETURN DUE TO ASSET SMOOTHING
As of June 30, 2015

Year Ended June 30	Original Market Gain (Loss)	Portion Not Recognized	Amount Not Recognized
2015	$ (707,760,540)	6/7	$ (606,651,891)
2014	1,246,285,581	5/7	890,203,986
2013	(81,571,421)	4/6	(54,380,947)[1]
Total unrecognized return (loss)			**$229,171,148**

(1) Valuation as of June 30, 2014 recognizes 2/6 of $81,571,421 original market loss as of June 30, 2013, with the balance to be recognized over the next four years.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

LACERS amortizes components that contribute to its UAAL over various periods of time, depending on how the unfunded liability arose, layering separate, fixed amortization periods. Under current funding policy, actuarial losses and gains are amortized over fixed 15-year periods. Liabilities or surpluses due to assumption changes are funded or credited over 15 or 20 years for retiree health care benefits and retirement benefits, respectively. Liabilities caused by future early retirement incentives will be funded over five years; other benefit changes will be amortized over 15 years. Effective for the June 30, 2012 valuation, most existing liabilities on or before June 30, 2012 were combined under one layer and amortized over 30 years. The LACERS Board implemented this revised amortization policy to mitigate the impact of the change in funding policy from the Projected Unit Credit cost method to Entry Age Normal cost method.

The table below shows the actuarial value of the City's liability for retirement benefits (excluding retiree health care and other post-employment benefits), the actuarial value of assets available for retirement benefits, and two indicators of funding progress for LACERS, the funded ratio and the ratio of UAAL to annual payroll.

Table 28
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
ACTUARIAL VALUE BASIS
($ in thousands)[1]

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[2]	Funded Ratio[3]	Covered Payroll[4]	Unfunded AAL as a Percentage Of Covered Payroll[5]
2006	$ 7,674,999	$ 9,870,662	$ 2,195,663	77.8%	$ 1,733,340	126.7%
2007	8,599,700[6]	10,526,874	1,927,174	81.7	1,896,609	101.6
2008	9,438,318	11,186,404	1,748,085	84.4	1,977,645	88.4
2009	9,577,747	12,041,984	2,464,237	79.5	1,816,171	135.7
2010	9,554,027	12,595,025	3,040,998	75.9	1,817,662	167.3
2011	9,691,011	13,391,704	3,700,693	72.4	1,833,392	201.9
2012	9,934,959	14,393,959	4,458,999	69.0	1,819,270	245.1
2013	10,223,961	14,881,663	4,657,702	68.7	1,846,970	252.2
2014	10,944,751	16,248,853	5,304,103	67.4	1,898,064	279.5
2015	11,727,161	16,909,996	5,182,835	69.5	1,907,665	271.7

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent a funded ratio less than 100%.
(3) Actuarial value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) UAAL divided by covered payroll.
(6) Valuation value of assets is after excluding $5,269,481 of discounted Harbor Port Police assets transferred to FPPP in October 2007.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation and Review of Retirement and Health Benefits as of June 30, 2015.

The actuarial value of assets is different from the market value of assets as gains and losses are smoothed over a number of years. The following table shows the funding progress of LACERS based on the market value of the portion of system assets allocated to retirement benefits.

Table 29
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR RETIREMENT BENEFITS
MARKET VALUE BASIS
($ in thousands)[(1)]

Actuarial Valuation As of June 30	Market Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Liability[(2)]	Funded Ratio (Market Value)[(3)]	Covered Payroll[(4)]	Unfunded Liability as a Percentage Of Covered Payroll (Market Value)[(5)]
2006	$ 8,204,603	$ 9,870,662	$ 1,666,059	83.1%	$ 1,733,340	96.1%
2007	9,708,718	10,526,874	818,156	92.2	1,896,609	43.1
2008	9,059,551	11,186,404	2,126,853	81.0	1,977,645	107.5
2009	7,122,911	12,041,984	4,919,073	59.2	1,816,171	270.9
2010	7,804,223	12,595,025	4,790,802	62.0	1,817,662	263.6
2011	9,186,697	13,391,704	4,205,007	68.6	1,833,392	229.4
2012	9,058,839	14,393,959	5,335,120	62.9	1,819,270	293.3
2013	10,154,486	14,881,663	4,727,177	68.2	1,736,113	272.3
2014	11,791,079	16,248,853	4,457,774	72.6	1,802,931	247.3
2015	11,920,570	16,909,996	4,989,426	70.5	1,835,637	261.5

(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of LACERS.
(5) Unfunded liability divided by covered payroll.

Source: Los Angeles City Employees' Retirement System Actuarial Valuation reports.

The table below summarizes the City's payments to LACERS over the past five years, including the proposed payment for Fiscal Year 2016-17 pending Council approval. This table includes costs for retirement, as well as for retiree health care (see **"BUDGET AND FINANCIAL OPERATIONS —Other Post-Employment Benefits"**), and other miscellaneous benefits.

Table 30
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
SOURCES AND USES OF CONTRIBUTIONS
($ in thousands)[1]

	2012-13 [2]	2013-14	2014-15	Adopted Budget 2015-16	Proposed Budget 2016-17
Sources of Contributions					
Contributions for Council-controlled Departments	$342,188	$367,772	$411,509	$434,640	$457,908
Airport, Harbor Departments, LACERS, LAFPP	77,917	83,759	94,209	102,171	106,457
Total	$420,105	$451,531	$505,718	$536,811	$564,365
Percent of payroll – Tier 1	24.14%	25.33%	26.56%	28.75%	28.16%
Percent of payroll – Tier 2		18.32%	19.63%	22.62%	24.96%
Percent of payroll – Tier 3					
Uses of Contributions					
Current Service Liability (Normal cost)	$184,202	$185,217	$193,769	$190,446	$206,331
UAAL	234,896	265,081	305,891	363,312	365,031
Adjustments[3][4][5][6]	1,007	1,233	6,058	(16,947)	(6,988)
Total	$420,105	$451,531	$505,718	$536,811	$564,374

(1) Includes funding for OPEB.
(2) A $3.7 million credit from 2011-12 was applied to 2012-13. The actual amount paid for Council-controlled departments, Airports, and Harbor to LACERS subsequent to this credit was $416.4 million.
(3) Includes the excess benefit plan, the family death benefit plan, and the limited term plan fund. Beginning with the 2014-15 payment, the true-up obligation for the prior year is also reflected in this line item.
(4) Payment for a 2013-14 true-up in the amount of $5,191,511 (all agencies) will be made in 2014-15.
(5) Adjustments for 2015-16 include the 2014-15 true-up which consists of an $18,052,498 credit (all agencies) which is partially offset by $1,105,000 in excess benefit, family death and limited term plan costs.
(6) Adjustments for 2016-17 include the 2015-16 true-up which consists of a $24,031,072 credit (all agencies) which is partially offset by a $15,854,076 one-time lump sum payment for the retroactive upgrade of past Tier 2 members to Tier 1 and $1,189,000 in excess benefit, family death and limited term plan costs.

Source: City of Los Angeles, Office of the City Administrative Officer.

Beginning with the Fiscal Year 2009-10 Adopted Budget, the City has successfully implemented various savings measures to reduce retirement costs, including increasing active member pension contributions from 7% to 11% to help defray the costs of retiree healthcare, freezing retiree health care subsidies for noncontributing employees, deferring cost-of-living adjustments, reducing the size of the civilian workforce by 5,300 positions, implementing a new pension tier for sworn personnel, and lowering the new hire salary for police officers by 20%, which it later reversed in August 2014. Although such measures were significant in helping to ameliorate the City's fiscal difficulties, the City determined that implementation of a new civilian retirement tier was necessary to further reduce future costs.

In late 2012, the City Council adopted a new civilian retirement tier (Tier 2"), which applied to all employees hired on or after July 1, 2013. On July 28, 2014, the City Employee Relations Board ruled that the City's unilateral action in creating the new civilian retirement tier did not meet the City's meet and confer obligations. The Board ordered that the City rescind the implementation of the new retirement tier, reinstate the status quo ante, and meet and confer in good faith with labor representatives from affected bargaining units. The City subsequently filed an appeal of the ruling in State court and entered into a mandatory settlement conference phase. As a part of the *agreement with the Coalition of Los Angeles City Unions, both the City and the Coalition have agreed to dismiss with prejudice all legal actions. All members of Tier 2 were transferred into Tier 1 effective February 21, 2016. Any new employee hired into a position eligible for LACERS members on or after February 21, 2016 will, unless eligible for Tier 1 membership under a specific exemption, be enrolled in a new Tier 3.*

Tier 3 benefits are as follows. Normal retirement age for unreduced benefits is either age 60 with 30 years of service with a 2% retirement factor, or age 60 with 10 years of service with a 1.5% retirement factor. Tier 3 also provides for an enhanced retirement age of 63 with 30 years of service with a 2.1% retirement factor, or age 63 with 10 years of service with a 2% retirement factor. Tier 3 also provides for early retirement prior to age 60 for employees with 30 years of service with a 2% retirement factor. Benefits are unreduced for early retirement between ages 55-59, while the reduction is 10.5% at age 54 and 3% for each year of retirement before age 54. All required years of service include 5 years of continuous service. Tier 3 final compensation is based on the employee's highest 36-month average compensation. Tier 3 benefits, including the enhanced retirement factor, are subject to a maximum of 80% of final compensation. Tier 3 members will vest retiree health benefits in exchange for a 4% salary contribution, which will be subject to future negotiations. Employees will also contribute 7% toward their pension benefits. In total, employees will contribute 11% of their salary for retirement benefits.

In light of the agreement with the Coalition, approximately 3,501 employees hired between July 1, 2013 and February 20, 2016, who were previously in Tier 2, were transferred to Tier 1 at the City's expense. The cost to the City as determined by the LACERS actuary is $15.85 million as of July 15, 2016. These costs are expected to be settled as part of the 2016-17 payment to LACERS on July 15, 2016.

The following table sets forth LACERS' investments and asset allocation targets.

Table 31
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
ASSET CLASS MARKET VALUE AND ALLOCATION
($ in thousands)
As of December 31, 2015]

Asset Class	Market Value	Market Value to Total Fund (%)	Target (%)
U.S. Equity	$ 3,679,000	26.3%	24.0%
Non-U.S. Equity	4,008,000	28.7	29.0
Fixed Income Securities	2,675,000	19.2	19.0
Credit Opportunities	639,000	4.6	5.0
Real Assets	1,368,000	9.8	10.0
Private Equity	1,384,000	9.9	12.0
Cash	210,000	1.5	1.0
Total Portfolio	$13,962,000	100.0%	100.0%

Source: LACERS Portfolio Performance Review for the Quarter Ending December 31, 2015.

Accounting and Financial Reporting Standards

In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), which applies to governmental entities such as the City, and Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which applies to the financial reports of most pension plans such as LACERS and FPPP.

GASB 67 revised existing guidance for the financial reports of most pension plans, including LACERS and FPPP. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of "Fiduciary Net Position" (the amount held in a trust for paying retirement benefits, generally the market value of assets) and a statement of changes in Fiduciary Net Position, and requires additional note disclosures and required supplementary information. LACERS and FPPP complied with the provisions of GASB 67 by its effective date (i.e., financial statements for Fiscal Year 2013-14). Most of the reporting requirements of GASB 68 related to the Net Pension Liability are included in the note disclosures and required supplementary information of the Pension Plans.

GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the City. GASB 68, among other things, requires governments providing defined benefit pensions to recognize the difference between pension plans' Fiduciary Net Position and their long-term obligation for pension benefits as a liability ("Net Pension Liability"), and provides greater guidance on measuring such obligation, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The GASB 68 standards apply to financial reporting but not to the actuarial calculation of annual City employer pension contributions, which continue to be determined actuarially by each plan.

The City complied with the provisions of GASB 68 by its effective date (i.e., its financial statements for Fiscal Year 2014-15). In broad terms, the most significant change contained in GASB 68 is the requirement to report a Net Pension Liability on the employers' Government-Wide Statements of Net Assets when the fair value of pension assets falls short of actuarially calculated liabilities. See "NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Adoption of New GASB Pronouncements" in the City's CAFR for the Fiscal Year ending June 30, 2015. As a result of GASB 68, the Total Net Position of Governmental Activities fell from $5,171,370,000 as of June 30, 2014 to a deficit of $536,792,000 as of June 30, 2015. As GASB 68 moves pension reporting in the City's government-wide financial statements away from the phased or smoothed asset and liability figures that the City uses in determining its annual pension contribution, the City expects that these changes will increase year-to-year volatility in reported pension assets and liabilities.

GASB 67 and GASB 68 address the disclosure of pension liability only; they do not impose any funding requirements, and the City does not expect to alter the way the City funds these liabilities. The City expects to continue to fully fund the pension at the amount recommended by the Pension Systems and their actuaries to finance annual normal costs and to amortize its unfunded liabilities consistent with current practice.

Other Post-Employment Benefits

Retired members and surviving spouses and domestic partners of LACERS and FPPP members are eligible for certain subsidies toward their costs of medical insurance and other benefits. These benefits are paid by the respective retirement system. These retiree health benefits are accounted for as "Other Post-Employment Benefits" ("OPEB").

The City began making payments to its Pension Systems to pre-fund its OPEB obligations in Fiscal Year 1989-90, in an amount then determined by the Pension Systems and their actuaries. For the five years beginning Fiscal Year 2007-08, less than the ARC was contributed to the FPPP, primarily reflecting the phasing in of increases in assumed medical cost. The calculations of OPEB funding requirements are made by the same actuaries that perform the analysis of the Pension Systems' retirement benefits, and generally rely on the same actuarial assumptions, other than those assumptions such as medical inflation specific to OPEB.

As of June 30, 2015, the unfunded healthcare benefits liabilities of LACERS and the FPPP are as follows:

Table 38
OTHER POST-EMPLOYMENT BENEFITS
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
($ in thousands)

Actuarial Valuation As of June 30	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL[1]	Funded Ratio[2]	Covered Payroll[3]	Unfunded AAL as a Percentage of Covered Payroll[4]
2007	$1,185,544	$1,730,400	$544,856	68.5%	$1,896,609	28.7%
2008	1,342,920	1,928,043	585,123	69.7	1,977,645	29.6
2009	1,342,497	2,058,177	715,680	65.2	1,816,171	39.4
2010	1,425,726	2,233,874	808,148	63.8	1,817,662	44.5
2011	1,546,884	1,968,708	421,824	78.6	1,833,392	23.0
2012	1,642,374	2,292,400	650,027	71.6	1,819,270	35.7
2013	1,734,733	2,412,484	677,751	71.9	1,846,970	36.7
2014	1,941,225	2,662,853	721,628	72.9	1,898,064	38.0
2015	2,108,925	2,646,989	538,065	79.7	1,907,665	28.2

(1) Actuarial Accrued Liability minus Actuarial Value of Assets, commonly referred to as UAAL. Positive numbers represent an actuarial deficit.
(2) Actuarial value of assets divided by actuarial accrued liability.
(3) Annual payroll against which UAAL amortized.
(4) UAAL divided by covered payroll.

Source: The City of Los Angeles City Employees' Retirement System Actuarial Valuations.

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Historically, plan members did not contribute towards healthcare subsidy benefits; all such costs were funded from the employer's contribution and investment returns thereon. The City negotiated bargaining agreements that will reduce the City's contributions for OPEB benefits, which include a 4% active employee contribution toward retiree healthcare for 99% of its civilian workforce and a 2% active employee contribution toward retiree healthcare for 71% of its eligible workforce (representing 64% of the sworn workforce). Employees who elected to contribute will have their current retiree health benefits and any future subsidy increases vested. For those civilian bargaining units and sworn employees that opted not to make an additional contribution toward retiree healthcare, their retiree health subsidy has been frozen and cannot surpass the maximum subsidy level in effect as of July 1, 2011.

Two lawsuits are pending that challenge the City's actions relative to freezing OPEB benefits: Jack Fry, Gary Cline, Sandra Carlsen, Yvette Moreno, and Los Angeles Retired Fire & Police Association, Inc. v. City of Los Angeles; and Los Angeles Police Protective League v. Board of Fire and Police Pension Commissioners v. City of Los Angeles. See "**LITIGATION**," herein.

Projected Retirement and Other Post-Employment Benefit Expenditures

The table below illustrates the City's projected contributions to LACERS for the next four fiscal years, assuming no change to the actuarial assumptions used by LACERS' actuary for the actuarial valuation as of June 30, 2015. These contributions illustrate the projected cost of both pension and OPEB under the existing assumptions. These projections reflect the actuarial assumptions described above.

Table 40
LOS ANGELES CITY EMPLOYEES' RETIREMENT SYSTEM
PROJECTED CONTRIBUTIONS
($ in thousands)

	Proposed Budget 2016-17	2017-18	2018-19	2019-20	2020-21
LACERS					
Contributions for Council-controlled Departments(1)(2)	$457,907	$480,566	$505,578	$527,153	$538,098
Percentage of payroll(3)	28.13%	28.14%	29.64%	29.08%	29.23%
Incremental Change	$23,267	$22,659	$25,012	$21,575	$10,945
% Change		5%	5%	4%	2%

(1) Includes the General Fund and various special funds.
(2) Assumes 7.50% return on investment.
(3) Reflects combined rates for all benefit tiers.

Source: City of Los Angeles, Office of the City Administrative Officer. Based on information from the LACERS actuary and or City actuary commissioned by the City Administrative Officer.

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LITIGATION

The following is a list prepared by the Office of the City Attorney, updated as of March 1, 2016, of certain completed, pending or threatened litigation matters involving the City. This list represents matters in which the City believes, based on current facts and circumstances, an adverse ruling could lead to a possible financial exposure of $10 million or more, either individually or in the aggregate, and could, in the aggregate, materially affect the City's General Fund financial position.

For all other non-listed pending or threatened litigation matters, the City Attorney believes, based on current facts and circumstances, that the final determination of such matters, either individually or in the aggregate, should not materially affect the City's General Fund financial position.

THE FOLLOWING LIST HAS BEEN TRUNCATED TO ONLY INCLUDE LITIGATION ADDRESSED IN AND RELATING TO THE FOREGOING EXCERPTS.

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[T]wo lawsuits have been filed challenging the City's actions relative to freezing OPEB Benefits. (See **"BUDGET AND FINANCIAL OPERATIONS—Other Post-Employment Benefits,"** above).

1. Jack Fry et al v. City of Los Angeles et al. This suit was filed by individual sworn employees and Retirees Association for the Fire and Police retirement system. The suit challenged the City's "freeze" of the medical premium subsidy for fire and police department retirees who retired after June 2011, with the exception of those employees who "opted in" to pay an additional 2% of their compensation into the pension system. On July 28, 2014, the trial court issued an interim order ruling that the petitioners had a vested right to a "nonfrozen" health subsidy in retirement. The court, however, did not rule that petitioners were entitled to any particular health subsidy amount. The City appealed the trial court's ruling. On November 12, 2014, the Court of Appeal granted the City's appeal and stayed the enforcement of the trial court's decision and all other lower court activities, including any trial of remaining claims, pending final resolution of the appeal. The appeal was heard on February 16, 2016. On March 7, 2016, the California Second District Court of Appeal reversed the September 5, 2014 Writ of Mandate issued by the Los Angeles Superior Court authorizing the Board of Fire and Police Pension Commissioners (Board) "to exercise its discretion, previously delegated to it by the City in an ordinance, to set the maximum subsidy…without regard to later City ordinances 'freezing' the subsidy…" The Court of Appeal agreed with the City's position that there was not a vested right to a LAFPP Board-determined subsidy. The Court of Appeal found that the City Council continues to retain the final decision authority over the subsidy even while delegating to the LAFPP Board determination of subsidy increases. The plaintiffs subsequently filed a petition for rehearing in March 2016. However, on March 25, 2016, the Second Appellate Court denied the petition for rehearing. The plaintiffs filed a Petition for Review with the California Supreme Court and a decision is pending.

Based on current facts and circumstances, there is no firm estimate of the long term costs to the City if it is not successful at the appellate level and the trial court's order is reinstated and reverses the "freeze". In addition, in the event the plaintiffs also prevail on invaliding the 2% opt in payment, the additional pension contributions amount to approximately $16 million per year in reduced retirement contributions by the City.

2. Los Angeles Police Protective League and United Firefighters of Los Angeles City v. Board of Fire and Police Pension Commissioners v. City of Los Angeles. In this case plaintiff seek a judgment declaring that their letter of agreement with the City requires the Retirement Board to increase the retirees' medical subsidy by the maximum amount allowable per year under the Administrative Code. The City prevailed on a demurrer, but the Court of Appeal reversed and issued a remitter, sending the case back to the trial court, which will require resolution of disputed factual issues. A new trial date was set for July 16, 2016. Based on current facts and circumstances, in the event of an adverse ruling, the City's liability could range as high as $16 million.

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