

In the opinion of Kutak Rock LLP and Quateman LLP, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2009 Senior Bonds, the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds (collectively, the “Tax-Exempt Series 2009 Bonds”) is excluded from gross income for federal income tax purposes, except for interest on any Series 2009 Senior Bond for any period during which such Series 2009 Senior Bond is held by a “substantial user” of the facilities financed or refinanced by the Series 2009 Senior Bonds or a “related person” within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended. Co-Bond Counsel are further of the opinion that interest on the Tax-Exempt Series 2009 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Interest on the Series 2009C Subordinate Bonds is included in gross income for federal income tax purposes. Co-Bond Counsel are further of the opinion that interest on the Series 2009 Bonds is exempt from State of California personal income taxes. See “TAX MATTERS” herein.



\$689,325,000

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



\$310,410,000

Senior Revenue Bonds
2009 Series A

\$307,350,000

Subordinate Revenue
Bonds
2009 Series C

\$31,815,000

Subordinate Revenue
Bonds
2009 Series D

\$39,750,000

Subordinate Refunding
Revenue Bonds
2009 Series E

(Federally Taxable – Build
America Bonds – Direct
Payment to Issuer)

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

The Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the “Series 2009 Senior Bonds”) and the Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series C (the “Series 2009C Subordinate Bonds”), 2009 Series D (the “Series 2009D Subordinate Bonds”) and 2009 Series E (the “Series 2009E Subordinate Bonds”) and together with the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, the “Series 2009 Subordinate Bonds” and together with the Series 2009 Senior Bonds, the “Series 2009 Bonds”) of the Department of Airports of the City of Los Angeles (the “Department”) are being issued as described herein.

The Series 2009 Senior Bonds, Series 2009C Subordinate Bonds and Series 2009D Subordinate Bonds are being issued to (i) pay or reimburse the Department for certain capital expenditures incurred or to be incurred at Los Angeles International Airport (“LAX”), (ii) fund the reserve requirement for the applicable Series of Series 2009 Bonds, (iii) fund a portion of the interest accruing on the applicable Series of Series 2009 Bonds, (iv) pay costs of issuance of the applicable Series of Series 2009 Bonds and (v) in the case of the Series 2009 Senior Bonds, refund certain Subordinate Commercial Paper Notes. The Series 2009 Senior Bonds are also being issued to provide funds for the purchase by the Department of a portion of its outstanding Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the “Purchased Bonds”), following a formal tender solicitation by the Department. The Series 2009E Subordinate Bonds are being issued to (i) refund all of the Department’s outstanding Los Angeles International Airport, Subordinate Revenue Bonds, 2002 Subseries C1, (ii) fund the reserve requirement for the Series 2009E Subordinate Bonds and (iii) pay costs of issuance of the Series 2009E Subordinate Bonds. See “PLAN OF FINANCE.”

The Series 2009 Senior Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Pledged Revenues, which will become a pledge of Net Pledged Revenues if certain amendments to the Master Senior Indenture become effective, and (ii) certain funds and accounts held by the Senior Trustee. The Series 2009 Senior Bonds are being issued on a parity with the Existing Senior Bonds. The Series 2009 Subordinate Bonds are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues, the definition of which will change if certain amendments to the Master Subordinate Indenture become effective, and (ii) certain funds and accounts held by the Subordinate Trustee. The Series 2009 Subordinate Bonds are being issued on a parity with the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes.

Interest on the Series 2009 Bonds will be payable on each May 15 and November 15, commencing May 15, 2010. The Series 2009 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 2009 Bonds initially are being issued and delivered in book-entry form only. The Series 2009 Senior Bonds and the Series 2009C Subordinate Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. The Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds are not subject to redemption prior to maturity. See “DESCRIPTION OF THE SERIES 2009 BONDS – Redemption Provisions.”

The Series 2009 Bonds do not constitute obligations of the City, the State of California or any political subdivision of the State. Neither the faith and the credit nor the taxing power of the City, the State or any public agency, other than the Department (to the extent described herein), is pledged to the payment of the principal of or interest on the Series 2009 Bonds. The Department has no power of taxation. None of the properties of the Airport System is subject to any mortgage or lien for the benefit of the owners of the Series 2009 Bonds. The Department is under no obligation to pay the Series 2009 Bonds except from funds in the LAX Revenue Account of the Airport Revenue Fund and as further specifically provided in the Senior Indenture or the Subordinate Indenture, as applicable.

Purchasers of the Series 2009 Senior Bonds will be deemed to have irrevocably consented to certain amendments to the Master Senior Indenture, and purchasers of the Series 2009 Subordinate Bonds will be deemed to have irrevocably consented to certain amendments to the Master Senior Indenture and the Master Subordinate Indenture. See “INTRODUCTION – Amendments to the Master Senior Indenture” and “– Amendments to the Master Subordinate Indenture.”

The Series 2009 Bonds are offered when, as and if issued by the Department, subject to the approval of validity by Kutak Rock LLP and QUATEMAN LLP, Co-Bond Counsel to the Department, and by Carmen Trutanich, City Attorney of the City, and to certain other conditions. Certain legal matters in connection with the Official Statement will be passed upon for the Department by QUATEMAN LLP, Disclosure Counsel to the Department. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Frasca & Associates, L.L.C. and Public Resources Advisory Group serve as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2009 Bonds will be made through DTC on or about December 3, 2009.

Series 2009 Senior Bonds

Morgan Stanley
De La Rosa & Co.

J.P. Morgan
Goldman, Sachs & Co.

Series 2009C and Series 2009D Subordinate Bonds

Barclays Capital
M.R. Beal & Company

Series 2009E Subordinate Bonds

Ramirez & Co., Inc.

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

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

\$310,410,000

**Senior Revenue Bonds
2009 Series A**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [†] (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield or Prices	CUSIP [†] (544435)
2010	\$ 990,000	2.000%	0.550%	E71	2018	\$ 4,025,000	5.000%	3.730%	F70
2011	3,035,000	3.000	1.050	E89	2018	3,000,000	4.000	3.730	H52
2012	3,125,000	4.000	1.460	E97	2019	13,170,000	5.000	3.900	F88
2013	5,740,000	4.000	1.920	F21	2019	3,000,000	4.000	3.900	H60
2014	6,025,000	4.000	2.410	F39	2020	10,420,000	5.000	4.050 ^c	F96
2015	6,725,000	4.000	2.850	F47	2021	18,160,000	5.000	4.230 ^c	G20
2016	4,200,000	5.000	3.190	F54	2022	11,485,000	5.250	4.340 ^c	G87
2016	3,000,000	3.125	3.190	H37	2023	12,090,000	5.250	4.410 ^c	G38
2017	4,770,000	5.000	3.480	F62	2024	11,120,000	5.250	4.500 ^c	H29
2017	2,000,000	4.000	3.480	H45	2024	1,810,000	4.500	100	G46

\$63,040,000 – 5.250% 2009 Series A Term Bonds due May 15, 2029 – Yield 5.000%^c, CUSIP[†] No. 544435G95

\$8,405,000 – 5.000% 2009 Series A Term Bonds due May 15, 2029 – Price 100%, CUSIP[†] No. 544435G53

\$48,780,000 – 5.000% 2009 Series A Term Bonds due May 15, 2034 – Yield 5.250%, CUSIP[†] No. 544435G61

\$62,295,000 – 5.250% 2009 Series A Term Bonds due May 15, 2039 – Yield 5.340%, CUSIP[†] No. 544435G79

\$307,350,000

**Subordinate Revenue Bonds
2009 Series C**

(Federally Taxable – Build America Bonds – Direct Payment to Issuer)

Maturity Date (May 15)	Principal Amount	Interest Rate	Price	CUSIP [†] (544435)
2020	\$ 9,525,000	5.575%	100%	B90
2021	9,875,000	5.675	100	C24

\$16,895,000 – 5.175% 2009 Series C Term Bonds due May 15, 2017 – Price 100%, CUSIP[†] No. 544435C40

\$18,085,000 – 5.475% 2009 Series C Term Bonds due May 15, 2019 – Price 100%, CUSIP[†] No. 544435C57

\$252,970,000 – 6.582% 2009 Series C Term Bonds due May 15, 2039 – Price 100%, CUSIP[†] No. 544435C32

\$31,815,000

**Subordinate Revenue Bonds
2009 Series D**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [†] (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [†] (544435)
2010	\$ 520,000	2.500%	0.850%	C65	2013	\$ 7,220,000	5.000%	2.090%	C99
2011	3,885,000	3.000	1.220	C73	2014	7,580,000	5.000	2.580	D23
2012	4,655,000	5.000	1.630	C81	2015	7,955,000	5.000	3.050	D31

\$39,750,000

**Subordinate Refunding Revenue Bonds
2009 Series E**

Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [†] (544435)	Maturity Date (May 15)	Principal Amount	Interest Rate	Yield	CUSIP [†] (544435)
2010	\$2,005,000	2.000%	0.850%	D49	2016	\$ 3,790,000	4.500%	3.440%	E22
2011	3,165,000	3.000	1.220	D56	2017	3,960,000	4.500	3.730	E30
2012	3,255,000	3.500	1.630	D64	2018	4,140,000	5.000	3.980	E48
2013	3,370,000	4.000	2.090	D72	2019	4,350,000	5.000	4.150	E55
2014	3,505,000	4.000	2.580	D80	2020	4,565,000	5.000	4.300	E63
2015	3,645,000	4.000	3.050	D98					

^c Priced to par call of May 15, 2019.

[†] CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau. CUSIP data is not intended to create a database and does not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Department and are included solely for the convenience of the registered owners of the applicable bonds. Neither the Department nor the Underwriters are responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the applicable bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of 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.

No dealer, broker, salesperson or other person has been authorized by the City or the Department to give any information or to make any representation, other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the City or the Department. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2009 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

The Series 2009 Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Senior Indenture and the Subordinate Indenture are exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2009 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 2009 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2009 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau. CUSIP data is not intended to create a database and does not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Department and are included solely for the convenience of the registered owners of the applicable bonds. Neither the Department nor the Underwriters are responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the applicable bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

CITY OF LOS ANGELES OFFICIALS

Antonio R. Villaraigosa, Mayor
Carmen Trutanich, City Attorney
Wendy Greuel, City Controller
Miguel Santana, City Administrative Officer
Joya C. De Foor, City Treasurer
June Lagmay, City Clerk

CITY COUNCIL

Ed P. Reyes (District 1)	Tony Cardenas (District 6)	Bill Rosendahl (District 11)
Vacant (District 2) [†]	Richard Alarcón (District 7)	Greig Smith (District 12)
Dennis P. Zine (District 3)	Bernard C. Parks (District 8)	Eric Garcetti (District 13)
Tom LaBonge (District 4)	Jan Perry (District 9)	José Huizar (District 14)
Paul Koretz (District 5)	Herb J. Wesson, Jr. (District 10)	Janice Hahn (District 15)

BOARD OF AIRPORT COMMISSIONERS

Alan Rothenberg, President

Valeria C. Velasco, Vice President	Fernando Torres-Gil, Commissioner
Joseph A. Aredas, Commissioner	Walter Zifkin, Commissioner
Michael A. Lawson, Commissioner	Sam Nazarian, Commissioner

THE LOS ANGELES WORLD AIRPORTS STAFF

Gina Marie Lindsey, Executive Director
Stephen C. Martin, Chief Operating Officer
Debbie Bowers, Deputy Executive Director, Commercial Development
Michael D. Feldman, Deputy Executive Director, Facilities Management
Roger Johnson, Deputy Executive Director, Airports Development Group
Samson Mengistu, Deputy Executive Director, Administration
Jacqueline Yaft, Deputy Executive Director, Operations and Emergency Management
James T. Butts, Jr., Deputy Executive Director, Public Safety[‡]
Wei Chi, Deputy Executive Director, Comptroller
Dominic Nessi, Deputy Executive Director, Chief Information Officer
David Shuter, Deputy Executive Director, Projects and Facilities Development
Ryan Yakubik, Director of Capital Development and Budget
Kelly M. Martin, General Counsel

SENIOR TRUSTEE

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

SUBORDINATE TRUSTEE

U.S. Bank National Association

CO-BOND COUNSEL

Kutak Rock LLP and QUATEMAN LLP

DISCLOSURE COUNSEL

QUATEMAN LLP

CO-FINANCIAL ADVISORS

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

AIRPORT CONSULTANT

Ricondo & Associates, Inc.

[†] This City Council seat was vacated by current City Controller Wendy Greuel. A special election to fill the vacancy took place on September 22, 2009. Paul Krekorian and Christine Essel are candidates in a runoff election that is scheduled to take place on December 8, 2009.

[‡] Mr. Butts has announced his resignation effective prior to December 31, 2009. The Department does not intend to fill the vacancy at that time.

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
INTRODUCTION	1	General	59
General	1	Operating Permits – Landing Facilities and Landing Fees	59
The Issuer and the Airport System	1	Airport Terminal Tariff and Leases	59
Aviation Activity	1	Concession and Parking Agreements	66
Plan of Finance	2	FINANCIAL AND OPERATING INFORMATION	
Series 2009 Senior Bonds	2	CONCERNING LAX	68
Existing Senior Bonds	3	Summary of Operating Statements	68
Series 2009 Subordinate Bonds	3	Management Discussion of Fiscal Year 2009	70
Designation of the Series 2009C Subordinate		Budgeting Process	71
Bonds as Build America Bonds	4	Historical Debt Service Coverage	73
Existing Subordinate Obligations	5	Report of Airport Consultant; Projected Debt Service Coverage	74
Investment Considerations	6	Investment Practices of the City Treasurer	75
Amendments to the Master Senior Indenture	6	Risk Management and Insurance	75
Amendments to the Master Subordinate Indenture	8	CAPITAL IMPROVEMENT PLANNING	76
Continuing Disclosure	11	LAX Master Plan	76
Report of the Airport Consultant	11	Settlement of Master Plan Litigation	78
Forward-Looking Statements	11	Agreements Relating to Master Plan Litigation	78
Additional Information	12	Capital Improvement Plan	79
PLAN OF FINANCE	12	Capital Improvement Program	79
The 2009 Projects	12	The 2009 Projects	80
Purchase of the Purchased Bonds	12	Passenger Facility Charges	80
Refunding of Subseries 2002C1 Subordinate Bonds	13	Federal Grants	82
Redemption of Subseries 2002C2 Subordinate Bonds and		AIRPORT SYSTEM ENVIRONMENTAL MATTERS	83
Series 2003A Subordinate Bonds	13	Aircraft Noise Impacts	83
ESTIMATED SOURCES AND USES OF FUNDS	14	Hazardous Substances	84
DESCRIPTION OF THE SERIES 2009 BONDS	14	Emission Standards	85
General	14	Environmental Impact Report Process	85
Designation of the Series 2009C Subordinate Bonds as Build		CERTAIN INVESTMENT CONSIDERATIONS	86
America Bonds	15	Demand for Air Travel	86
Redemption Provisions	15	Financial Condition of the Airlines	87
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES		Effect of Airline Bankruptcies	87
2009 BONDS	20	Effect of Concessionaire Bankruptcies	89
Flow of Funds	20	Effect of Airline Industry Consolidation	89
Senior Bonds	24	Aviation Security Concerns	89
Subordinate Obligations	29	Regulations and Restrictions Affecting LAX	89
Passenger Facility Charges	35	Seismic Risks	90
Permitted Investments	36	Considerations Regarding Passenger Facility Charges	90
Events of Default and Remedies; No Acceleration	36	Considerations Regarding Series 2009C Subordinate Bonds	
OUTSTANDING OBLIGATIONS AND DEBT SERVICE		(“Build America Bonds”)	91
SCHEDULE	37	Delays and Cost Increases; Future Capital Projects;	
Senior Bonds	37	Additional Indebtedness	91
Subordinate Bonds and Subordinate Commercial Paper Notes	37	Enforceability of Remedies; Limitation on Remedies	92
Debt Service Requirements	39	Rate Covenant Limitations	92
Future Financings	41	Assumptions in the Report of the Airport Consultant	92
Other Obligations	41	Forward-Looking Statements	93
THE DEPARTMENT OF AIRPORTS	42	AIRLINE INDUSTRY INFORMATION	93
General Description	42	LITIGATION	93
Airports in Airport System Comparison	43	TAX MATTERS	94
Subsidization within the Airport System	44	Tax-Exempt Series 2009 Bonds	94
Board of Airport Commissioners	44	Series 2009C Subordinate Bonds (Federally Taxable)	96
Oversight by City Council	45	Exemption Under California State Law	97
Department Management	45	Changes in Federal and State Tax Law	97
Employees and Labor Relations	48	CERTAIN ERISA CONSIDERATIONS	98
Retirement Plan	50	RATINGS	98
LOS ANGELES INTERNATIONAL AIRPORT	50	LEGAL MATTERS	99
Introduction	50	FINANCIAL ADVISORS	99
Facilities	51	AIRPORT CONSULTANT	99
Air Carriers Serving LAX	51	FINANCIAL STATEMENTS	99
Aviation Activity	53	CONTINUING DISCLOSURE	99
Competition	57	UNDERWRITING	100
Certain Other Matters Related to LAX	58	MISCELLANEOUS	101
AGREEMENTS FOR USE OF AIRPORT FACILITIES	59	AUTHORIZATION	102
APPENDIX A – REPORT OF THE AIRPORT CONSULTANT			
APPENDIX B – AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007			
APPENDIX C-1 – CERTAIN DEFINITIONS			
APPENDIX C-2 – SUMMARY OF THE MASTER SENIOR INDENTURE			
APPENDIX C-3 – SUMMARY OF THE TENTH SUPPLEMENTAL SENIOR INDENTURE			
APPENDIX C-4 – SUMMARY OF THE MASTER SUBORDINATE INDENTURE			
APPENDIX C-5 – SUMMARY OF THE FIFTH SUPPLEMENTAL SUBORDINATE INDENTURE			
APPENDIX D-1 – AMENDMENTS TO THE MASTER SENIOR INDENTURE			
APPENDIX D-2 – AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE			
APPENDIX E – PROPOSED FORMS OF CO-BOND COUNSELS’ OPINIONS			
APPENDIX F – BOOK-ENTRY ONLY SYSTEM			
APPENDIX G – FORM OF CONTINUING DISCLOSURE CERTIFICATE			

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT
\$689,325,000
DEPARTMENT OF AIRPORTS
OF THE CITY OF LOS ANGELES, CALIFORNIA
LOS ANGELES INTERNATIONAL AIRPORT

\$310,410,000	\$307,350,000	\$31,815,000	\$39,750,000
Senior Revenue Bonds 2009 Series A	Subordinate Revenue Bonds 2009 Series C (Federally Taxable – Build America Bonds – Direct Payment to Issuer)	Subordinate Revenue Bonds 2009 Series D	Subordinate Refunding Revenue Bonds 2009 Series E

INTRODUCTION

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

General

The purpose of this Official Statement, which includes the cover page, inside cover pages, table of contents and appendices, is to provide certain information concerning the issuance by the Department of Airports (the “Department”) of the City of Los Angeles, California (the “City”), acting through the Board of Airport Commissioners of the City (the “Board”), of its \$310,410,000 aggregate principal amount of Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the “Series 2009 Senior Bonds”), \$307,350,000 aggregate principal amount of Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series C (the “Series 2009C Subordinate Bonds”), \$31,815,000 aggregate principal amount of Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series D (the “Series 2009D Subordinate Bonds”) and \$39,750,000 aggregate principal amount of Los Angeles International Airport Subordinate Refunding Revenue Bonds, 2009 Series E (the “Series 2009E Subordinate Bonds” and together with the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, the “Series 2009 Subordinate Bonds”). The Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds are referred to collectively herein as the “Series 2009 Bonds”. The Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C-1 – “CERTAIN DEFINITIONS.”

The Issuer and the Airport System

The City is a municipal corporation and chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the “State”) and the Charter of the City of Los Angeles. The City, acting through the Department, operates and maintains Los Angeles International Airport (“LAX”), LA/Ontario International Airport (“LA/ONT”) and Van Nuys Airport (“VNY”). In addition, the Department maintains LA/Palmdale Regional Airport (“LA/PMD” and, together with LAX, LA/ONT and VNY, the “Airport System”), although LA/PMD is not currently certificated by the Federal Aviation Administration (the “FAA”). For the fiscal year ended June 30, 2009 LAX accounted for approximately 91.5% of the total passenger traffic, approximately 78.8% of the air cargo volume and 86.1% of the air carrier operations for the Airport System. 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 2008 LAX was ranked as the 6th busiest airport in the world and the 3rd busiest in the United States as measured by total number of enplaned and deplaned passengers and the 13th busiest airport in the world and the 4th busiest in the United States in terms of volume of air cargo. Due to the recent economic downturn, however, LAX experienced a 9.2 percent decrease in

enplanements in Fiscal Year 2009 as compared to enplanements in Fiscal Year 2008. LAX is classified by the FAA as a large hub airport. See “LOS ANGELES INTERNATIONAL AIRPORT” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Plan of Finance

The Series 2009 Senior Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred at LAX, (ii) refund certain Subordinate Commercial Paper Notes, (iii) fund the reserve requirement for the Series 2009 Senior Bonds, (iv) fund a portion of the interest accruing on the Series 2009 Senior Bonds through and including June 30, 2010 and (v) pay costs of issuance of the Series 2009 Senior Bonds. The Series 2009 Senior Bonds are also being issued to provide funds for the purchase by the Department of a portion of its outstanding Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the “Purchased Bonds”). The Purchased Bonds were selected by the Department in response to a formal tender solicitation by the Department relating to its outstanding Los Angeles International Airport Senior Revenue Bonds, 2008 Series A (the “Series 2008A Senior Bonds”) and Los Angeles International Airport Senior Refunding Revenue Bonds, 2008 Series B (the “Series 2008B Senior Bonds”) and together with the Series 2008A Senior Bonds, the “Series 2008 Senior Bonds”). The Purchased Bonds will be purchased and cancelled on the date of issuance of the Series 2009 Senior Bonds.

The Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred at LAX, (ii) fund the reserve requirement for the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, (iii) fund a portion of the interest accruing on the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds through and including March 31, 2011 and (iv) pay costs of issuance of the Series 2009C Subordinate Bonds and Series 2009D Subordinate Bonds. See “—Designation of the Series 2009C Subordinate Bonds as Build America Bonds.”

The Series 2009E Subordinate Bonds are being issued to (i) refund all of the Department’s outstanding Los Angeles International Airport, Subordinate Revenue Bonds, 2002 Subseries C1 (the “Subseries 2002C1 Subordinate Bonds”), (ii) fund the reserve requirement for the Series 2009E Subordinate Bonds and (iii) pay costs of issuance of the Series 2009E Subordinate Bonds.

Additionally, the Department expects to redeem all of its outstanding (i) Los Angeles International Airport, Subordinate Revenue Bonds, 2002 Subseries C2 (the “Subseries 2002C2 Subordinate Bonds” and together with the Subseries 2002C1 Subordinate Bonds, the “Series 2002 Subordinate Bonds”) and (ii) Los Angeles International Airport, Subordinate Revenue Bonds, 2003 Series A (the “Series 2003A Subordinate Bonds” and together with the Series 2002 Subordinate Bonds, the “Existing Variable Rate Subordinate Bonds”) with Department funds or the proceeds of Subordinate Commercial Paper Notes, prior to March 10, 2010.

See “PLAN OF FINANCE” and “DESCRIPTION OF THE SERIES 2009 BONDS.”

Series 2009 Senior Bonds

The Series 2009 Senior Bonds are being issued pursuant to the Master Trust Indenture, dated as of April 1, 1995, as amended (the “Master Senior Indenture”), by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee (the “Senior Trustee”), and a Tenth Supplemental Trust Indenture, to be dated as of December 1, 2009 (the “Tenth Supplemental Senior Indenture,” and together with the Master Senior Indenture and all supplements thereto, the “Senior Indenture”), by and between the Department, acting through the Board, and the Senior Trustee; Resolution No. 23876 adopted by the Board on August 17, 2009 and approved by the City Council of the City (the “City Council”) on September 11, 2009, and Resolution No. 23920 adopted by the Board on October 19, 2009 (collectively, the “Resolutions”), authorizing the issuance of the Series 2009 Bonds; and under and in accordance with Section 609 of the Charter of the City of Los Angeles, relevant ordinances of the City and the Los Angeles Administrative Code (collectively, the “Charter”).

The Series 2009 Senior Bonds are secured by a pledge of and first lien on Pledged Revenues (as defined herein), which include certain income and revenue received by the Department from LAX but specifically exclude income and revenue received by the Department from the Department’s other airports. The Series 2009 Senior Bonds are secured by a pledge of and lien on Pledged Revenues on a parity with the Existing Senior Bonds (as defined under “– Existing Senior Bonds”), any additional bonds issued on a parity with the Series 2009 Senior

Bonds and the Existing Senior Bonds under the terms and provisions of the Master Senior Indenture (the “Additional Senior Bonds”) and any other obligations issued on a parity with respect to Pledged Revenues pursuant to the terms of the Master Senior Indenture. For purposes of this Official Statement, “Senior Bonds” means the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds. As of the date of this Official Statement, the only obligations the Department has issued pursuant to the Master Senior Indenture are the Existing Senior Bonds. Pledged Revenues are available for the equal and proportionate benefit of all Senior Bonds and any other obligations issued on parity with respect to Pledged Revenues pursuant to the Master Senior Indenture. The Series 2009 Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – Senior Bonds – Pledged Revenues.”

On and after the Pledge Change Date (as defined herein), the pledge of and first lien on Pledged Revenues to the Senior Bonds, including the Series 2009 Senior Bonds, will be changed to a pledge of and first lien on Net Pledged Revenues (as defined herein). See “—Amendments to the Master Senior Indenture” and APPENDIX D-1 - “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One-Hundred Percent Master Senior Indenture Amendments.”

THE SERIES 2009 SENIOR BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY (OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES (ON AND AFTER THE PLEDGE CHANGE DATE, NET PLEDGED REVENUES)) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SENIOR INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2009 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2009 SENIOR BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE. SEE “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS.”

Existing Senior Bonds

The Department has previously issued and as of October 1, 2009 there was outstanding \$713,145,000 aggregate principal amount of Senior Bonds comprised of \$32,450,000 aggregate principal amount of the Department’s Los Angeles International Airport Revenue Bonds, 2002 Series A, \$71,340,000 aggregate principal amount of the Department’s Los Angeles International Airport Revenue Bonds, 2003 Series B, \$602,075,000 aggregate principal amount of the Series 2008A Senior Bonds (including the Purchased Bonds) and \$7,280,000 aggregate principal amount of the Series 2008B Senior Bonds (collectively, the “Existing Senior Bonds”). The Existing Senior Bonds are secured by a pledge of and first lien on the Pledged Revenues (and after the Pledge Change Date, will be secured by a pledge of and first lien on the Net Pledged Revenues) on parity with the Series 2009 Senior Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE.” See also “—Amendments to the Master Senior Indenture.”

Series 2009 Subordinate Bonds

The Series 2009 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 a Fifth Supplemental Subordinate Trust Indenture, to be dated as of December 1, 2009 (the “Fifth Supplemental Subordinate Indenture,” and together

with the Master Subordinate Indenture and all supplements thereto, the “Subordinate Indenture”), by and between the Department and the Subordinate Trustee; the Resolutions; and the Charter.

The Series 2009 Subordinate Bonds are secured by a pledge of and first lien on Subordinate Pledged Revenues, which includes Pledged Revenues less all amounts necessary to pay debt service and reserve requirements on the Senior Bonds. On and after the Pledge Change Date, the definition of Subordinate Pledged Revenues will change as described in APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – One-Hundred Percent Master Subordinate Indenture Amendments.” See also “—Amendments to the Master Subordinate Indenture.” The Series 2009 Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues on a parity with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Subordinate Bonds, the payment obligations of the Department under the Subordinate Bonds Reimbursement Agreements, any additional bonds issued on parity with the Series 2009 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 or the Parity Subordinate Indenture (all such capitalized terms as defined under “—Existing Subordinate Obligations”). The Series 2009 Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture or the Parity Subordinate Indenture. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS - Subordinate Obligations – Subordinate Pledged Revenues.”

THE SERIES 2009 SUBORDINATE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES (SUBJECT TO THE AMENDMENT TO THE DEFINITION OF SUBORDINATE PLEDGED REVENUES TO BECOME EFFECTIVE ON THE PLEDGE CHANGE DATE), IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009 SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SUBORDINATE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2009 SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2009 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 2009 BONDS.”

Designation of the Series 2009C Subordinate Bonds as Build America Bonds

The Department currently intends to elect irrevocably to treat the Series 2009C Subordinate Bonds as “Build America Bonds” for the purposes of the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) and the Internal Revenue Code of 1986, as amended (the “Code”). Subject to the Department’s compliance with certain requirements of the Code, the Department expects to receive cash subsidy payments rebating a portion of the interest on the Series 2009C Subordinate Bonds from the United States Treasury in an amount equal to thirty-five percent of the interest payable on the Series 2009C Subordinate Bonds. Any such cash subsidy payments received by the Department will constitute Pledged Revenues. See “DESCRIPTION OF THE SERIES 2009 BONDS – Designation of the Series 2009C Subordinate Bonds as Build America Bonds,” “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Series 2009C Subordinate Bonds (“Build America Bonds”)” and “TAX MATTERS.”

Existing Subordinate Obligations

Pursuant to the Subordinate Trust Indenture, dated as of April 1, 2002, as amended (the “Parity Subordinate Indenture”), by and between the Department and U.S. Bank Trust National Association, as issuing and paying agent (the “Subordinate Issuing and Paying Agent”), the Department is authorized to issue and have outstanding, from time to time, up to \$500,000,000 in aggregate principal amount of its Los Angeles International Airport Commercial Paper Notes, Series A (Tax-Exempt – Governmental) (the “Series A Subordinate Commercial Paper Notes”), Series B (Tax-Exempt – Private Activity) (the “Series B Subordinate Commercial Paper Notes”) and Series C (Federally Taxable) (the “Series C Subordinate Commercial Paper Notes,” and together with the Series A Subordinate Commercial Paper Notes and the Series B Subordinate Commercial Paper Notes, the “Subordinate Commercial Paper Notes”). As of October 1, 2009, Subordinate Commercial Paper Notes were outstanding with a maturity value of approximately \$182 million (including Subordinate Commercial Paper Notes to be refunded with a portion of the proceeds of the Series 2009 Bonds as described under “PLAN OF FINANCE”). In connection with (and subject to consummation of) the United Settlement (as defined below) the Department expects to issue an additional \$50 million of Subordinate Commercial Paper Notes prior to the expected delivery date of the Series 2009 Bonds. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Long Term Lease Litigation and Settlement Agreements.” In connection with the Subordinate Commercial Paper Notes, the Department entered into a Reimbursement Agreement, dated as of April 1, 2007 (the “CP Reimbursement Agreement”), with Citibank, N.A. (“Citibank”) and State Street Bank and Trust Company (“State Street”), as banks (collectively, the “CP Banks”), and Citibank, as administrative agent, pursuant to which the CP Banks issued an irrevocable transferable direct pay letter of credit (the “CP Letter of Credit”) to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms.

Additionally, the Department has previously issued and, as of October 1, 2009 there were outstanding \$37,400,000 aggregate principal amount of the Subseries 2002C1 Subordinate Bonds (which will be refunded with a portion of the proceeds of the Series 2009E Subordinate Bonds, as described under “PLAN OF FINANCE”), \$20,000,000 aggregate principal amount of the Subseries 2002C2 Subordinate Bonds, \$23,700,000 aggregate principal amount of the Series 2003A Subordinate Bonds and \$240,150,000 aggregate principal amount of Los Angeles International Airport, Subordinate Revenue Bonds, 2008 Series C (the “Series 2008C Subordinate Bonds,” and together with the Series 2002 Subordinate Bonds and the Series 2003A Subordinate Bonds, the “Existing Subordinate Bonds”). In connection with the Series 2002 Subordinate Bonds, the Department entered into a Reimbursement Agreement, dated as of March 1, 2005 (the “Series 2002 Subordinate Bonds Reimbursement Agreement”), with BNP Paribas, acting through its San Francisco Branch (“BNP”), pursuant to which BNP issued an irrevocable transferable direct-pay letter of credit (the “Series 2002 Subordinate Bonds Letter of Credit”) to secure the timely payment of the principal or purchase price of and interest on the Series 2002 Subordinate Bonds. In connection with the Series 2003A Subordinate Bonds, the Department entered into a Reimbursement Agreement, dated as of March 1, 2005 (the “Series 2003A Subordinate Bonds Reimbursement Agreement” and together with the Series 2002 Subordinate Bonds Reimbursement Agreement, the “Subordinate Bonds Reimbursement Agreements”), with BNP, pursuant to which BNP issued an irrevocable, transferable, direct-pay letter of credit (the “Series 2003A Subordinate Bonds Letter of Credit” and together with the Series 2002 Subordinate Bonds Letter of Credit, the “Subordinate Bonds Letters of Credit” and together with the CP Letter of Credit, the “Subordinate Obligation Letters of Credit”) to secure the timely payment of the principal or purchase price of and interest on the Series 2003A Subordinate Bonds. The Subordinate Bonds Letters of Credit expire on March 10, 2010, unless extended or terminated earlier in accordance with their respective terms. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – Subordinate Obligations” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE.”

The Series 2009E Subordinate Bonds are being issued, among other things, to refund all of the Subseries 2002C1 Subordinate Bonds. The Department also expects to redeem all of the Subseries 2002C2 Subordinate Bonds and Series 2003A Subordinate Bonds with Department funds and/or with the proceeds of the Subordinate Commercial Paper Notes, prior to March 10, 2010. Upon the refunding and redemption of the Existing Variable Rate Subordinate Bonds, the Subordinate Bonds Letters of Credit will terminate and, if, at such time the Department does not owe any amounts under the Subordinate Bonds Reimbursement Agreements, the Subordinate Bonds Reimbursement Agreements will terminate. See “—Amendments to the Master Subordinate Indenture” regarding the effect of the termination of the Subordinate Bonds Reimbursement Agreements upon certain amendments to the Master Senior Indenture and Master Subordinate Indenture.

For purposes of this Official Statement, “Subordinate Bonds” means the Series 2009 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 Agreement, the payment obligations of the Department under the Subordinate Bonds Reimbursement Agreements and any other obligations issued on parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture.

As of the date of this Official Statement, the only Subordinate Obligations the Department has outstanding are the Subordinate Commercial Paper Notes (which are authorized to be outstanding, from time to time, up to \$500,000,000 in aggregate principal amount), the Existing Subordinate Bonds and the payment obligations of the Department under the Subordinate Obligations Reimbursement Agreements. Subordinate Pledged Revenues are available for the equal and proportionate benefit of all Subordinate Obligations.

Investment Considerations

The purchase and ownership of the Series 2009 Bonds involve investment risks. Prospective purchasers of the Series 2009 Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2009 Bonds, see “CERTAIN INVESTMENT CONSIDERATIONS.”

Amendments to the Master Senior Indenture

The following is a description of certain amendments to the Master Senior Indenture which, as of the date of this Official Statement, are not yet effective, and the conditions upon which such amendments may become effective. If the amendments to the Master Senior Indenture become effective, certain rights of the owners of the Senior Bonds will change as described below. By the purchase and acceptance of the Series 2009 Senior Bonds, the owners of the Series 2009 Senior Bonds will be deemed to have irrevocably consented to the amendments to the Master Senior Indenture as described below and in Appendix D-1; and by the purchase and acceptance of the Series 2009 Subordinate Bonds, the owners of the Series 2009 Subordinate Bonds will be deemed to have irrevocably consented to the Senior Pledge Change Amendment as described below and in Appendix D-1.

Fifty-One Percent Master Senior Indenture Amendments

Pursuant to the Ninth Supplemental Trust Indenture, dated as of August 1, 2008 (the “Ninth Supplemental Senior Indenture”), by and between the Department, acting through the Board, and the Senior Trustee, the Department amended certain provisions of the Master Senior Indenture. The amendments include, among other amendments, changes to the definition of Senior Aggregate Annual Debt Service, changes to the test for issuing Additional Senior Bonds and changes to the provisions regarding the issuance of Special Facility Bonds (the “Fifty-One Percent Master Senior Indenture Amendments”). See APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a complete description of the Fifty-One Percent Master Senior Indenture Amendments. The Fifty-One Percent Master Senior Indenture Amendments will become effective upon the Department’s receipt of the consent of (i) the owners of at least 51% in aggregate principal amount of all of the Senior Bonds then Outstanding and (ii) the CP Banks and BNP, unless the Subordinate Obligation Letters of Credit have otherwise terminated (the “Fifty-One Percent Master Senior Indenture Consent Requirement”).

By the purchase and acceptance of the Series 2009 Senior Bonds, the owners of the Series 2009 Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments.

To evidence the consent of the owners of the Series 2009 Senior Bonds, at the time of the issuance of the Series 2009 Senior Bonds, Morgan Stanley & Co. Incorporated, as representative of the underwriters of the Series 2009 Senior Bonds, will deliver an irrevocable written consent to the Senior Trustee to the Fifty-One Percent Master Senior Indenture Amendments. By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds were deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. To evidence the consent of the owners of the Series 2008 Senior Bonds, at the time of issuance of the Series 2008 Senior Bonds, the underwriters of the Series 2008 Senior Bonds delivered to the Senior Trustee an irrevocable written consent to the Fifty-One Percent Master Senior Indenture Amendments.

At the time of issuance of the Series 2009 Senior Bonds, the owners of more than 51% in aggregate principal amount of all of the Senior Bonds then Outstanding will have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. However, the Department has not received and does not expect to receive the consent of the CP Banks and BNP to the Fifty-One Percent Master Senior Indenture Amendments (except BNP has consented to certain of the Fifty-One Percent Master Senior Indenture Amendments regarding the issuance of Special Facilities Bonds) at the time of issuance of the Series 2009 Senior Bonds. If, at any time, the Subordinate Obligation Letters of Credit terminate pursuant to their respective terms and the Department does not owe any amounts under the Subordinate Obligation Reimbursement Agreements, as applicable, the consents of the CP Banks and BNP will not be required in order for the Fifty-One Percent Master Senior Indenture Amendments to become effective. The Subordinate Bonds Letters of Credit expire on March 10, 2010, unless extended or terminated earlier in accordance with their respective terms. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under the Subordinate Obligation Reimbursement Agreements upon the expiration of the Subordinate Obligation Letters of Credit. At this time there can be no assurance that the Fifty-One Percent Master Senior Indenture Consent Requirement will be met within any definite time frame.

One-Hundred Percent Master Senior Indenture Amendments

Additionally, pursuant to the Ninth Supplemental Senior Indenture, the Department amended certain other provisions of the Master Senior Indenture. These amendments include, among other amendments, changes to the flow of funds whereby LAX Maintenance and Operation Expenses will be payable from Pledged Revenues before payment is made on the Senior Bonds and the Subordinate Obligations (the “Senior Pledge Change Amendment”) and changes to the timing of deposits to the Senior Debt Service Funds from once every month to requiring deposits to be made five Business Days prior to each principal and interest payment date of the Senior Bonds (the “Senior Debt Service Deposit Amendment,” and collectively with the Senior Pledge Change Amendment, the “One-Hundred Percent Master Senior Indenture Amendments”). See APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One-Hundred Percent Master Senior Indenture Amendments” for a more detailed description of the One-Hundred Percent Master Senior Indenture Amendments.

The Senior Pledge Change Amendment will become effective upon (a) the Department’s receipt of the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks and BNP, unless the Subordinate Obligation Letters of Credit have otherwise terminated (the “Senior Pledge Change Consent Requirement”), and (b) the Subordinate Pledge Change Consent Requirement (as defined in “—Amendments to the Master Subordinate Indenture” below) being met. The date on which both the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement have been met is referred to in this Official Statement as the “Pledge Change Date.” The Senior Debt Service Deposit Amendment will become effective upon the Department’s receipt of the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds then Outstanding (the “Senior Debt Service Deposit Consent Requirement”).

By the purchase and acceptance of the Series 2009 Senior Bonds, the owners of the Series 2009 Senior Bonds will be deemed to have irrevocably consented to the One-Hundred Percent Master Senior Indenture Amendments. By the purchase and acceptance of the Series 2009 Subordinate Bonds, the owners of the Series 2009 Subordinate Bonds will be deemed to have irrevocably consented to the Senior Pledge Change Amendment.

To evidence the consent of the owners of the Series 2009 Senior Bonds, at the time of issuance of the Series 2009 Senior Bonds, Morgan Stanley & Co. Incorporated, as representative of the underwriters of the Series 2009 Senior Bonds, will deliver to the Senior Trustee an irrevocable written consent to the One-Hundred Percent Master Senior Indenture Amendments; and to evidence the consent of the owners of the Series 2009 Subordinate Bonds, at the time of issuance of the Series 2009 Subordinate Bonds, Barclays Capital Inc., as representative of the underwriters of the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, and Samuel A. Ramirez & Company, Inc., as underwriter of the Series 2009E Subordinate Bonds, will deliver to the Senior Trustee an irrevocable written consent to the Senior Pledge Change Amendment. By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds were deemed to have irrevocably consented to the One-Hundred Percent Master Senior Indenture Amendments; and by the purchase and acceptance of the Department’s Los Angeles International Airport Subordinate Revenue Bonds, 2008 Series C (the “Series 2008C Subordinate Bonds” and together with the Series 2008 Senior Bonds, the “Series 2008 Bonds”), the owners of the Series 2008C Subordinate Bonds were deemed to have irrevocably consented to the Senior Pledge Change

Amendment. To evidence the consent of the owners of the Series 2008 Senior Bonds, at the time of issuance of the Series 2008 Senior Bonds, the underwriters of the Series 2008 Senior Bonds delivered to the Senior Trustee an irrevocable written consent to the One-Hundred Percent Master Senior Indenture Amendments. To evidence the consent of the owners of the Series 2008C Subordinate Bonds, at the time of issuance of the Series 2008C Subordinate Bonds, the underwriters of the Series 2008C Subordinate Bonds delivered to the Senior Trustee an irrevocable written consent to the Senior Pledge Change Amendment.

Upon the issuance of the Series 2009 Bonds the Department expects that the owners of approximately 89.55% in aggregate principal amount of the then Outstanding Senior Bonds and the owners of approximately 88.42% in aggregate principal amount of the then Outstanding Subordinate Bonds will have irrevocably consented to the Senior Pledge Change Amendment; however, the Department has not received and does not expect to receive the consent of any of the owners of the Outstanding Subordinate Commercial Paper Notes or the consents of the CP Banks and BNP to the Senior Pledge Change Amendment at the time of issuance of the Series 2009 Senior Bonds and does not expect the Subordinate Pledge Change Consent Requirement will be met. If at any time the Subordinate Obligation Letters of Credit terminate pursuant to their respective terms and the Department does not owe any amounts under the CP Reimbursement Agreement and the Subordinate Bonds Reimbursement Agreements (collectively, the "Subordinate Obligation Reimbursement Agreements"), as applicable, the consents of the CP Banks and BNP will not be required in order for the Senior Pledge Change Amendment to become effective. The Subordinate Bonds Letters of Credit expire on March 10, 2010, unless extended or terminated earlier in accordance with their respective terms. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under the Subordinate Obligation Reimbursement Agreements upon the expiration of the Subordinate Obligation Letters of Credit. Upon the issuance of the Series 2009 Senior Bonds the Department expects that the owners of approximately 89.55% of the then Outstanding Senior Bonds will have irrevocably consented to the Senior Debt Service Deposit Amendment. At this time there can be no assurance that the Senior Pledge Change Consent Requirement, the Subordinate Pledge Change Consent Requirement or the Senior Debt Service Deposit Consent Requirement will be met within any definite time frame.

Other Master Senior Indenture Amendments

In addition to the Fifty-One Percent Master Senior Indenture Amendments and the One-Hundred Percent Master Senior Indenture Amendments, pursuant to the Ninth Supplemental Senior Indenture, the Department amended certain other provisions of the Master Senior Indenture (the "Other Master Senior Indenture Amendments") that do not require the consent of the owners of the Senior Bonds. See APPENDIX D-1 - "AMENDMENTS TO THE MASTER SENIOR INDENTURE – Other Master Senior Indenture Amendments" for a description of the Other Master Senior Indenture Amendments. The Other Master Senior Indenture Amendments include, among other amendments, various changes to the definitions in the Master Senior Indenture and the establishment of Third Lien Obligations. Although the Other Master Senior Indenture Amendments do not require the consent of the owners of the Senior Bonds, the Other Master Senior Indenture Amendments require the consents of the CP Banks (which the Department has not received and does not expect to receive at the time of issuance of the Series 2009 Bonds) and BNP (which the Department has received). If at any time the CP Letter of Credit terminates pursuant to its terms and the Department does not owe any amounts under the CP Reimbursement Agreement, the consent of the CP Banks will not be required in order for the Other Master Senior Indenture Amendments to become effective. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under CP Reimbursement Agreement upon the expiration of the CP Letter of Credit. At this time, the Department cannot predict when the Other Master Senior Indenture Amendments will become effective.

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

Amendments to the Master Subordinate Indenture

The following is a description of certain amendments to the Master Subordinate Indenture which, as of the date of this Official Statement, are not yet effective, and the conditions upon which such amendments may become effective. If the amendments to the Master Subordinate Indenture become effective, certain rights of the owners of the Subordinate Bonds will change as described below. By the purchase and acceptance of the Series 2009

Subordinate Bonds, the owners of the Series 2009 Subordinate Bonds will be deemed to have irrevocably consented to the amendments to the Master Subordinate Indenture as described below and in Appendix D-2.

Fifty-One Percent Master Subordinate Indenture Amendments

Pursuant to the Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008 (the “Fourth Supplemental Subordinate Indenture”), by and between the Department and the Subordinate Trustee, the Department amended certain provisions of the Master Subordinate Indenture, which include, among other amendments, changes to the definition of Subordinate Aggregate Annual Debt Service, changes to the test for issuing Additional Subordinate Bonds and changes to the rate covenant under the Master Subordinate Indenture (the “Fifty-One Percent Master Subordinate Indenture Amendments”). See APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – Fifty-One Percent Master Subordinate Indenture Amendments” for a more detailed description of the Fifty-One Percent Master Subordinate Indenture Amendments. The Fifty-One Percent Master Subordinate Indenture Amendments will become effective upon the Department’s receipt of the consent of (i) the owners of at least 51% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and (ii) BNP (the “Fifty-One Percent Master Subordinate Indenture Consent Requirement”).

By the purchase and acceptance of the Series 2009 Subordinate Bonds, the owners of the Series 2009 Subordinate Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Subordinate Indenture Amendments.

To evidence the consent of the owners of the Series 2009 Subordinate Bonds, at the time of the issuance of the Series 2009 Subordinate Bonds, Barclays Capital Inc., as representative of the underwriters of the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, and Samuel A. Ramirez & Company, Inc., as underwriter of the Series 2009E Subordinate Bonds, will deliver to the Subordinate Trustee an irrevocable written consent to the Fifty-One Percent Master Subordinate Indenture Amendments. By the purchase and acceptance of the Series 2008C Subordinate Bonds, the owners of the Series 2008C Subordinate Bonds were deemed to have irrevocably consented to the Fifty-One Percent Master Subordinate Indenture Amendments. To evidence the consent of the owners of the Series 2008C Subordinate Bonds, at the time of issuance of the Series 2008C Subordinate Bonds, the underwriters of the Series 2008C Subordinate Bonds delivered to the Subordinate Trustee an irrevocable written consent to the Fifty-One Percent Master Subordinate Indenture Amendments.

At the time of issuance of the Series 2009 Subordinate Bonds, the owners of more than 51% in aggregate principal amount of all of the Subordinate Bonds then Outstanding will have irrevocably consented to the Fifty-One Percent Master Subordinate Indenture Amendments. However, the Department has not received and does not expect to receive the consent of BNP to the Fifty-One Percent Master Subordinate Indenture Amendments at the time of issuance of the Series 2009 Subordinate Bonds. If, at any time, the Subordinate Bonds Letters of Credit terminate pursuant to their respective terms and the Department does not owe any amounts under the Subordinate Bonds Reimbursement Agreements, as applicable, the consent of BNP will not be required in order for the Fifty-One Percent Master Subordinate Indenture Amendments to become effective. The Subordinate Bonds Letters of Credit expire on March 10, 2010, unless extended or terminated earlier in accordance with their respective terms. The Department expects that it will not owe any amounts under the Subordinate Bonds Reimbursement Agreements upon the expiration of the Subordinate Bonds Letters of Credit. At this time there can be no assurance that the Fifty-One Percent Master Subordinate Indenture Consent Requirement will be met within any definite time frame.

One-Hundred Percent Master Subordinate Indenture Amendments

Additionally, pursuant to the Fourth Supplemental Subordinate Indenture the Department amended certain other provisions of the Master Subordinate Indenture, which amendments include, among other amendments, changes to the definition of Subordinate Pledged Revenues whereby Subordinate Pledged Revenues will mean Pledged Revenues remaining after the payment of LAX Maintenance and Operation Expenses and debt service and reserve requirements on the Senior Bonds (the “Subordinate Pledge Change Amendment”), and changes to the timing of deposits to the Subordinate Debt Service Funds from once every month to requiring deposits to be made just five Business Days prior to each principal and interest payment date of the Subordinate Bonds (the “Subordinate Debt Service Deposit Amendment,” and collectively with the Subordinate Pledge Change Amendment, the “One-Hundred Percent Master Subordinate Indenture Amendments”). See APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – One-Hundred Percent Master Subordinate Indenture Amendments” for a complete description of the One-Hundred Percent Master Subordinate Indenture Amendments.

The Subordinate Pledge Change Amendment will become effective upon (1) the Department's receipt of the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and the consent of BNP, and the Department has made similar conforming amendments to the Parity Subordinate Indenture (which amendments will require the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks) (collectively, the "Subordinate Pledge Change Consent Requirement"), and (2) the Senior Pledge Change Consent Requirement is met. The Subordinate Debt Service Deposit Amendment will become effective upon the Department's receipt of the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and the consent of BNP (the "Subordinate Debt Service Deposit Consent Requirement").

By the purchase and acceptance of the Series 2009 Subordinate Bonds, the owners of the Series 2009 Subordinate Bonds will be deemed to have irrevocably consented to the One-Hundred Percent Master Subordinate Indenture Amendments.

To evidence the consent of the owners of the Series 2009 Subordinate Bonds, Barclays Capital Inc., as representative of the underwriters of the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, and Samuel A. Ramirez & Company, Inc., as underwriter of the Series 2009E Subordinate Bonds, will deliver to the Subordinate Trustee an irrevocable written consent to the One-Hundred Percent Master Subordinate Indenture Amendments. By the purchase and acceptance of the Series 2008C Subordinate Bonds, the owners of the Series 2008C Subordinate Bonds were deemed to have irrevocably consented to the One-Hundred Percent Master Subordinate Indenture Amendments. To evidence the consent of the owners of the Series 2008C Subordinate Bonds, at the time of issuance of the Series 2008C Subordinate Bonds, the underwriters of the Series 2008C Subordinate Bonds delivered to the Subordinate Trustee an irrevocable written consent to the One-Hundred Percent Master Subordinate Indenture Amendments.

Upon the issuance of the Series 2009 Subordinate Bonds the Department expects that the owners of approximately 88.42% in aggregate principal amount of the then Outstanding Subordinate Bonds will have irrevocably consented to the One-Hundred Percent Master Subordinate Indenture Amendments. Nonetheless, at the time of issuance of the Series 2009 Subordinate Bonds, (a) with respect to the Subordinate Pledge Change Amendment (i) the Department has not received and does not expect to receive the consent of BNP and the Department will not have made similar amendments to the Parity Subordinate Indenture (or received the consent of the owners of 100% in aggregate principal amount of Subordinate Commercial Paper Notes and the consent of the CP Banks for such amendments), which are required under the Subordinate Pledge Change Consent Requirement, and (ii) the Department does not expect the Senior Pledge Change Consent Requirement will be met, and (b) with respect to the Subordinate Debt Service Consent Requirement, the Department has not received and does not expect to receive the consent of BNP. If, at any time, the Subordinate Obligation Letters of Credit terminate pursuant to their respective terms and the Department does not owe any amounts under the Subordinate Obligation Reimbursement Agreements the consents of the CP Banks and BNP will not be required in order for the One-Hundred Percent Master Subordinate Indenture Amendments to be effective. The Subordinate Bonds Letters of Credit will expire on March 10, 2010, unless extended or terminated earlier in accordance with their respective terms. The CP Letter of Credit expires on April 1, 2012, unless extended or terminated earlier in accordance with its terms. The Department expects that it will not owe any amounts under the Subordinate Obligation Reimbursement Agreements upon the expiration of the Subordinate Obligation Letters of Credit. At this time there can be no assurance that the Subordinate Pledge Change Consent Requirement, the Senior Pledge Change Consent Requirement or the Subordinate Debt Service Deposit Consent Requirement will be met within any definite time frame.

Other Master Subordinate Indenture Amendments

In addition to the Fifty-One Percent Master Subordinate Indenture Amendments and the One-Hundred Percent Master Subordinate Indenture Amendments, pursuant to the Fourth Supplemental Subordinate Indenture the Department amended certain other provisions of the Master Subordinate Indenture (the "Other Master Subordinate Indenture Amendments") that do not require the consent of the owners of the Subordinate Bonds. APPENDIX D-2 – "AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – Other Master Subordinate Indenture Amendments." The Other Master Subordinate Indenture Amendments include, among other amendments, various changes to the definitions in the Master Subordinate Indenture and certain references to Third Lien Obligations. Although the Other Master Subordinate Indenture Amendments do not require the consent of the owners of the Subordinate Bonds, the Other Master Subordinate Indenture Amendments will not become effective

until the Other Master Senior Indenture Amendments become effective. At this time, the Department cannot predict when the Other Master Subordinate Indenture Amendments will become effective.

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

Continuing Disclosure

The Department has covenanted for the benefit of the owners of the Series 2009 Bonds to provide annually certain financial information and operating data concerning the Department to the Municipal Securities Rulemaking Board (“MSRB”) in an electronic format as prescribed by the 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 G – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

Report of the Airport Consultant

Included as APPENDIX A to this Official Statement is a Report of the Airport Consultant dated October 23, 2009 (the “Report of the Airport Consultant”), prepared by Ricondo & Associates, Inc. (the “Airport Consultant”) and its sub-consultant, Partners for Economic Solutions, in conjunction with the issuance of the Series 2009 Bonds. The Report of the Airport Consultant includes, among other things, a description of the underlying economic base of LAX’s Air Trade Area (as defined below); a description of historical air traffic activity at LAX; the Airport Consultant’s projections for air traffic activity at LAX through 2016 and a description of the assumptions upon which such projections are based; a description of existing and planned facilities at LAX; and the Airport Consultant’s projections of debt service, expenses and revenues through 2016 and a description of the assumptions upon which such projections were based. No assurances can be given that the projections and expectations discussed in the Report of Airport Consultant will be achieved or that the assumptions upon which the projections are based will be realized. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2009 Bonds. The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety. The financial projections in the Report of the Airport Consultant are based upon certain information and assumptions that were provided by, or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for financial projections. See “—Forward-Looking Statements” and “CERTAIN INVESTMENT CONSIDERATIONS – Assumptions in the Report of the Airport Consultant” and APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Forward-Looking Statements

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

The forward-looking statements herein are based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third-parties, including airlines, customers, suppliers and competitors, among others, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Department and the

Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Additional Information

Brief descriptions of the Series 2009 Bonds, the Department, the Airport System, LAX, the Senior Indenture, the Subordinate Indenture, the Parity Subordinate Indenture and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents, statutes, laws, reports or other instruments described herein are qualified in their entirety by reference to each such document, statute, law, report or other instrument. Information contained herein has been obtained from officers, employees and records of the Department and from other sources believed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Department or LAX since the date hereof. This Official Statement is not to be construed as a contract or agreement between the Department and purchasers or owners of any of the Series 2009 Bonds. The Department maintains certain websites, the information on which is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in deciding whether to invest in the Series 2009 Bonds.

PLAN OF FINANCE

The Series 2009 Senior Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred at LAX, (ii) refund certain Subordinate Commercial Paper Notes, (iii) fund the reserve requirement for the Series 2009 Senior Bonds, (iv) fund a portion of the interest accruing on the Series 2009 Senior Bonds through and including June 30, 2010 and (v) pay costs of issuance of the Series 2009 Senior Bonds. The Series 2009 Senior Bonds are also being issued to provide funds for the purchase by the Department of the Purchased Bonds. The Purchased Bonds will be purchased and cancelled on the date of issuance of the Series 2009 Senior Bonds. See “—Purchase of the Purchased Bonds” below.

The Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds are being issued to (i) pay and reimburse the Department for certain capital expenditures incurred or to be incurred at LAX, (ii) fund the reserve requirement for the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, (iii) fund a portion of the interest accruing on the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds through and including March 31, 2011 and (iv) pay costs of issuance of the Series 2009C Subordinate Bonds and Series 2009D Subordinate Bonds.

The Series 2009E Subordinate Bonds are being issued to (i) refund all of the Subseries 2002C1 Subordinate Bonds, (ii) fund the reserve requirement for the Series 2009E Subordinate Bonds and (iii) pay costs of issuance of the Series 2009E Subordinate Bonds. See “—Refunding of Subseries 2002C1 Subordinate Bonds” below.

The 2009 Projects

The Series 2009 Senior Bonds are being issued to, among other things, finance or refinance a portion of the costs of certain terminal projects and parking projects, including reimbursing the Department for prior expenditures and to repay a portion of the Subordinate Commercial Paper Notes, the proceeds of which were used to finance a portion of the costs of such projects. The Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds are being issued, among other things, to finance or refinance a portion of the costs of certain airfield and apron projects and parking projects including reimbursing the Department for prior expenditures.

The terminal projects, airfield and apron projects, parking projects and the restructuring of certain debts are described in APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT” and are collectively referred to herein as the “2009 Projects.”

Purchase of the Purchased Bonds

Pursuant to a formal tender solicitation, the Department offered to purchase all of the Series 2008 Senior Bonds (the “Tender Bond Candidates”) for cash at prices determined pursuant to such formal tender solicitation process. The owners of the Tender Bond Candidates had the opportunity to submit offers for the Department to purchase all or a portion of their Tender Bond Candidates. The Department has agreed to purchase \$30,385,000 aggregate principal amount of the Series 2008A Senior Bonds. The Department did not agree to purchase any of the Series 2008B Senior Bonds.

The Department intends to apply a portion of the net proceeds of the Series 2009 Senior Bonds to fund, and to pay fees associated with the purchase of the Purchased Bonds (including \$113,943.75 to be paid to Goldman, Sachs & Co., as dealer manager with respect to the tender solicitation). On the date of delivery of the Series 2009 Senior Bonds, the Senior Trustee will use \$31,870,038.75 of the proceeds of the Series 2009 Senior Bonds to pay the purchase price of the Purchased Bonds and accrued interest on the Purchased Bonds to the date of purchase. The Purchased Bonds will be purchased and cancelled on the date of issuance of the Series 2009 Senior Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The following tables summarize the maturity date, principal amount, interest rate and CUSIP number of the Purchased Bonds.

THE PURCHASED BONDS
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2008 Series A (AMT)
Base CUSIP: 544435

Maturity	Original Principal Amount	Interest Rate	CUSIP No.	Principal Amount to be Purchased	Principal Amount to be Outstanding After Purchase
2014	\$ 8,695,000	5.500%	XW5	\$ 60,000	\$ 8,635,000
2015	9,925,000	5.500	XZ8	520,000	9,405,000
2016	12,315,000	5.500	YB0	750,000	11,565,000
2017	11,950,000	5.500	YE4	60,000	11,890,000
2019	14,730,000	5.500	YJ3	8,825,000	5,905,000
2021	16,395,000	5.500	YL8	7,225,000	9,170,000
2024	19,210,000	5.250	YP9	255,000	18,955,000
2028	23,655,000	5.375	YT1	12,340,000	11,315,000
2033	87,580,000	5.375	YV6	125,000	87,455,000
2038	180,295,000	5.375	YW4	225,000	180,070,000
<u>Totals</u>				\$30,385,000	\$354,365,000

Refunding of Subseries 2002C1 Subordinate Bonds

The proceeds of the Series 2009E Subordinate Bonds are to be used, together with other available moneys of the Department, to refund the Subseries 2002C1 Subordinate Bonds. The Subseries 2002C1 Subordinate Bonds to be refunded are described below.

Maturity Date (May 15)	Redemption Date	Principal Amount	CUSIP Number
2020	January 4, 2010	\$37,400,000	544435VK3

A portion of the proceeds of the Series 2009E Subordinate Bonds will be deposited with the Subordinate Trustee. The Subordinate Trustee will use such proceeds, along with other moneys on deposit with the Subordinate Trustee, to redeem all of the Subseries 2002C1 Subordinate Bonds on the Redemption Date listed above at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to such Redemption Date. The Department anticipates that the Subseries 2002C1 Subordinate Bonds will remain outstanding under the Subordinate Indenture until the Redemption Date.

Redemption of Subseries 2002C2 Subordinate Bonds and Series 2003A Subordinate Bonds

The Department plans to redeem all of its outstanding (i) Subseries 2002C2 Subordinate Bonds and (ii) Series 2003A Subordinate Bonds with Department funds and/or the proceeds of Subordinate Commercial Paper Notes, prior to March 10, 2010.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2009 Bonds and certain other funds described in the table below:

SOURCES:	Series 2009 Senior Bonds	Series 2009C Subordinate Bonds	Series 2009D Subordinate Bonds	Series 2009E Subordinate Bonds	Total
Principal Amount	\$ 310,410,000.00	\$ 307,350,000.00	\$ 31,815,000.00	\$ 39,750,000.00	\$ 689,325,000.00
Net Original Issue Premium	6,760,531.35	--	2,713,466.05	2,110,907.70	11,584,905.10
TOTAL:	\$ 317,170,531.35	\$ 307,350,000.00	\$ 34,528,466.05	\$ 41,860,907.70	\$ 700,909,905.10
USES:					
Deposit to Interest Account ⁽¹⁾	\$ 2,919,804.53	\$ 10,309,059.21	\$ 2,573,810.76	--	\$ 15,802,674.50
Refund Subordinate Commercial Paper Notes	85,000,000.00	--	--	--	85,000,000.00
Deposit to Construction Fund ⁽²⁾	175,200,000.00	266,205,047.89	31,052,952.11	--	472,458,000.00
Purchase of Purchased Bonds	31,870,038.75	--	--	--	31,870,038.75
Deposit to Senior Reserve Fund	19,724,265.62	--	--	--	19,724,265.62
Refund Subseries 2002C1 Subordinate Bonds ⁽³⁾	--	--	--	\$ 37,400,000.00	37,400,000.00
Deposit to Subordinate Reserve Fund	--	27,908,180.40	659,527.97	4,186,090.77	32,753,799.14
Costs of Issuance ⁽⁴⁾	2,456,422.45	2,927,712.50	242,175.21	274,816.93	5,901,127.09
TOTAL:	\$ 317,170,531.35	\$ 307,350,000.00	\$ 34,528,466.05	\$ 41,860,907.70	\$ 700,909,905.10

⁽¹⁾ Represents a portion of interest accruing on the Series 2009 Senior Bonds, the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds.

⁽²⁾ To be used to pay all or a portion of the costs of 2009 Projects.

⁽³⁾ For the purpose of refunding all of the Subseries 2002C1 Subordinate Bonds.

⁽⁴⁾ Includes legal fees, underwriters' discount, trustee fees, financial advisory fees, escrow agent fees, rating agencies' fees, printing costs, Dealer Manager fees, tender and information agent fees and other costs of issuance.

DESCRIPTION OF THE SERIES 2009 BONDS

General

The Series 2009 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 2009 Bonds will be dated their date of delivery and bear interest from that date payable semi-annually on May 15 and November 15 of each year, commencing May 15, 2010 (each an "Interest Payment Date"). Interest due and payable on the Series 2009 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 2009 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 2009 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 2009 Bond will bear interest from such succeeding Interest Payment Date, or unless such date of authentication is on or before May 1, 2010, in which event such Series 2009 Bond will bear interest from its date of delivery. If interest on the Series 2009 Bonds is in default, Series 2009 Bonds issued in exchange for Series 2009 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 2009 Bonds surrendered.

The Series 2009 Bonds are being issued in denominations of \$5,000 and integral multiples thereof ("Authorized Denominations"). The Series 2009 Bonds are being issued in fully registered form and will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York New York ("DTC"). DTC will act as securities depository for the Series 2009 Bonds. Individual purchases may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2009 Bonds purchased. So long as Cede & Co., as nominee of DTC, is the registered owner of the Series 2009 Bonds, references herein to the Bondholders or registered owners means Cede & Co. and does not mean the Beneficial Owners of the Series 2009 Bonds.

So long as Cede & Co. is the registered owner of the Series 2009 Bonds, the principal of and interest on the Series 2009 Bonds are payable by wire transfer by the Senior Trustee or the Subordinate Trustee, as applicable, to Cede & Co., as nominee for DTC, which is required, in turn, to remit such amounts to the Direct and Indirect Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See APPENDIX F - "BOOK ENTRY ONLY SYSTEM."

Designation of the Series 2009C Subordinate Bonds as Build America Bonds

The Department currently intends irrevocably to elect to treat the Series 2009C Subordinate Bonds as "Build America Bonds" for purposes of the Recovery Act and the Code. Subject to the Department's compliance with certain requirements of the Code, the Department expects to receive cash subsidy payments rebating a portion of the interest on the Series 2009C Subordinate Bonds from the United States Treasury in an amount equal to thirty-five percent of the interest payable on the Series 2009C Subordinate Bonds. Any such cash subsidy payments received by the Department will constitute Pledged Revenues. See "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Series 2009C Subordinate Bonds ("Build America Bonds")" and "TAX MATTERS."

Redemption Provisions

Optional Redemption

Series 2009 Senior Bonds. The Series 2009 Senior Bonds maturing on or before May 15, 2019 are not subject to optional redemption prior to maturity. The Series 2009 Senior Bonds maturing on or after May 15, 2020 are redeemable at the option of the Department on or after May 15, 2019, 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 2009 Senior Bonds to be redeemed plus accrued interest to the date fixed for redemption, without premium.

Series 2009C Subordinate Bonds. The Series 2009C Subordinate Bonds are redeemable at the option of the Department, in whole or in part (if in part, on a pro rata basis) at any time, from any moneys that may be provided for such purpose and at a redemption price equal to the greater of: (i) 100% of the principal amount of the Series 2009C Subordinate Bonds to be redeemed; and (ii) an amount calculated by a Designated Banking Institution equal to the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009C Subordinate Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2009C Subordinate Bonds are to be redeemed, discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 35 basis points; plus, in each case, accrued and unpaid interest on the Series 2009C Subordinate Bonds to be redeemed to the date fixed for redemption.

"Treasury Rate" means, as of any redemption date of the Series 2009C Subordinate Bonds, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available seven Business Days prior to the date fixed for redemption (excluding inflation-indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data as selected by a Designated Banking Institution) most nearly equal to the period from the redemption date to the maturity date of the Series 2009C Subordinate Bonds to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"Designated Banking Institution" means an investment banking institution of national standing which is a primary United States government securities dealer in the City of New York designated by the Department (which may be one of the underwriters of the Series 2009C Subordinate Bonds).

Extraordinary Optional Redemption of the Series 2009C Subordinate Bonds

The Series 2009C Subordinate Bonds are redeemable at the option of the Department, in whole or in part (if in part, on a pro rata basis) at any time, from any moneys that may be provided for such purpose, upon the occurrence of an Extraordinary Event, and at a redemption price equal to the greater of (i) 100% of the principal amount of the Series 2009C Subordinate Bonds to be redeemed; and (ii) an amount calculated by a Designated Banking Institution equal to the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2009C Subordinate Bonds to be redeemed, not including any portion of

those payments of interest accrued and unpaid as of the date on which the Series 2009C Subordinate Bonds are to be redeemed, discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus 100 basis points; plus, in each case, accrued and unpaid interest on the Series 2009C Subordinate Bonds to be redeemed to the date fixed for redemption.

An “Extraordinary Event” will have occurred if legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Department, would be to suspend, reduce or terminate the thirty-five percent cash subsidy payment from the United States Treasury to the Department with respect to the Series 2009C Subordinate Bonds, or to state or local government issuers generally with respect to obligations of the general character of the Series 2009C Subordinate Bonds, pursuant to Sections 54AA or 6431 of the Code (the “Subsidy Payments”); provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by the Department to comply with the requirements of the Code to receive such Subsidy Payments. See “TAX MATTERS” herein.

Mandatory Sinking Fund Redemption

Series 2009 Senior Bonds

The Series 2009 Senior Bonds maturing on May 15, 2029 bearing interest at 5.000% (the “Series 2009 Senior Term Bonds (2029-5.000%)”) are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Redemption Date (May 15)	Principal Amount
2025	\$1,575,000
2026	1,655,000
2027	1,175,000
2028	2,690,000
2029†	1,310,000

† Final Maturity

The Series 2009 Senior Bonds maturing on May 15, 2029 bearing interest at 5.250% (the “Series 2009 Senior Term Bonds (2029-5.250%)”) 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:

Redemption Date (May 15)	Principal Amount
2025	\$11,800,000
2026	12,425,000
2027	8,855,000
2028	20,165,000
2029†	9,795,000

† Final Maturity

The Series 2009 Senior Bonds maturing on May 15, 2034 (the “Series 2009 Senior Term Bonds (2034)”) 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:

Redemption Date (May 15)	Principal Amount
2030	\$ 8,785,000
2031	9,290,000
2032	9,695,000
2033	10,175,000
2034†	10,835,000

† Final Maturity

The Series 2009 Senior Bonds maturing on May 15, 2039 (the “Series 2009 Senior Term Bonds (2039)”) and together with the Series 2009 Senior Term Bonds (2029-5.000%), the Series 2009 Senior Term Bonds (2029-5.250%) and the Series 2009 Senior Term Bonds (2034), the “Series 2009 Senior Term Bonds”) are subject to mandatory sinking fund redemption in part, by lot, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date fixed for redemption, without premium, on May 15 of the following years and in the following principal amounts:

Redemption Date (May 15)	Principal Amount
2035	11,215,000
2036	11,810,000
2037	12,425,000
2038	13,080,000
2039†	13,765,000

† Final Maturity

At the option of the Department, to be exercised by delivery of a written certificate to the Senior Trustee, on or before the 60th day next preceding any mandatory sinking fund redemption date for the Series 2009 Senior Term Bonds, it may (a) deliver to the Senior Trustee, for cancellation Series 2009 Senior Term Bonds or portions thereof (in Authorized Denominations) purchased in the open market or otherwise acquired by the Department or (b) specify a principal amount of such Series 2009 Senior Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been purchased or redeemed (otherwise than pursuant to mandatory sinking fund redemption) and previously cancelled by the Senior Trustee, at the request of the Department and not theretofore applied as a credit against any mandatory sinking fund redemption requirement. Each such Series 2009 Senior Term Bond or portion thereof so purchased or redeemed and delivered to the Senior Trustee, for cancellation will be credited by the Senior Trustee, at 100% of the principal amount thereof against the obligation of the Department to pay the principal of such Series 2009 Senior Term Bond of the same maturity and interest rate on such mandatory sinking fund redemption date.

Series 2009C Subordinate Bonds

The Series 2009C Subordinate Bonds maturing on May 15, 2017 (the “Series 2009C Subordinate Term Bonds (2017)”) are subject to mandatory sinking fund redemption in part (on a pro rata basis as described below under “Selection of Series 2009C Subordinate Bonds for Redemption; Series 2009C Subordinate Bonds Redeemed in Part”), 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:

Redemption Date	Principal Amount
2016	\$8,305,000
2017†	8,590,000

† Final Maturity

The Series 2009C Subordinate Bonds maturing on May 15, 2019 (the “Series 2009C Subordinate Term Bonds (2019)”) are subject to mandatory sinking fund redemption in part (on a pro rata basis as described below under “Selection of Series 2009C Subordinate Bonds for Redemption; Series 2009C Subordinate Bonds Redeemed in Part”), 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:

Redemption Date	Principal Amount
2018	\$8,885,000
2019†	9,200,000

† Final Maturity

The Series 2009C Subordinate Bonds maturing on May 15, 2039 (the “Series 2009C Subordinate Term Bonds (2039)”) and together with the Series 2009C Subordinate Term Bonds (2017) and the Series 2009C Subordinate Term Bonds (2019), the “Series 2009C Subordinate Term Bonds”) are subject to mandatory sinking fund redemption in part (on a pro rata basis as described below under “Selection of Series 2009C Subordinate Bonds for Redemption; Series 2009C Subordinate Bonds Redeemed in Part”), 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:

Redemption Date	Principal Amount
2022	\$10,250,000
2023	10,685,000
2024	11,150,000
2025	11,635,000
2026	12,135,000
2027	12,655,000
2028	13,200,000
2029	13,775,000
2030	12,920,000
2031	13,480,000
2032	14,065,000
2033	14,670,000
2034	15,300,000
2035	15,970,000
2036	16,655,000
2037	17,375,000
2038	18,130,000
2039†	18,920,000

† Final Maturity

In the event that a portion, but not all, of the Series 2009C Subordinate Term Bonds are redeemed pursuant to optional redemption or extraordinary optional redemption (as described above under “—Optional Redemption” and “—Extraordinary Optional Redemption of the Series 2009C Subordinate Bonds”), then the principal amount of any remaining mandatory sinking fund redemptions applicable to the Series 2009C Subordinate Term Bonds shall be proportionally reduced (subject to the Subordinate Trustee making such adjustments as it deems necessary to be able to effect future redemptions of the Series 2009C Subordinate Term Bonds in Authorized Denominations).

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 2009C Subordinate Term Bonds, it may (a) deliver to the Subordinate Trustee for cancellation Series 2009C 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 2009C Subordinate Term Bonds or portions thereof (in Authorized Denominations) which prior to said date have been purchased or redeemed (otherwise than pursuant to mandatory sinking fund redemption) 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 2009C Subordinate Term Bond or portion thereof so purchased or 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 2009C Subordinate Term Bond on such mandatory sinking fund redemption date.

Notices of Redemption

The Senior Trustee or the Subordinate Trustee, as applicable, is required to give notice of redemption, in the name of the Department, to Bondholders affected by redemption (or DTC, so long as the book-entry system with DTC is in effect) at least 30 days but not more than 60 days before each redemption date and send such notice of redemption by first class mail (or with respect to Series 2009 Bonds held by DTC by an express delivery service for delivery on the next following Business Day) to each registered owner of a Series 2009 Bond to be redeemed; each such notice will be sent to the registered owner's registered address.

Each notice of redemption will specify the Series, date of issue, maturity date, interest rate and CUSIP number of the Series 2009 Bonds to be redeemed, if less than all Series 2009 Bonds of a maturity and interest rate of a Series are called for redemption the numbers of the Series 2009 Bonds assigned to the Series 2009 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), the place or places of payment, the Senior Trustee's or the Subordinate Trustee's name, as applicable, that payment will be made upon presentation and surrender of the Series 2009 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 2009 Bond will not affect the validity of the call for redemption of any Series 2009 Bond in respect of which no failure occurs. Any notice sent as provided in the Tenth Supplemental Senior Indenture and the Fifth 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 2009 Bonds called for redemption become due and payable on the date fixed for redemption at the applicable redemption price except as otherwise provided in the Senior Indenture or the Subordinate Indenture, as applicable. In the event that funds are deposited with the Senior Trustee or the Subordinate Trustee, as applicable, sufficient for redemption, interest on the Series 2009 Bonds to be redeemed will cease to accrue on and after the date fixed for redemption.

Upon surrender of a Series 2009 Bond to be redeemed in part only, the Senior Trustee or the Subordinate Trustee, as applicable, will authenticate for the holder a new Series 2009 Bond or Series 2009 Bonds of the same Series, maturity date and interest rate equal in principal amount to the unredeemed portion of the Series 2009 Bond surrendered.

The Department may provide that if at the time of mailing of notice of an optional redemption or extraordinary optional redemption there has not been deposited with the Senior Trustee or the Subordinate Trustee, as applicable, moneys sufficient to redeem all the Series 2009 Bonds called for redemption, such notice may state that it is conditional and subject to the deposit of the redemption moneys with the Senior Trustee or the Subordinate Trustee, as applicable, not later than the opening of business one Business Day prior to the scheduled redemption date, and such notice will be of no effect unless such moneys are so deposited. In the event sufficient moneys are not on deposit on the required date, then the redemption will be cancelled and on such cancellation date notice of such cancellation will be mailed to the holders of such Series 2009 Bonds.

No Redemption of Series 2009D Subordinate Bonds or Series 2009E Subordinate Bonds.

The Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds are not subject to redemption prior to maturity.

Effect of Redemption

On the date so designated for redemption, notice having been given in the manner and under the conditions provided in the Tenth Supplemental Senior Indenture or the Fifth Supplemental Subordinate Indenture, as applicable, and sufficient moneys for payment of the redemption price being held in trust by the Senior Trustee or the Subordinate Trustee, as applicable, to pay the redemption price, interest on such Series 2009 Bonds will cease to accrue from and after such redemption date, such Series 2009 Bonds will cease to be entitled to any lien, benefit or security under the Senior Indenture or the Subordinate Indenture, as applicable, and the owners of such Series 2009 Bonds will have no rights in respect thereof except to receive payment of the redemption price. Series 2009 Bonds

which have been duly called for redemption and for the payment of the redemption price of which moneys will be held in trust for the holders of the respective Series 2009 Bonds to be redeemed, all as provided in the Tenth Supplemental Senior Indenture or the Fifth Supplemental Subordinate Indenture, as applicable, will not be deemed to be Outstanding under the provisions of the Senior Indenture or the Subordinate Indenture, as applicable.

Selection of Series 2009 Senior Bonds for Redemption; Series 2009 Senior Bonds Redeemed in Part

Redemption of the Series 2009 Senior Bonds will only be in Authorized Denominations. The Series 2009 Senior Bonds are subject to redemption in such order of maturity and interest rate (except mandatory sinking fund payments on the Series 2009 Senior Term Bonds) as the Department may direct and by lot within such maturity and interest rate selected in such manner as the Senior Trustee (or DTC, as long as DTC is the securities depository for the Series 2009 Senior Bonds), deems appropriate.

Except as otherwise provided under the procedures of DTC, on or before the 45th day prior to any mandatory sinking fund redemption date, the Senior Trustee, will proceed to select for redemption (by lot in such manner as the Senior Trustee may determine), from the applicable Series 2009 Senior Term Bonds, an aggregate principal amount of such applicable Series 2009 Senior Term Bonds equal to the amount for such year as set forth in the appropriate table under “Mandatory Sinking Fund Redemption – Series 2009 Senior Bonds” above and will call such Series 2009 Senior Term Bonds or portions thereof (in Authorized Denominations) for redemption and give notice of such call.

Selection of Series 2009C Subordinate Bonds for Redemption; Series 2009C Subordinate Bonds Redeemed in Part

Redemption of the Series 2009C Subordinate Bonds will only be in Authorized Denominations. Any redemption of less than all of the Series 2009C Subordinate Bonds of a maturity will be allocated among the registered owners of such maturity of Series 2009C Subordinate Bonds, as applicable, as nearly as practicable in proportion to the principal amount of the Series 2009C Subordinate Bonds of such maturity owned by each registered owner, subject to the Authorized Denominations applicable to the Series 2009C Subordinate Bonds of such maturity. This will be calculated based on the formula: $(\text{principal to be redeemed}) \times ((\text{principal amount owned by registered owner}) / (\text{principal amount outstanding}))$. So long as DTC or a successor securities depository is the sole registered owner of the Series 2009C Subordinate Bonds, as applicable, it is the Department’s intent that redemption allocations made by DTC, the DTC participants or such other intermediaries that may exist between the Department and the beneficial owners be made in accordance with these same pro rata provisions. However, the Department can provide no assurance that DTC, the DTC participants or any other intermediaries will allocate redemptions among beneficial owners on such pro rata basis.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS

Flow of Funds

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

The Master Senior Indenture generally defines “LAX Revenues” to mean, except to the extent specifically excluded therefrom, all income, receipts, earnings and revenues received by the Department from LAX, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to: (a) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at LAX; and (b) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at LAX, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of LAX (or any LAX Airport Facilities or activities or

undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto. LAX Revenues include all income, receipts and earnings from the investment of amounts held in the LAX Revenue Account, any Senior or Subordinate Construction Fund allowed to be pledged by the terms of a Supplemental Senior Indenture or Supplemental Subordinate Indenture, the Senior Reserve Fund, any Senior Debt Service Reserve Fund, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund, and allocated earnings on the Maintenance and Operations Reserve Fund.

The Senior Bonds (including the Series 2009 Senior Bonds) are limited obligations of the Department payable solely from and secured solely by (a) a pledge of Pledged Revenues (on and after the Pledge Change Date, a pledge of Net Pledged Revenues), and (b) certain funds and accounts held by the Senior Trustee. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D-1 – “AMENDMENT TO THE MASTER SENIOR INDENTURE – One Hundred Percent Master Senior Indenture Amendments.”

The Master Senior Indenture generally defines “Pledged Revenues” to mean, except to the extent specifically excluded in the Master Senior Indenture or under the terms of any supplemental indenture (only with respect to the series of bonds issued pursuant to such supplemental indenture), “LAX Revenues.” Pledged Revenues also include any additional revenues designated as Pledged Revenues pursuant to a Supplemental Senior Indenture. To date the Department has not designated any additional revenues as Pledged Revenues. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (a) any amounts received by the Department from the imposition of ad valorem taxes; (b) gifts, grants and other income (including any investment earnings thereon) otherwise included in LAX Revenues which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds or the Subordinate Obligations; (c) insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation, to the extent the use of such proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds or the Subordinate Obligations, (d) any Transfer (as defined below) and (e) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are excluded from Pledged Revenues, unless designated as Pledged Revenues under the terms of a Supplemental Senior Indenture: (i) Senior Swap Termination Payments or Subordinate Swap Termination Payments paid to the Department pursuant to a Senior Qualified Swap or a Subordinate Qualified Swap, as applicable; (ii) Facilities Construction Credits; (iii) Passenger Facility Charges collected with respect to LAX (“PFC revenues”); (iv) all revenues of the Airport System not related to LAX; and (v) Released LAX Revenues. Senior Swap Termination Payments, Subordinate Swap Termination Payments, Facilities Construction Credits, PFC revenues, other revenues of the Airport System not related to LAX and Released LAX Revenues have not been designated as Pledged Revenues under the terms of any Supplemental Senior Indenture. See APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE” for a description of amendments to the definition of Pledged Revenues.

The Department currently intends to elect irrevocably to treat the Series 2009C Subordinate Bonds as “Build America Bonds” for the purposes of the Recovery Act and the Code. Subject to the Department’s compliance with certain requirements of the Code, the Department expects to receive cash subsidy payments rebating a portion of the interest on the Series 2009C Subordinate Bonds from the United States Treasury in an amount equal to thirty-five percent of the interest payable on the Series 2009C Subordinate Bonds. Any such cash subsidy payments received by the Department will constitute Pledged Revenues. See “DESCRIPTION OF THE SERIES 2009 BONDS – Designation of the Series 2009C Subordinate Bonds as Build America Bonds” “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Series 2009C Subordinate Bonds (“Build America Bonds”)” and “TAX MATTERS.”

The Subordinate Obligations (including the Series 2009 Subordinate Bonds) are limited obligations of the Department payable solely from and secured solely by (i) a pledge of Subordinate Pledged Revenues (subject to the amendment to Subordinate Pledged Revenues that will become effective on the Pledge Change Date), and (ii) certain funds and accounts held by the Subordinate Trustee.

The Master Subordinate Indenture generally defines “Subordinate Pledged Revenues” to mean, for any given period, the Pledged Revenues for such period less, for such period, amounts required to be deposited in the Senior Debt Service Funds and the amounts required to be deposited to the Senior Reserve Fund and any Senior Debt Service Reserve Fund. See “INTRODUCTION–Amendments to the Master Subordinate Indenture” and APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE - One-Hundred Percent

Master Subordinate Indenture Amendments” for a description of amendments to the definition of Subordinate Pledged Revenues.

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

FIRST, to the payment of amounts required to be deposited in the Senior Debt Service Funds for the Senior Bonds (including the Series 2009 Senior Bonds) pursuant to the Master Senior Indenture and any Supplemental Senior Indenture;

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

THIRD, to the payment of Subordinate Obligations (including the Series 2009 Subordinate Bonds), but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of such Subordinate Obligations;

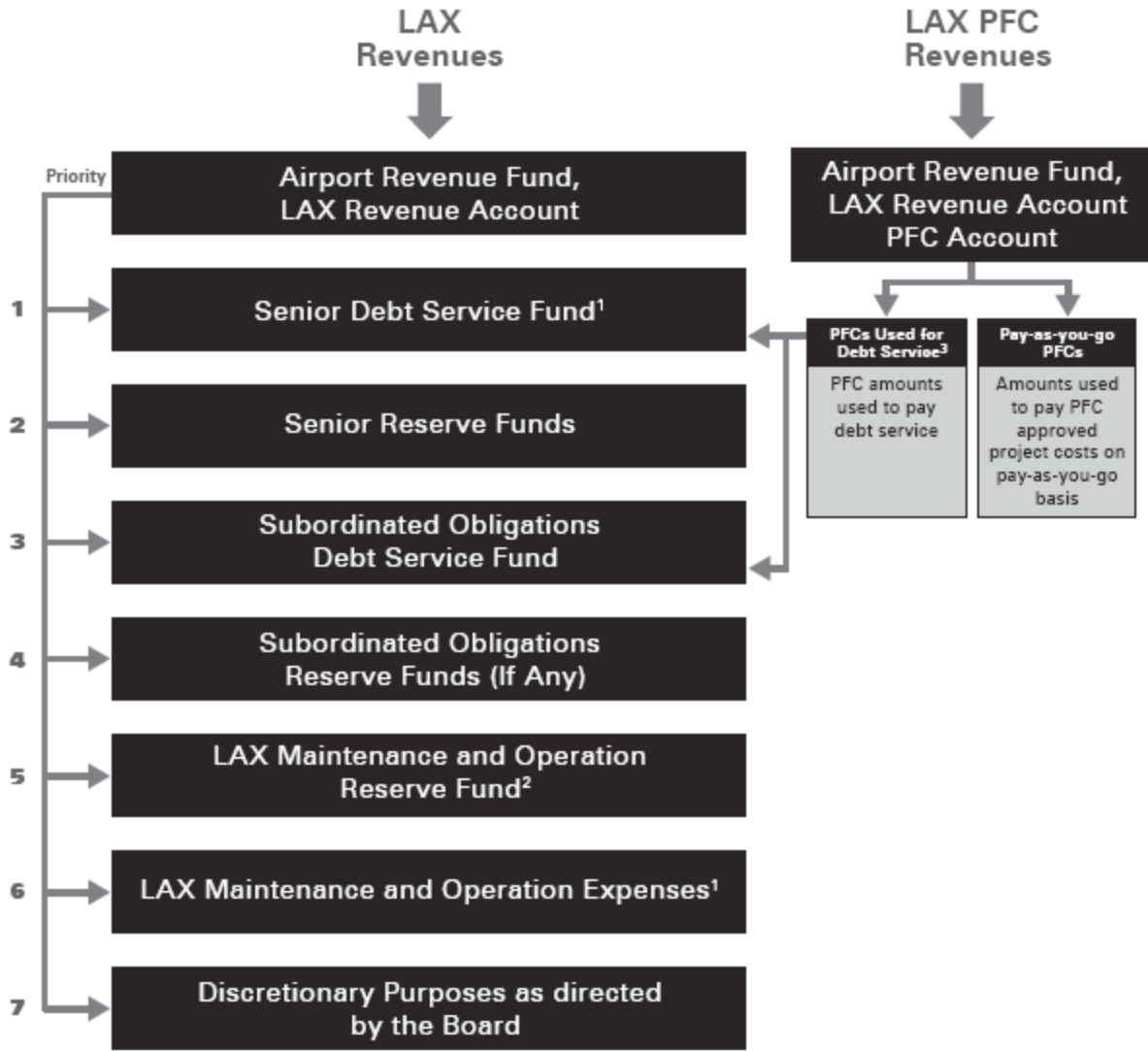
FOURTH, to the payment of any reserve requirement for the Subordinate Obligations (including the Subordinate Reserve Fund), if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

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

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

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

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



- (1) On and after the Pledge Change Date, LAX Maintenance and Operation Expenses will be paid prior to the payment of the Senior Bonds. See “INTRODUCTION – Amendments to Master Senior Indenture – One-Hundred Percent Master Senior Indenture Amendments.”
- (2) The Master Senior Indenture has been amended to provide for Third Lien Obligations which will be payable from Pledged Revenues after funding the Subordinate Obligations Reserve Fund and before funding the LAX Maintenance and Operation Reserve Fund. The amendments providing for Third Lien Obligations will not become effective until the Department receives the consent of the CP Banks. See “INTRODUCTION – Amendments to the Master Senior Indenture – Other Master Senior Indenture Amendments.”
- (3) 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 the Existing Senior Bonds, the Series 2009 Senior Bonds and Additional Senior Bonds expected to be issued in the future. See “—Passenger Facility Charges” below.

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

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

As described under “INTRODUCTION – Amendments to the Master Senior Indenture,” pursuant to the Ninth Supplemental Senior Indenture, the Department amended the flow of funds described above. The Other

Master Senior Indenture Amendments (which do not require the consent of the owners of the Senior Bonds or the Subordinate Obligations, but do require the consent of the CP Banks (which consent has not been received and is not expected to be received at the time of issuance of the Series 2009 Bonds) and BNP (which consent was received at the time of issuance of the Series 2008 Bonds)), include the establishment of Third Lien Obligations. Third Lien Obligations and any reserve funds established for such Third Lien Obligations will be payable from Pledged Revenues after FOURTH in the flow of funds described above and before FIFTH in the flow of funds described above. The provisions relating to Third Lien Obligations set forth in the Ninth Supplemental Senior Indenture will not become effective until the CP Banks consent to such amendments. See APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Other Master Senior Indenture Amendments.”

Additionally, as described under “INTRODUCTION – Amendments to the Master Senior Indenture,” the Senior Pledge Change Amendment (which will not become effective until the Senior Pledge Change Consent Requirement and the Subordinate Pledge Change Consent Requirement are met) includes certain amendments to the flow of funds. The Senior Pledge Change Amendment will move the payment of LAX Maintenance and Operation Expenses from SIXTH in the current flow of funds (from EIGHTH in the flow of funds described in the Other Master Senior Indenture Amendments) to FIRST in the flow of funds. As a result of such amendment, the Senior Bonds will be secured by a pledge of and lien on Pledged Revenues after payment of LAX Maintenance and Operation Expenses and the Subordinate Obligations will be secured by a pledge of and lien on Pledged Revenues after the payment of LAX Maintenance and Operation Expenses and debt service and reserve requirements on the Senior Bonds. See “INTRODUCTION – Amendments to the Master Senior Indenture” “—Amendments to the Master Subordinate Indenture,” APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One-Hundred Percent Master Senior Indenture Amendments” and APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE – One-Hundred Percent Master Subordinate Indenture Amendments.”

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

Senior Bonds

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

Pledged Revenues

The Series 2009 Senior Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Pledged Revenues. The Series 2009 Senior Bonds are also secured by a pledge of and first lien on amounts held in certain funds and accounts pursuant to the Senior Indenture, as further described herein.

On and after the Pledge Change Date, the Series 2009 Senior Bonds will be payable solely from and secured by a pledge of and first lien on Net Pledged Revenues. See “INTRODUCTION – Amendments to the Master Senior Indenture Amendments” and APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – One-Hundred Percent Master Senior Indenture Amendments.”

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

THE SERIES 2009 SENIOR BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES (ON AND AFTER THE PLEDGE CHANGE DATE, NET PLEDGED REVENUES), IS PLEDGED TO THE

PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009 SENIOR BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SENIOR INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2009 SENIOR BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2009 SENIOR BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SENIOR INDENTURE.

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

The Series 2009 Senior Bonds are secured by a pledge of and lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) on a parity with the Existing Senior Bonds and any Additional Senior Bonds. See “—Additional Senior Bonds” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Senior Bonds.” The Series 2009 Senior Bonds are not secured by moneys held in any construction funds established under the Senior Indenture.

Senior Rate Covenant

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

The Master Senior Indenture provides that if the Department violates the above-described covenants, such violation will not be a default under the Senior Indenture and will not give rise to a declaration of a Senior Event of Default if, within 120 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce Pledged Revenues to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent Fiscal Year succeeding the date such violation is discovered, a Senior Event of Default may be declared under the Senior Indenture. The Department may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Department into compliance with such covenants. See APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a description of amendments to the rate covenant in the Master Senior Indenture. See also “CERTAIN INVESTMENT CONSIDERATIONS – Rate Covenant Limitations.”

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

Pursuant to the Master Senior Indenture, the Department may exclude from its calculation of Senior Aggregate Annual Debt Service with respect to Senior Bonds, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Senior Bonds whose debt service is payable from amounts not included in Pledged Revenues (including, but not limited to PFC revenues) which have

been irrevocably deposited with and held by the Senior Trustee for the payment of debt service on such Senior Bonds. The Department expects to use PFC revenues to pay a portion of the debt service on the Series 2009 Senior Bonds, the Series 2008A Senior Bonds and certain Additional Senior Bonds expected to be issued in the future. See “—Passenger Facility Charges,” “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” for additional information about the Department’s expected use of PFC revenues. See also Appendix A – “REPORT OF THE AIRPORT CONSULTANT.”

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

Senior Debt Service Deposits

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

Senior Reserve Fund

The Master Senior Indenture established the “Senior Reserve Fund” for all of the Senior Bonds the Department elects to participate in the Senior Reserve Fund. The Department has elected to have the Existing Senior Bonds participate in the Senior Reserve Fund and pursuant to the Tenth Supplemental Senior Indenture, the Department intends to elect to have the Series 2009 Senior Bonds participate in the Senior Reserve Fund.

Pursuant to the Master Senior Indenture, the Senior Reserve Fund is required to be funded at all times in an amount equal to the Senior Reserve Requirement. The Senior Reserve Requirement equals the least of (i) Senior Maximum Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, (ii) 10% of the principal amount of the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, less the amount of original issue discount with respect to the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund if such original issue discount exceeded 2% on such Senior Bonds at the time of its original sale, and (iii) 125% of the average Senior Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund. In the event the Department issues any Additional Senior Bonds pursuant to a Supplemental Senior Indenture under which the Department elects to have such Additional Senior Bonds participate in the Senior Reserve Fund, the Department is required to deposit an amount in the Senior Reserve Fund sufficient to cause the amount on deposit in the Senior Reserve Fund to equal the Senior Reserve Requirement for the Senior Bonds and such future Series of Additional Senior Bonds participating in the Reserve Fund. At the time of issuance of the Series 2009 Senior Bonds, the Senior Reserve Requirement will be met and the Senior Reserve Requirement will equal \$78,142,702.76.

Moneys or investments held in the Senior Reserve Fund may be used only to pay the principal of and interest on the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund. Moneys and investments held in the Senior Reserve Fund are not available to pay debt service on the Subordinate Obligations (including the Series 2009 Subordinate Bonds). The Senior Reserve Fund

may be drawn upon if the amounts in the respective Senior Debt Service Funds for the Series 2009 Senior Bonds, the Existing Senior Bonds and any Additional Senior Bonds participating in the Senior Reserve Fund, are insufficient to pay in full any principal or interest then due on such Senior Bonds. In the event any amounts are required to be withdrawn from the Senior Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Senior Debt Service Funds for the Senior Bonds secured by the Senior Reserve Fund.

The Department may fund all or a portion of the Senior Reserve Requirement with a Senior Reserve Fund Surety Policy. A Senior Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Senior Reserve Fund in lieu of or partial substitution for cash or securities. Any such Senior Reserve Fund Surety Policy must either extend to the final maturity of the Series of Senior Bonds for which the Senior Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Senior Indenture, that the Department will replace such Senior Reserve Fund Surety Policy prior to its expiration with another Senior Reserve Fund Surety Policy, which will have no adverse effect on ratings, if any, then in effect, on the Senior Bonds, or with cash, and the face amount of the Senior Reserve Fund Surety Policy, together with amounts on deposit in the Senior Reserve Fund, including the face amount of any other Senior Reserve Fund Surety Policy, is at least equal to the Senior Reserve Requirement. As of the date of this Official Statement and at the time of the issuance of the Series 2009 Senior Bonds, there are no Senior Reserve Fund Surety Policies on deposit in the Senior Reserve Fund and there will be no Senior Reserve Fund Surety Policies on deposit in the Senior Reserve Fund.

Additional Senior Bonds

The Master Senior Indenture provides the Department with flexibility as to the nature and terms of any Additional Senior Bonds hereafter issued with a lien and charge on Pledged Revenues on parity with the Series 2009 Senior Bonds and the Existing Senior Bonds. See “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a description of the amendments to the test to issue Additional Senior Bonds.

Additional Senior Bonds may be issued under the Master Senior Indenture on parity with the Series 2009 Senior Bonds and the Existing Senior Bonds, provided, among other things, there is delivered to the Senior Trustee either:

- (a) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or preceding the first issuance of the proposed Senior Program Bonds were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding; or
- (b) a certificate prepared by a Consultant showing that:
 - (i) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed Series of Senior Bonds or the establishment of a Senior Program were at least equal to 125% of Senior Maximum Aggregate Annual Debt Service;
 - (ii) for each Fiscal Year during the period from the date of delivery of such certificate until the latest Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with the rate covenant under the Master Senior Indenture (see “Senior Rate Covenant” above); and
 - (iii) the estimated Net Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, will be at least equal to 125% of Senior Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Senior Bonds and the full Senior Authorized Amount of such proposed Senior Program Bonds (if applicable) were then Outstanding.

The certificate described in (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2009 Senior Bonds.

For purposes of subparagraphs (a) and (b) above, no Transfer may be taken into account in the computation of Pledged Revenues by the Authorized Representative or by the Consultant. "Transfer" means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS - Flow of Funds," have been made as of the last day of the immediately preceding Fiscal Year).

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

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

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

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

(B) the Senior Bonds being issued constitute Senior Notes and there is delivered to the Senior Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Senior Notes being issued, together with the principal amount of any Senior Notes then Outstanding, does not exceed 10% of the Pledged Revenues for any 12 consecutive months out of the 18 months immediately preceding the issuance of the proposed Senior Notes, and there is delivered to the Senior Trustee, a Certificate of an Authorized Representative showing that for each of the Fiscal Years during which the Senior Notes will be Outstanding, and taking into account the debt service becoming due on such Senior Notes, the Department will be in compliance with the rate covenant under the Master Senior Indenture.

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

At the time the Fifty-One Percent Master Senior Indenture Consent Requirement is met, certain amendments to the test to issue Additional Senior Bonds will become effective. These amendments will include, among other things, (a) allowing the exclusion of the following amounts from the calculation of Senior Maximum

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

Subordinate Obligations

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

Subordinate Pledged Revenues

The Series 2009 Subordinate Bonds are limited obligations of the Department payable solely from and secured by a pledge of and first lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) and other amounts payable under the Subordinate Indenture. The Series 2009 Subordinate Bonds are also secured by amounts held in certain funds and accounts pursuant to the Subordinate Indenture, as further described herein.

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

THE SERIES 2009 SUBORDINATE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTIONAL, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT (TO THE EXTENT OF THE SUBORDINATE PLEDGED REVENUES (SUBJECT TO THE AMENDMENT TO THE DEFINITION OF SUBORDINATE PLEDGED REVENUES THAT WILL BECOME EFFECTIVE ON THE PLEDGE CHANGE DATE)) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009 SUBORDINATE BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE SUBORDINATE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER OF THE CITY AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2009 SUBORDINATE BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2009 SUBORDINATE BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE SUBORDINATE INDENTURE.

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

The Series 2009 Subordinate Bonds are secured by a pledge of and lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) on parity with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Subordinate Bonds, the payment obligations of the Department under the Subordinate Bonds Reimbursement Agreements, any Additional Subordinate Bonds and any other obligations issued on a parity with respect to Subordinate Pledged Revenues pursuant to the Master Subordinate Indenture or the Parity Subordinate Indenture. See “Additional Subordinate Obligations” below. The Series 2009 Subordinate Bonds are not secured by moneys held in any construction funds established under the Subordinate Indenture.

Subordinate Rate Covenant

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

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

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

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

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

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

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

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

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

to produce Net Subordinate Pledged Revenues, together with any Transfer (only as applied in (b) above), in the amount specified in paragraph (a) or (b) in the next succeeding Fiscal Year.

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

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

Pursuant to the Master Subordinate Indenture, the Department may exclude from its calculation of Subordinate Aggregate Annual Debt Service, for the purpose of determining compliance with the rate covenant described above, the payment of debt service or portions thereof on Subordinate Bonds whose debt service is payable from amounts not included in Subordinate Pledged Revenues (including, but not limited to PFC revenues) which have been irrevocably committed or irrevocably deposited with the Subordinate Trustee for the payment of debt service on such Subordinate Bonds. See “—Passenger Facility Charges,” “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges” for additional information about the Department’s expected use of PFC revenues. See also APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” The Department does not expect to use any PFC revenues to pay debt service on the Series 2009 Subordinate Bonds or the Existing Subordinate Bonds.

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

Subordinate Debt Service Deposits

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

Subordinate Reserve Fund

Pursuant to the Fourth Supplemental Subordinate Indenture, a Subordinate Debt Service Reserve Fund (the "Subordinate Reserve Fund") was established for the Series 2008C Subordinate Bonds and any Additional Subordinate Bonds which the Department elects to have participate in the Subordinate Reserve Fund. Pursuant to the Fifth Supplemental Subordinate Indenture, the Department will elect to have the Series 2009 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 the Series 2009 Subordinate Bonds, the Series 2008C Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund, (ii) 10% of the principal amount of the Series 2009 Subordinate Bonds, the Series 2008C Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to the Series 2009 Subordinate Bonds, the Series 2008C Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund if such original issue discount exceeded 2% on such Subordinate Bonds at the time of its original sale, and (iii) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement with respect to the Series 2009 Subordinate Bonds, the Series 2008C Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund. In the event the Department issues any Additional Subordinate Bonds pursuant to a Supplemental Subordinate Indenture under which the Department elects to have such Additional Subordinate Bonds participate in the Subordinate Reserve Fund, the Department will be required to deposit an amount in the Subordinate Reserve Fund sufficient to cause the amount on deposit in the Subordinate Reserve Fund to equal the Subordinate Reserve Requirement. Such deposit to the Subordinate Reserve Fund can be made at the time of issuance of the Additional Subordinate Bonds participating in the Subordinate Reserve Fund or over 12 months following the date of issuance of the Additional Subordinate Bonds participating in the Subordinate Reserve Fund. At the time of issuance of the Series 2009 Subordinate Bonds, the Subordinate Reserve Requirement will be met and the Subordinate Reserve Requirement will equal \$48,737,197.90.

Moneys or investments held in the Subordinate Reserve Fund may be used only to pay the principal of and interest on the Series 2009 Subordinate Bonds, the Series 2008C Subordinate Bonds and any Additional Subordinate Bonds participating in the Subordinate Reserve Fund. Moneys and investments held in the Subordinate Reserve Fund are not available to pay debt service on the Senior Bonds (including the Series 2009 Senior Bonds), the Subordinate Commercial Paper Notes or any Subordinate Bonds for which the Department has decided will not participate in the Subordinate Reserve Fund. The Subordinate Reserve Fund may be drawn upon if the amounts in the respective Subordinate Debt Service Funds for the Series 2009 Subordinate Bonds, the Series 2008C Subordinate Bonds or any Additional Subordinate Bonds participating in the Subordinate Reserve Fund are insufficient to pay in full any principal or interest then due on such Subordinate Bonds. In the event any amounts are required to be withdrawn from the Subordinate Reserve Fund, such amounts will be withdrawn and deposited pro rata to meet the funding requirements of the Subordinate Debt Service Funds for the Subordinate Bonds secured by the Subordinate Reserve Fund.

The Department may fund all or a portion of the Subordinate Reserve Requirement with a Subordinate Debt Service Reserve Fund Surety Policy. A Subordinate Debt Service Reserve Fund Surety Policy may be an insurance policy, letter of credit or surety bond deposited in the Subordinate Reserve Fund in lieu of or in partial substitution for cash or securities. Any such Subordinate Debt Service Reserve Fund Surety Policy must either extend to the final maturity of the Series of Subordinate Bonds for which the Subordinate Debt Service Reserve Fund Surety Policy was issued or the Department must agree, by Supplemental Subordinate Indenture, that the Department will replace such Subordinate Debt Service Reserve Fund Surety Policy prior to its expiration with another Subordinate Debt Service Reserve Fund Surety Policy, or with cash, and the face amount of the Subordinate Reserve Fund Surety Policy, together with amounts on deposit in the Subordinate Reserve Fund, including the face amount of any other Subordinate Debt Service Reserve Fund Surety Policy, are at least equal to the Subordinate Reserve Requirement. Any such Subordinate Debt Service Reserve Fund Surety Policy deposited to the Subordinate Reserve Fund must secure all of the Subordinate Bonds participating in the Subordinate Reserve Fund. As of the date of this Official Statement and at the time of the issuance of the Series 2009 Subordinate Bonds, there are no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund and there will be no Subordinate Debt Service Reserve Fund Surety Policies on deposit in the Subordinate Reserve Fund.

Additional Subordinate Bonds

The Master Subordinate Indenture provides the Department with flexibility in establishing the nature and terms of any Additional Subordinate Bonds hereafter issued with a lien and charge on Subordinate Pledged Revenues on parity with the Series 2009 Subordinate Bonds, the Existing Subordinate Bonds, the Subordinate Commercial Paper Notes and the payment obligations of the Department under the CP Reimbursement Agreement and the Subordinate Bonds Reimbursement Agreements. See “INTRODUCTION – Amendments to the Master Subordinate Indenture” and APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE–FIFTY ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS” for a description of the amendments to the test to issue Additional Subordinate Bonds.

Additional Subordinate Bonds may be issued under the Master Subordinate Indenture on a parity with the Series 2009 Subordinate Bonds, the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes provided, among other things, there is delivered to the Subordinate Trustee either:

(a) a certificate prepared by an Authorized Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed Series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds were at least equal to 115% of Subordinate Maximum Aggregate Annual Debt Service with respect to all Outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and the proposed Series of Subordinate Bonds, calculated as if the proposed Series of Subordinate Bonds and the full Subordinate Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then Outstanding; or

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

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

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

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

The certificate described in (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2009 Subordinate Bonds.

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

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

payable from moneys, such as federal grants, specifically and irrevocably committed or deposited with the Subordinate Trustee to pay such debt service.

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

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

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

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

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

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

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

The Department has covenanted in the Parity Subordinate Indenture that it will not issue any additional Subordinate Commercial Paper Notes or Subordinate Bonds in excess of a combined \$300 million aggregate principal amount, unless the Rating Agencies then rating the Subordinate Commercial Paper Notes confirm their respective ratings and there is first delivered to the Subordinate Issuing and Paying Agent (a) a certificate to be prepared by an Authorized Representative showing that Net Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed additional Subordinate Commercial Paper Notes or Additional Subordinate Bonds were at least equal to 110% of maximum aggregate annual debt service with respect to the Senior Bonds, the Subordinate Commercial Paper Notes and the Subordinate Bonds calculated as if the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes were then Outstanding; or (b) a certificate prepared by a Consultant showing that (i) the Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes were at least equal to 110% of maximum aggregate annual debt service with respect to the Senior Bonds, the Subordinate Commercial Paper Notes and the Subordinate Bonds; and (ii) the estimated Net Pledged Revenues (as calculated by such Consultant) for two Fiscal Years following the date of issuance of the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes will be at least equal to 110% of maximum aggregate annual debt service with respect to the Senior Bonds, the Subordinate Commercial Paper Notes and the Subordinate Bonds, taking into account the rates, fees and charges in effect at the time of issuance of the proposed Additional Subordinate Bonds or additional Subordinate Commercial Paper Notes. The certificate described in (a) above is expected to be delivered by an Authorized Representative in connection with the issuance of the Series 2009 Subordinate Bonds.

Passenger Facility Charges

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 and has not pledged PFC revenues to the payment of the Senior Bonds (including the Series 2009 Senior Bonds) or the Subordinate Obligations (including the Series 2009 Subordinate Bonds). 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 may (if approved by the FAA) use PFC revenues to pay the debt service on the Senior Bonds and/or the Subordinate Obligations. Pursuant to a resolution adopted by the Board on July 7, 2008 (the “PFC Resolution”), the Department elected to irrevocably commit to use \$19 million of PFC revenues in each year between 2011 and 2014 to the payment of debt service on the Senior Bonds and/or the Subordinate Obligations issued to finance projects authorized to be financed with PFC revenues (collectively, the “PFC Eligible Bonds”). The Series 2009 Senior Bonds and the Series 2008A Senior Bonds are PFC Eligible Bonds. The Department expects to use the irrevocably committed PFC revenues and certain other available PFC revenues to pay the debt service on the Series 2009 Senior Bonds and the Series 2008A Senior Bonds. Additionally, the Department expects, and the forecasts in the Report of the Airport Consultant assume, that a portion of the debt service on Additional Senior Bonds to be issued in the future will be paid from PFC revenues. The Department does not expect to use any PFC revenues to pay debt service on the Series 2009 Subordinate Bonds or the Existing Subordinate Bonds. The Department received approval from the FAA pursuant to an amendment to the Department’s fifth PFC Application (see “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges”) to use approximately \$468 million of PFC revenues to pay debt service on PFC Eligible Bonds. The Department expects to file additional applications with the FAA to collect additional PFC revenues that the Department expects to use to pay the debt service on PFC Eligible Bonds.

See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges.”

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

Permitted Investments

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

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

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

Events of Default and Remedies; No Acceleration

Senior Events of Default under the Senior Indenture and related remedies are described in APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE–Senior Events of Default and Remedies” and APPENDIX C-3 – “SUMMARY OF THE TENTH SUPPLEMENTAL SENIOR INDENTURE - Additional Senior Event of Default.” The occurrence of a Senior Event of Default does not grant any right to accelerate payment of the Senior Bonds to either the Senior Trustee, the Subordinate Trustee, the Subordinate Issuing and Paying Agent or the Holders of the Series 2009 Senior Bonds, the Existing Senior Bonds, the Subordinate Bonds or the Subordinate Commercial Paper Notes. The Senior Trustee is authorized to take certain actions upon the occurrence of a Senior Event of Default, including proceedings to enforce the obligations of the Department under the Senior Indenture.

Subordinate Events of Default under the Subordinate Indenture and related remedies are described in APPENDIX C-4 – “SUMMARY OF THE MASTER SUBORDINATE INDENTURE–Subordinate Events of Defaults and Remedies” and APPENDIX C-5 – “SUMMARY OF THE FIFTH SUPPLEMENTAL SUBORDINATE INDENTURE – Additional Subordinate Event of Default.” The occurrence of a Subordinate Event of Default does not grant any right to accelerate payment of the Subordinate Bonds, the Subordinate Commercial Paper Notes or the Senior Bonds to either the Subordinate Trustee, the Subordinate Issuing and Paying Agent, the Senior Trustee, or the Holders of the Series 2009 Subordinate Bonds, the Existing Subordinate Bonds, the Subordinate Commercial Paper Notes or the Senior Bonds. However, pursuant to the CP Reimbursement Agreement and the Subordinate Bonds Reimbursement Agreements, the Department granted to the CP Banks and BNP, respectively, the right to accelerate any payments due the CP Banks or BNP, respectively, upon an event of default under the CP Reimbursement Agreement or the Subordinate Bonds Reimbursement Agreements. The Subordinate Trustee is authorized to take certain actions upon the occurrence of a Subordinate Event of Default, including proceedings to enforce the obligations of the Department under the Subordinate Indenture. See APPENDIX C-4 – “SUMMARY OF THE MASTER SUBORDINATE INDENTURE – Subordinate Events of

Default and Remedies – Application of Moneys.” See also “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.”

OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

Senior Bonds

Pursuant to the Senior Indenture, the Department has previously issued and as of October 1, 2009 there was outstanding \$713,145,000 aggregate principal amount of Existing Senior Bonds (including the Purchased Bonds). The Existing Senior Bonds are secured by a pledge of and lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues) on parity with the Series 2009 Senior Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – Flow of Funds.” The following table sets forth information about the Existing Senior Bonds that were outstanding as of October 1, 2009.

**TABLE 1
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SENIOR LIEN BONDS
AS OF OCTOBER 1, 2009**

Series	Original Principal Amount	Principal Amount Outstanding	Final Maturity (May 15)
Series 2002A	\$ 32,450,000	\$ 32,450,000	2019
Series 2003B	103,625,000	71,340,000	2015
Series 2008A ⁽¹⁾	602,075,000	602,075,000	2038
Series 2008B	7,875,000	7,280,000	2015
Total	\$ 746,025,000	\$ 713,145,000	

⁽¹⁾ See “PLAN OF FINANCE” for a discussion of the purchase of the Purchased 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 October 1, 2009 there was outstanding \$321,250,000 aggregate principal amount of its Existing Subordinate Bonds. Additionally, pursuant to the Parity Subordinate Indenture, the Department is authorized to issue and to have outstanding, from time to time, up to \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. As of October 1, 2009, there were Subordinate Commercial Paper Notes outstanding with a maturity value of approximately \$182 million (including the Subordinate Commercial Paper Notes to be refunded in connection with the issuance of the Series 2009 Bonds). In connection with (and subject to consummation of) the United Settlement the Department expects to issue an additional \$50 million of Subordinate Commercial Paper Notes prior to the expected delivery date of the Series 2009 Bonds. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Long-Term Lease Litigation and Settlement Agreements.” The Existing Subordinate Bonds and the Subordinate Commercial Paper Notes are secured by a pledge and lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) on parity with the Series 2009 Subordinate Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS - Flow of Funds.” The following table sets forth the Existing Subordinate Bonds and the Subordinate Commercial Paper Notes (including the Subordinate Commercial Paper Notes to be refunded in connection with the issuance of the Series 2009 Bonds) that were outstanding as of October 1, 2009.

TABLE 2
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
EXISTING SUBORDINATE BONDS AND SUBORDINATE
COMMERCIAL PAPER NOTES
AS OF OCTOBER 1, 2009

Subordinated Obligation	Original Principal Amount	Principal Amount Outstanding	Final Maturity Date
Existing Subordinate Bonds			
- Subseries 2002C1 ⁽¹⁾	\$ 37,400,000	\$ 37,400,000	5/15/2020
- Subseries 2002C2 ⁽¹⁾	20,000,000	20,000,000	5/15/2020
- Series 2003A ⁽¹⁾	23,700,000	23,700,000	5/15/2016
- Series 2008C	<u>243,350,000</u>	<u>240,150,000</u>	5/15/2038
Total Existing Subordinate Bonds	<u>\$324,450,000</u>	<u>\$321,250,000</u>	
Subordinate Commercial Paper Notes ⁽²⁾			
- Series A	Various ⁽⁴⁾	\$ 0	Various ⁽⁴⁾
- Series B ⁽³⁾	Various ⁽⁴⁾	85,000,000	Various ⁽⁴⁾
- Series C ⁽⁵⁾	Various ⁽⁴⁾	<u>97,070,000</u>	Various ⁽⁴⁾
Total Subordinate Commercial Paper Notes		<u>\$182,070,000</u>	
Total outstanding Existing Subordinate Bonds and Subordinate Commercial Paper Notes		<u>\$503,320,000</u>	

⁽¹⁾ See "PLAN OF FINANCE" for a discussion of the planned refunding and/or redemption of certain of Existing Variable Rate Subordinate Bonds.

⁽²⁾ Pursuant to the Parity Subordinate Indenture, the Department is authorized to issue and have outstanding, from time to time, a maximum of \$500,000,000 aggregate principal amount of its Subordinate Commercial Paper Notes. The Subordinate Commercial Paper Notes may be issued as tax-exempt or taxable and in various series designated Series A through C. In connection with (and subject to consummation of) the United Settlement, the Department expects to issue an additional \$50 million of Subordinate Commercial Paper Notes prior to the expected delivery date of the Series 2009 Bonds. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Long-Term Lease Litigation and Settlement Agreements."

⁽³⁾ The Department intends to repay \$85,000,000 of the outstanding Series B Subordinate Commercial Paper Notes with a portion of the proceeds of the Series 2009 Senior Bonds.

⁽⁴⁾ The Subordinate Commercial Paper Notes have rolling maturities of 270 days or less.

⁽⁵⁾ The Series C Subordinate Commercial Paper Notes are issued as original issue discount obligations.

Source: Department of Airports of the City of Los Angeles

In connection with the issuance of the Existing Variable Rate Subordinate Bonds, the Department entered into the Subordinate Bonds Reimbursement Agreements with BNP, pursuant to which BNP issued the Subordinate Bonds Letters of Credit to secure the timely payment of the principal of and purchase price of and interest on the Existing Variable Rate Subordinate Bonds. The Subordinate Bonds Letters of Credit expire on March 10, 2010, but may be terminated earlier upon the occurrence of certain events including, among other events, the redemption of the Existing Variable Rate Subordinate Bonds, the conversion of the interest rate on the Existing Variable Rate Subordinate Bonds to a fixed interest rate and an event of default by the Department under the Subordinate Bonds Reimbursement Agreements. In the event BNP purchases Existing Variable Rate Subordinate Bonds not remarketed (Existing Variable Rate Subordinate Bonds so purchased, "BNP Bank Bonds") the Department is required pursuant to the Subordinate Bonds Reimbursement Agreements to pay all principal of and interest on such BNP Bank Bonds to BNP within three years after BNP's purchase of such BNP Bank Bonds. Upon the happening of an event of default under the Subordinate Bonds Reimbursement Agreements (which include, among other events, the Department's failure to pay BNP any amounts due under the Subordinate Bonds Reimbursement Agreements, the Department's failure to pay principal of and interest on the Existing Variable Rate Subordinate Bonds, the Department's failure to comply with the covenants under the Subordinate Bonds Reimbursement Agreements or the downgrading of Senior Bonds below "BBB-," "Baa3" and "BBB-" by Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard and Poor's Ratings Group, a business unit within Standard & Poor's Financial Services, LLC, a subsidiary of The McGraw-Hill Companies Inc. ("S&P"), respectively), all obligations of the Department to BNP under the Subordinate Bonds Reimbursement Agreements will be immediately due and payable. Any repayment obligations of the Department incurred pursuant to the Subordinate Bonds Reimbursement

Agreements and the Subordinate Bonds Letters of Credit will have a parity lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) along with the Subordinate Commercial Paper Notes, the payment obligations of the Department under the CP Reimbursement Agreement, the Existing Variable Rate Subordinate Bonds and the Series 2009 Subordinate Bonds. The Subordinate Bonds Letters of Credit will terminate upon the redemption of the Existing Variable Rate Subordinate Bonds.

The Subordinate Commercial Paper Notes are issuable in maturities of 1 to 270 days. The Department utilizes the proceeds of Subordinate Commercial Paper Notes to, among other things, finance capital projects at LAX and to pay maturing Subordinate Commercial Paper Notes. In connection with the issuance of the Subordinate Commercial Paper Notes, the Department entered into the CP Reimbursement Agreement with the CP Banks, pursuant to which the CP Banks issued the CP Letter of Credit to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. In accordance with the CP Reimbursement Agreement, the CP Banks issued the CP Letter of Credit, on a several, but not joint basis, in the maximum stated amount of \$545 million. Citibank's commitment under the CP Letter of Credit is 70% of the stated amount of the CP Letter of Credit, and State Street's commitment under the CP Letter of Credit is 30% of the stated amount of the CP Letter of Credit. Citibank has granted Landesbank Baden-Württemberg, acting through its New York Branch ("LBBW"), and U.S. Bank National Association ("U.S. Bank") a participation in approximately 66% of Citibank's obligation under the CP Letter of Credit (approximately 46% of the total stated amount of the CP Letter of Credit). Notwithstanding Citibank's grant of a participation to LBBW and U.S. Bank, Citibank remains responsible for 70% of the stated amount of the CP Letter of Credit. The CP Letter of Credit expires on April 1, 2012, but may be terminated earlier upon the occurrence of certain events. In the event the Department does not immediately reimburse the CP Banks for any drawings under the CP Letter of Credit, the Department is required pursuant to the CP Reimbursement Agreement to pay all principal of and interest due to the CP Banks as a result of such drawing within five years of the original date of such drawing. Upon the happening of an event of default under the CP Reimbursement Agreement (which include, among other events, the Department's failure to pay the CP Banks any amounts due under the CP Reimbursement Agreement, the Department's failure to pay principal of and interest on the Subordinate Commercial Paper Notes, the Department's failure to comply with the covenants under the CP Reimbursement Agreement or the downgrading of Senior Bonds below "BBB-," "Baa3" and "BBB-" by Fitch, Moody's and S&P, respectively), all obligations of the Department to the CP Banks under the CP Reimbursement Agreement will be immediately due and payable. Any repayment obligations of the Department incurred pursuant to the CP Reimbursement Agreement and the CP Letter of Credit will have a parity lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) along with the Subordinate Commercial Paper Notes, the Existing Subordinate Bonds, the payment obligations of the Department under the Subordinate Bonds Reimbursement Agreement and the Series 2009 Subordinate Bonds.

Debt Service Requirements

The following table sets forth debt service requirements on the Existing Senior Bonds, the Existing Subordinate Bonds and the Series 2009 Bonds:

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

Fiscal Year	Total Debt Service on Existing Senior Bonds ⁽²⁾⁽³⁾	Principal Requirements on Series 2009 Senior Bonds ⁽²⁾	Interest Requirements on Series 2009 Senior Bonds ⁽³⁾	Total Debt Service on Outstanding Senior Bonds ⁽²⁾⁽³⁾	Total Debt Service on Existing Subordinate Bonds ⁽⁴⁾	Requirements on Series 2009 Subordinate Bonds	Requirements on Series 2009 Subordinate Bonds ⁽³⁾	Total Debt Service on Outstanding Subordinate Bonds ⁽³⁾⁽⁴⁾	Total Debt Service ⁽²⁾⁽³⁾⁽⁴⁾
2010	\$ 50,764,845	\$ 990,000	\$ 6,960,926	\$ 58,715,771	\$ 17,622,599	\$ 2,525,000	\$ 10,249,967	\$ 12,774,967	\$ 89,113,337
2011	59,665,258	3,035,000	15,448,925	78,149,183	17,536,599	7,050,000	22,724,605	29,774,605	125,460,387
2012	59,660,508	3,125,000	15,357,875	78,143,383	17,537,644	7,910,000	22,513,105	30,423,105	126,104,132
2013	59,668,558	5,740,000	15,232,875	80,641,433	17,531,828	10,590,000	22,166,430	32,756,430	130,929,691
2014	59,607,058	6,025,000	15,003,275	80,635,333	17,531,568	11,085,000	21,670,630	32,755,630	130,922,530
2015	46,043,883	6,725,000	14,762,275	67,531,158	30,636,568	11,600,000	21,151,430	32,751,430	130,919,155
2016	47,802,538	7,200,000	14,493,275	69,495,813	28,363,289	12,095,000	20,607,880	32,702,880	130,561,981
2017	48,532,588	6,770,000	14,189,525	69,492,113	21,057,768	12,500,000	20,007,547	32,557,547	123,107,428
2018	48,597,013	7,025,000	13,871,025	69,493,038	20,999,886	13,025,000	19,384,814	32,409,814	122,902,738
2019	43,012,050	16,170,000	13,549,775	72,731,825	21,146,106	13,500,000	18,691,360	32,241,360	126,119,292
2020	40,986,588	10,420,000	12,771,275	64,177,863	21,778,651	14,090,000	17,970,160	32,060,160	118,016,674
2021	33,756,613	18,160,000	12,250,275	64,166,888	15,980,131	9,875,000	17,210,892	27,085,892	107,232,910
2022	41,382,263	11,485,000	11,342,275	64,209,538	15,978,406	10,250,000	16,650,485	26,900,485	107,088,429
2023	41,380,763	12,090,000	10,739,313	64,210,075	15,980,956	10,685,000	15,975,830	26,660,830	106,851,862
2024	41,127,638	12,930,000	10,104,588	64,162,225	15,978,519	11,150,000	15,272,544	26,422,544	106,563,287
2025	41,392,500	13,375,000	9,439,338	64,214,338	15,981,519	11,635,000	14,538,651	26,173,651	106,362,007
2026	41,395,944	14,080,000	8,741,088	64,217,031	15,980,719	12,135,000	13,772,835	25,907,835	106,105,585
2027	41,395,800	10,030,000	8,006,025	59,431,825	15,978,969	12,655,000	12,974,109	25,629,109	101,039,903
2028	29,054,113	22,855,000	7,482,388	59,391,500	15,981,469	13,200,000	12,141,157	25,341,157	100,714,126
2029	42,055,931	11,105,000	6,289,225	59,450,156	15,981,969	13,775,000	11,272,333	25,047,333	100,479,458
2030	42,056,213	8,795,000	5,270,488	56,550,700	15,979,469	12,920,000	10,365,663	22,995,268	95,815,831
2031	41,934,469	9,290,000	5,270,238	56,494,706	15,980,306	13,480,000	9,515,268	22,995,268	95,470,281
2032	42,063,388	9,695,000	4,805,738	56,564,125	15,979,494	14,065,000	8,628,015	22,693,015	95,236,633
2033	42,065,769	10,175,000	4,320,988	56,561,756	15,980,750	14,670,000	7,702,256	22,372,256	94,914,763
2034	41,838,763	10,835,000	3,812,238	56,486,000	15,982,538	15,300,000	6,736,677	22,036,677	94,505,215
2035	42,075,163	11,215,000	3,270,488	56,560,650	15,982,850	15,970,000	5,729,631	21,699,631	94,243,131
2036	42,075,944	11,810,000	2,681,700	56,567,644	15,979,038	16,655,000	4,678,486	21,333,486	93,880,167
2037	42,078,094	12,425,000	2,061,675	56,564,769	15,979,525	17,375,000	3,582,254	20,957,254	93,501,547
2038	42,076,238	13,080,000	1,409,363	56,565,600	15,982,213	18,130,000	2,438,631	20,568,631	93,116,444
2039	--	13,765,000	722,663	14,487,663	--	18,920,000	1,245,314	20,165,314	34,652,977
Total	\$ 1,294,112,483	\$ 310,410,000	\$ 270,100,114	\$ 1,874,622,596	\$ 519,391,343	\$ 378,915,000	\$ 407,568,963	\$ 786,483,963	\$ 3,180,497,902

⁽¹⁾ Totals may not add due to individual rounding. The Existing Senior Bonds and the Series 2009 Senior Bonds have a parity lien on Pledged Revenues (on and after the Pledge Change Date, Net Pledged Revenues). The Existing Subordinate Bonds and the Series 2009 Subordinate Bonds, the Subordinate Commercial Paper Notes and the payment obligations of the Department under the CP Reimbursement Agreement and the Subordinate Bonds Reimbursement Agreements have a parity lien on Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date). Debt service on the Subordinate Commercial Paper Notes (which may be outstanding from time to time up to \$500 million aggregate principal amount) and payment obligations under the CP Reimbursement Agreement and the Subordinate Bonds Reimbursement Agreements are not reflected in this table. Except as described below, approximately \$97 million of Subordinate Commercial Paper Notes is expected to be outstanding following the issuance of the Series 2009 Bonds and the repayment of Subordinate Commercial Paper Notes with the proceeds thereof. For additional information on these obligations, see “—Subordinate Bonds and Subordinate Commercial Paper Notes” above and “—Other Obligations – Repayment Obligations.” In connection with (and subject to consummation of) the United Settlement, the Department expects to issue an additional \$50 million of Subordinate Commercial Paper Notes prior to the expected delivery date of the Series 2009 Bonds. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Long-Term Lease Litigation and Settlement Agreements.”

⁽²⁾ Does not include debt service with respect to the Purchased Bonds which will be purchased and cancelled on the date of issuance of the Series 2009 Senior Bonds.

⁽³⁾ Includes capitalized interest on the Series 2009 Senior Bonds, the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds to be paid from proceeds of the Series 2009 Senior Bonds, the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, respectively. Interest on the Series 2009C Subordinate Bonds does not reflect the application of the cash subsidy payments rebating a portion of the interest on the Series 2009C Subordinate Bonds that the Department expects to receive from the United States Treasury, in an amount equal to 35% of the interest payable on the Series 2009C Subordinate Bonds.

⁽⁴⁾ Assumes rates of 3.65% on the Subseries 2002C2 Subordinate Bonds and 3.85% on the Series 2003A Subordinate Bonds, including letter of credit and remarketing fees. Does not include debt service with respect to the Subseries 2002C1 Subordinate Bonds, which are expected to be refunded on or prior to January 4, 2010. The Department also expects to redeem all of the Subseries 2002C2 Subordinate Bonds and Series 2003A Subordinate Bonds prior to March 10, 2010.

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

Future Financings

The Department is currently reviewing plans to issue approximately \$430.2 million of Additional Subordinate Bonds (exclusive of the Series 2009 Subordinate Bonds) and/or approximately \$2.0 billion of Additional Senior Bonds (exclusive of the Series 2009 Senior Bonds) to, among other things, complete the Other Incorporated Projects (described below). The forecasts in the Report of the Airport Consultant assume the issuance of such Bonds. The Department has decided to pursue the implementation of a uniform LAX-wide capital charge to the airlines for capital costs associated with terminal facilities (the “Uniform Capital Charge”). To effect this change, the Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants which can be terminated on terms favorable to the Department. See “—Other Obligations – LAX Special Facility Obligations,” “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases,” and “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Plan.” 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. In connection with (and subject to the consummation of) the United Settlement, the Department expects to issue an additional \$50 million of Subordinate Commercial Paper Notes prior to the expected delivery date of the Series 2009 Bonds. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Long-Term Lease Litigation and Settlement Agreements.”

During the forecast period, the Department may pursue additional capital projects beyond those described in the preceding paragraph and Additional Senior Bonds and/or Additional Subordinate Bonds may be issued to fund such additional projects. These projects and the funding therefor are not included in the projections included in the Report of the Airport Consultant. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.” See also the Report of the Airport Consultant for a discussion of certain projects the Department is considering undertaking. Additionally, the Department continuously evaluates refunding opportunities and, when economically beneficial, may refund one or more Series of Senior Bonds and/or Subordinate Bonds.

Other Obligations

General Obligation Bonds

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

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 Pledged Revenues (on and after the Pledge Change Date, by a pledge of and lien on Net Pledged Revenues) on a parity with the Senior Bonds or by a pledge of and lien on Subordinate Pledged Revenues (on and after the Pledge Change Date, the definition of Subordinate Pledge Revenues will change as described in APPENDIX D-2 – “AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE”) on a parity with the Subordinate Bonds and the Subordinate Commercial Paper Notes. See “—Subordinate Bonds and Subordinate Commercial Paper Notes” above for further information about the pledge of and lien on Subordinate Pledged Revenues granted to the CP Banks and to BNP in connection with the CP Banks’ and BNP’s issuance of the CP Letter of Credit and the Subordinate Bonds Letters of Credit, respectively. If a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Senior Bonds, all or a portion of the Department’s Senior Repayment Obligation may be afforded the status of a Senior Bond under the Master Senior Indenture. Additionally, if a Credit Provider or Liquidity Provider advances funds to pay principal of or interest on or to purchase Subordinate Bonds or Subordinate Commercial Paper Notes, as applicable, all or a portion of the Department’s Subordinate Repayment Obligation may be afforded the status of a Subordinate Bonds under the Master Subordinate Indenture or a Subordinate Commercial Paper Note under the Parity Subordinate Indenture, as applicable. The Department currently does not have any Senior or Subordinate Repayment Obligations outstanding. See APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE – Senior Repayment Obligations Afforded Status of Senior Bonds” and APPENDIX C-4 – “SUMMARY OF THE MASTER SUBORDINATE

INDENTURE–Subordinate Repayment Obligations Afforded Status of Subordinate Bonds.” See also “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Subordinate Bonds and Subordinate Commercial Paper Notes.”

LAX Special Facility Obligations

The Department may designate an existing facility or a planned facility as a “LAX Special Facility” and may incur indebtedness to acquire, construct, renovate or improve such facility or to finance the acquisition, construction, renovation or improvement thereof by a third-party. Additionally, the Department may provide that certain contractual payments derived from or related to such Special Facility, together with other income and revenues available therefrom, will constitute “LAX Special Facilities Revenue” and will not be included as Pledged Revenues. Such indebtedness will constitute a “LAX Special Facility Obligation” and will be payable solely from the LAX Special Facilities Revenue. When LAX Special Facility Obligations issued for an LAX Special Facility (including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations) are fully paid or otherwise discharged, all revenues received by the Department from such facility will be included as Pledged Revenues. The Master Senior Indenture provides that to the extent LAX Special Facility Revenues exceed the amounts required to pay the principal of and interest on LAX Special Facility Obligations when due, and to the extent not otherwise encumbered, the excess may constitute Pledged Revenues as determined by the Department. See APPENDIX C-2 – “SUMMARY OF THE MASTER SENIOR INDENTURE–LAX Special Facilities and LAX Special Facility Obligations.” Also see APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments” for a description of certain amendments being made to the Master Senior Indenture with respect to LAX Special Facilities and LAX Special Facility Obligations. The amendments to the Master Senior Indenture with respect to LAX Special Facilities and LAX Special Facility Obligations will allow the Department to issue LAX Special Facility Obligations that will be payable from LAX Special Facilities Revenues and, provided certain requirements are met (including, among other requirements, meeting the additional bonds tests under the Master Senior Indenture, the Master Subordinate Indenture or the Parity Subordinate Indenture, as applicable), from Pledged Revenues, Subordinate Pledged Revenues and/or other available moneys of the Department.

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

For a discussion of certain amendments to the Master Senior Indenture regarding, among other things, changes to the provisions regarding the issuance of Special Facility Bonds, see “INTRODUCTION – Amendments to the Master Senior Indenture” and APPENDIX D-1 – “AMENDMENTS TO THE MASTER SENIOR INDENTURE – Fifty-One Percent Master Senior Indenture Amendments.” At this time there can be no assurance that the consent requirements for such amendments will be met within any definite time frame.

Rental Credits

The Department from time to time has provided credits to its airline (and airline consortium) tenants that may be applied against amounts otherwise due under such tenants’ leases. The Department currently uses rental credits to finance its obligations with respect to capital leases with certain airlines. Rental credits are applied as an offset to amounts owed to the Department by such airlines for terminal leases and landing fees. Because these credits are applied as an offset to amounts owed to the Department by such airlines, the Department receives less money from these airlines than their leases would provide absent the rental credit. Thus, although the credits are not secured by any pledge of or lien on the Department’s revenues, the effect of using such credits is the creation of a higher payment priority for such credits than for the Senior Bonds, including the Series 2009 Senior Bonds. Rental credits are discussed in greater detail under “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases – Rental Credits.” See also “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.”

THE DEPARTMENT OF AIRPORTS

General Description

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

LAX is the major facility in the Airport System and accounted for approximately 89.7% of the total passenger traffic, approximately 79.9% of the air cargo volume and approximately 84% of the air carrier operations of the Airport System for Fiscal Year 2008. For Fiscal Year 2009, LAX accounted for approximately 91.5% of the total passenger traffic, approximately 78.8% of the air cargo volume and 86.1% of the air carrier operations for the Airport System. LAX served approximately 56.5 million enplaned and deplaned passengers in Fiscal Year 2009, down from approximately 62 million in Fiscal Year 2008. In addition to 65 passenger carriers, five of which are commuter carriers that served LAX as of August 1, 2009, LAX was also served by seven unscheduled air passenger carriers and by 17 air cargo carriers. See “—Aviation Activity” and “LOS ANGELES INTERNATIONAL AIRPORT.”

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 seven million enplaned and deplaned passengers in Fiscal Year 2008, representing approximately 10.2% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2008 and approximately 5.3 million enplaned and deplaned passengers in Fiscal Year 2009, representing approximately 8.5% of the total enplaned and deplaned passengers of the Airport System for Fiscal Year 2009. In addition to 27 passenger carriers and cargo carriers that served LA/ONT as of October 21, 2009, LA/ONT was also served by 28 unscheduled air passenger and air cargo carriers. The Department operates LA/ONT pursuant to a Joint Powers Agreement with the City of Ontario.

VNY is a general aviation airport located approximately 20 miles northwest of downtown Los Angeles, in the San Fernando Valley, and occupies approximately 730 acres. VNY is the busiest general aviation airport in the United States with approximately 395,482 movements in Fiscal Year 2008 and approximately 351,280 movements in Fiscal Year 2009 as reported by the FAA. More than 100 businesses are located on the airport, including four fixed-base operators and numerous other aviation service companies. These businesses cater to a variety of private, government and corporate aviation needs. As of December 31, 2008, there were approximately 790 aircraft based at VNY including approximately 62 helicopters, 242 jets, 25 military aircraft, 445 propeller aircraft and 19 non-flyable aircraft.

LA/PMD is located in the Antelope Valley approximately 60 miles north of LAX. Currently, there is no scheduled service at LA/PMD. LA/PMD is located on United States Air Force Plant 42 (“Plant 42”). The Plant 42 property is leased from the United States Air Force (the “Air Force”) pursuant to a lease (the “Plant 42 Lease”) between the Air Force, as lessor, and the City of Palmdale, as lessee. The rights under the Plant 42 Lease were assigned to the City. After scheduled service was discontinued and the Department returned the LA/PMD certificate to the FAA, the City Council of the City of Palmdale adopted a resolution to rescind, revoke and terminate the assignment of the Plant 42 Lease and the United States Air Force sent the Department a Memorandum dated March 2, 2009 giving the Department 24 months notice of intention to terminate the Plant 42 Lease. The Plant 42 Lease is the subject of a dispute among the Department, the City of Palmdale and the Air Force. The Department owns approximately 17,750 acres of land east of Plant 42 for future development.

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 2009⁽¹⁾

Airport	Net Operating Revenues (000)⁽²⁾	Enplanements and Deplanements	Aircraft Arrivals and Departures⁽³⁾	Total Landed Weight (000)⁽⁴⁾	Enplaned/Deplaned Cargo (Tons)
LAX	\$ 156,350	56,547,039	539,773	46,699,147	1,615,315
LA/ONT	4,980	5,267,290	86,135	5,928,580	434,276
VNY	2,669	-	70	20,885	7
LA/PMD ⁽⁶⁾	(3,520)	10,107	768	13,008	-
Total ⁽⁶⁾	\$ 160,469	61,824,436	626,746	52,661,620	2,049,598

⁽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 Master Senior Indenture.

⁽³⁾ For revenue-related operations only.

⁽⁴⁾ Reflects landed weight for revenue-generating landings only.

⁽⁵⁾ See "--Subsidization of Other Airports" below.

⁽⁶⁾ Currently there is no scheduled service at LA/PMD.

⁽⁷⁾ Numbers may not add due to rounding.

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

Subsidization within the Airport System

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

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

In Fiscal Year 2009, LAX provided a \$5.2 million subsidy to VNY. Since VNY serves as a reliever airport for LAX, the VNY subsidy was recovered by the Department through an increase in landing fees at LAX. Landing fees at LAX are calculated based on LAX's operating costs and amortization of debt as well as certain costs associated with VNY. The Department expects to provide subsidies to VNY in the future, and no assurance can be given that such subsidies will not be substantially higher than they have been in the past. In Fiscal Year 2009, LAX provided a subsidy of \$4 million to LA/PMD. The subsidy for LA/PMD is not incorporated in LAX landing fees but rather is paid from discretionary funds and is expected to vary in the future, and such subsidies could be sizable. See "AIRPORT SYSTEMS ENVIRONMENTAL MATTERS – Hazardous Substances." No assurance can be given that major catastrophic liabilities or other unanticipated events will not occur within the Airport System which would require substantial unanticipated transfers of LAX revenues.

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
Alan Rothenberg, President	Businessman	September 2005	June 30, 2014
Valeria C. Velasco, Vice President	Attorney	July 2007	June 30, 2012
Joseph A. Aredas	Labor Executive	September 2005	June 30, 2010
Michael A. Lawson	Attorney	June 2006	June 30, 2011
Fernando Torres-Gil	University Dean	September 2005	June 30, 2013
Walter Zifkin	Entertainment Executive	September 2005	June 30, 2010
Sam Nazarian	Businessman	August 2009	June 30, 2014

Oversight by City Council

The Charter allows the City Council to review all Board actions. The Charter states that actions of the Board become final at the expiration of five meeting days of the City Council unless the City Council acts within that time, by a two-thirds vote, to bring an action of the Board before the City Council for review or to waive review of the action. If the City Council chooses to assert jurisdiction over the action, the City Council may, by a two-thirds vote, veto the action of the Board within 21 calendar days of voting to bring the matter before it, or the action of the Board is final. An action vetoed by the City Council shall be remanded to the Board which will have the authority it originally held to take action on the matter. In addition, the Charter provides that certain actions of the Board, including the issuance of debt, must also be approved by the City Council. The City Council approved the issuance of the Series 2009 Bonds on September 11, 2009.

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 39 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 July 1, 2009 there were 3,495 authorized positions for the Airport System. The current principal administrative officers and their positions are named below:

Gina Marie Lindsey, Executive Director. Gina Marie Lindsey was appointed as Executive Director effective June 4, 2007. Before joining the Department, Ms. Lindsey was Executive Vice President of McBee Strategic Consulting, LLC, a government relations and aviation consulting firm in Washington, D.C. Prior to holding that post, she was Managing Director for the Seattle-Tacoma International Airport (SEA) (“Sea-Tac”) where she was responsible for the operations, maintenance, planning and construction of the airport, which serves tens of millions of passengers each year. Under her guidance, Sea-Tac embarked on a \$3-billion, 7-year capital improvement program, including the construction of a new runway, demolition and reconstruction of a concourse, and major refurbishments. She also served as Director of Aviation for Anchorage International Airport (ANC) where she managed the airport’s transition from an international passenger refueling stop to an international cargo hub for Federal Express and United Parcel Service. Prior to managing airports, she worked for the Alaska Department of Transportation on surface transportation issues. She was appointed by the U.S. Secretary of Transportation to the Airport Cooperative Research Board, and also has served on the World Board of Directors for ACI and chaired the ACI-North America in 2003. Ms. Lindsey has a degree in communications media and business from Walla Walla College.

Stephen C. Martin, Chief Operating Officer. Mr. Martin was appointed Chief Operating Officer in January 2008. Mr. Martin has over 25 years of experience in airport and transportation development and finance. Prior to joining the Department, Mr. Martin served as Executive Vice President and Chief Financial Officer of ACI. Previously, he was a consultant for 10 years with Leigh Fisher Associates in San Francisco where he specialized in finance, project development and privatization. Mr. Martin also held the position of Director of Financial Development in the Office of the Secretary at the U.S. Department of Transportation (“U.S. DOT”) from 1993 to 1996. Earlier in his career, Mr. Martin was with the Massachusetts Port Authority (“Massport”) for twelve years. For six of those years he was the Director of Finance and Business Development for all of Massport’s lines of business. Initially at Massport, Mr. Martin worked at Logan International Airport (BOS) as an Assistant Director of

Aviation. Mr. Martin has a Master's degree in economics from Northeastern University and a Bachelor's degree in economics from the University of Massachusetts.

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

Michael D. Feldman, Deputy Executive Director, Facilities Management. Mr. Feldman was appointed as Deputy Executive Director, Facilities Management in May 2009. He is responsible for providing technical ownership and maintaining the functional integrity and reliability of the Department's physical assets, environmental regulatory compliance, sustainability, strategic and current planning required to guide investment in new facilities and renewal of existing assets. Mr. Feldman has 28 years of experience in airport planning, environmental management, facilities management and maintenance. Prior to joining the Department, he served as the Deputy Managing Director at the Port of Seattle's Aviation Division. He recently served two terms as President of the Airport Facilities Council of the International Facilities Management Association and is a Certified Member of the American Association of Airport Executives. Mr. Feldman holds a Bachelor of Science degree in Resource Planning and Interpretation from the Humboldt State University and is currently an Executive MBA candidate at the University of Washington, Foster School of Business.

Roger Johnson, Deputy Executive Director, Airports Development Group. Mr. Johnson has been with LAWA since 2006, and also served with LAWA 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 environmental management and civil and environmental engineering. Previously, Mr. Johnson was the program manager for the LAX Master Plan 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 Services Division. Mr. Johnson graduated from California State Polytechnic University, Pomona with a Bachelor of Science in Engineering.

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

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

James T. Butts, Jr., Deputy Executive Director, Public Safety. Mr. Butts was appointed Deputy Executive Director of Public Safety in August, 2006 and is responsible for leading the sworn and civilian personnel assigned to protect and serve the Airport System. Prior to joining the Department, Mr. Butts served as the Chief of Police for the City of Santa Monica for 15 years. Mr. Butts served the City of Inglewood for 19 years, with his last assignment as Deputy Chief of Police. Mr. Butts holds a Master's Degree in Business Administration from

California Polytechnic University-Pomona and a Bachelor's degree in Business Administration from California State University-Los Angeles and Command College, Class 11, Peace Officer Standards and Training (POST). Mr. Butts has announced his resignation effective prior to December 31, 2009. The Department does not intend to fill the vacancy at that time.

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

Dominic Nessi, Deputy Executive Director, Chief Information Officer. Mr. Nessi was appointed Deputy Executive Director and Chief Information Officer in September 2007. He is responsible for all information technology-related functions. Prior to joining the Department, Mr. Nessi was in the federal government's Senior Executive Service where he served as the first Chief Information Officer of the United States Department of the Interior - U.S. National Park Service. Mr. Nessi also served as Chief Information Officer of the United States Bureau of Indian Affairs from 1998 to 2001 and as a Deputy Assistant Secretary for the United States Department of Housing and Urban Development from 1988 through 1997. Mr. Nessi holds a Bachelor of Science degree in Computer Science from Roosevelt University in Chicago, a Bachelor of Arts degree in Political Science from Northern Illinois University, a Masters in Public Administration from the University of Colorado, and a Master's Certificate in Applied Project Management from Villanova University in Pennsylvania. Mr. Nessi has achieved the CISSP certification from ISC2, the PMP and CAP certifications from the Project Management Institute, the SANS GSLC certification and the CGEIT from ISACA.

David Shuter, Deputy Executive Director, Projects and Facilities Development. Mr. Shuter was appointed Deputy Executive Director of Projects and Facilities Development in October 2006. Mr. Shuter oversees the Facilities Engineering and Technical Services Division, the Construction Inspection Division, and the Construction and Maintenance 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. He was the executive director of the Orange County Fixed Guideway Agency, a member of the Orange County Airport Land Use Commission. Mr. Shuter holds a Bachelor of Science degree in Aeronautical Engineering and a Master of Science in Aerospace Engineering.

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

Kelly M. Martin, General Counsel. Ms. Martin was appointed General Counsel by the City Attorney in February 2007. She advises the Department and the Board on legal matters related to the operation and management of the Airport System. Ms. Martin's professional experience includes serving as Chief of Staff to Los Angeles Mayor Richard Riordan, where she was responsible for long-term strategic planning. Prior to that, as Deputy Mayor for Finance and Policy, she was responsible for overseeing the operations of City departments. Prior to her position with the Office of the City Attorney, Ms. Martin held a variety of legal positions in the private sector, serving as vice president and general counsel of Merisel, Inc. and as a partner in the law firm of Riordan and McKinzie. Ms. Martin was appointed to the ACI-North America legal steering committee in April 2008. She also serves on the Board of Trustees of Southwestern Law School. Ms. Martin received her Juris Doctor degree from the University of Southern California in 1985 and graduated Order of the Coif. Her Bachelor of Arts degree in history and psychology is from the University of Manitoba.

Employees and Labor Relations

The Department, as part of the City, is a civil service organization, which as of July 1, 2009, had 3,495 authorized positions, of which 3,048 were authorized at LAX, 355 were authorized at LA/ONT and 92 were authorized at VNY and LA/PMD combined. Department employees are employed in more than 246 different civil service classifications. This wide range of job classifications is grouped into eight job categories, including Officials and Administrators, Professionals, Technicians, Protective Service, Paraprofessionals, Administrative Support, Skilled Craft and Service Maintenance.

For Fiscal Year 2010, the City has identified a budget gap of \$529 million. The Mayor has proposed a number of solutions to balance the budget, the largest of which includes certain cuts in salary and benefit costs referred to as "Shared Responsibility and Sacrifice." On May 27, 2009, the City Council adopted a budget which included the Shared Responsibility and Sacrifice reductions to labor and benefit costs. Such reductions would be achieved through a combination of furloughs, pay freezes and reductions, early retirements, layoffs and other labor actions. The Shared Responsibility and Sacrifice reductions do not apply to Department personnel. Auxiliary services provided to the Department from other City departments, including the Office of the City Attorney and services provided by the City Controller, however, may be impacted.

As a municipal organization, the Department's employee and labor relations are governed by applicable State and City civil service rules and regulations as well as 22 separate labor agreements between management and unions ("Memoranda of Understanding"). Most of the Department's employees are covered by the Memoranda of Understanding. The following table lists all Memoranda of Understanding between the Department and labor and management unions as of July 31, 2009.

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

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

* Negotiations pending.

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 39 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 the Los Angeles City Employees' Retirement System ("LACERS"), administered by the City. The LACERS plan is the obligation of the City, which is responsible for the funding of LACERS and for the determination and resolution of any unfunded LACERS liabilities. Under requirements of the City Charter, the Department makes contributions to LACERS with respect to its employees in amounts determined by the City. According to the LACERS's Actuarial Valuation and Review of Retirement Program as of June 30, 2008, LACERS had an unfunded actuarial accrued liability ("UAAL") of approximately \$1.75 billion as of June 30, 2008 and a funded ratio of 84.4%. As of June 30, 2007, LACERS had a UAAL of approximately \$1.93 billion and a funded ratio of 81.7%. The funded ratio compares the actuarial value of assets to the actuarial accrued liabilities of a pension plan. The ratios change every valuation year, reflecting asset performance, demographic changes, actuarial assumption/method changes, benefit structure changes or a variety of other actuarial gains and losses.

In Fiscal Year 2009 the Department contributed approximately \$45 million to LACERS with respect to LAX, down approximately 4.2% from Fiscal Year 2008. The Department has contributed approximately \$46 million to LACERS with respect to LAX for the Fiscal Year ending June 30, 2010. Since June 30, 2008 LACERS has experienced significant investment losses. As such, contributions by the Department to LACERS may increase significantly in the coming Fiscal Years, however, contribution rates are subject to change due to changes in current market conditions and funding methodologies.

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

According to Actuarial Valuation and Review of Other Postemployment Benefits, as of June 30, 2008, the UAAL of LACERS for retiree health care benefits, based on the actuarial cost method and assumptions used for the related pension plans, was approximately \$585 million and the funded ratio was 69.7%. As of June 30, 2007, the UAAL for LACERS for retiree health care benefits, based on the same method and assumptions, was approximately \$545 million and the funded ratio was 68.5%.

For further information about LACERS, see "APPENDIX A – City of Los Angeles Information Statement – Retirement and Pension Systems" to the Official Statement of the City in connection with the City's General Obligation Bonds, Series 2009-A and Series 2009-B, available from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system and various reports of LACERS posted from time to time on the City's website and in Note 5 to the City's most recent Comprehensive Annual Financial Report. None of such information is incorporated herein.

LOS ANGELES INTERNATIONAL AIRPORT

Introduction

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

LAX is the major facility in the Airport System and for Fiscal Year 2009 accounted for approximately 91.5% of the total passenger traffic, approximately 78.8% of the air cargo volume and approximately 86.1% of the air carrier operations for the Airport System.

No airline dominates in shares of enplaned passengers or provides formal "hubbing" activity at LAX. Approximately 30% of LAX's domestic passenger traffic (and approximately 25% of LAX's total passenger traffic) is connecting, and no air carrier accounted for more than approximately 21% of LAX's domestic enplanements between Fiscal Year 2005 and Fiscal Year 2009. In calendar year 2008, 72.6% of enplanements at LAX represented

originating and destination passengers (that is, all passengers beginning or ending their trips at LAX). The remaining 27.4% of enplanements represented connections to or from regional markets as well as domestic connections to or from international markets. The level of connecting passengers at LAX is due primarily to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets along the west coast of the United States; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the alliances among airlines serving LAX.

Facilities

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

Passenger terminal facilities include ticketing and baggage check-in on the upper departure level and baggage claim on the ground level, fronting on the lower-level roadway. Passenger terminal facilities provide access to upper-level concourses to field arrival/departure areas. LAX currently has a total of 109 contact gates in the Central Terminal Area and a number of remote gate positions. Several of the jet gates accommodate commuter airplanes.

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

Approximately 23,700 public parking spaces are available at LAX, including approximately 10,000 parking spaces in eight parking garages in the Central Terminal Area, 2,700 parking spaces at a surface parking lot property adjacent to Terminal 1, acquired by the Department in July 2009 and operated as "Park One" (the "Park One Property"), and 11,000 parking spaces in two economy-rate, remote surface parking lots. To help reduce vehicle traffic congestion in the Central Terminal Area, the Department also provides a 79-space cell phone waiting lot where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside.

Cargo facilities at LAX provide approximately 2.1 million square feet of building space in 26 buildings on 194 acres of land devoted exclusively to cargo. Rental car company facilities, major commercial airline maintenance hangars and office buildings, a 12-story administration building, a control tower, a central utilities plant, two flight kitchens, a fuel farm, and FAA, Transportation Security Administration ("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 August 1, 2009. See "AIRLINE INDUSTRY INFORMATION."

TABLE 6
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
AIR CARRIERS SERVING LAX
AS OF AUGUST 1, 2009

<u>Scheduled U.S. Carriers (22)</u>	<u>Foreign Flag Carriers (43)</u>	<u>Nonscheduled Carriers (7)</u>	<u>All-Cargo Carriers (17)</u>
AirTran	Aeroflot	Clay Lacy Aviation	Aerotransporte De Carga Union
Alaska	AeroMexico	Miami Air	Aerotransporte Mas De Carga
Allegiant Air	Air Berlin	North American	Air Transport International
American	Air Canada	Pace	Ameriflight
American Eagle	Air Canada Jazz	Skybird	Astar
Continental	Air China	USAJet	Cargolux
Delta ¹	Air France	World Airways	China Cargo
ExpressJet	Air India		DHL/Airborne
Frontier	Air Jamaica		FedEx
Hawaiian	Air New Zealand		Florida West
Horizon	Air Pacific		Kalitta Air
Jet Blue	Air Tahiti Nui		Nippon Cargo
Mesa	Alitalia		Polar Air
Midwest	All Nippon		Shanghai Airlines Cargo
Northwest ¹	Asiana		Singapore Airlines Cargo
SkyWest	Avianca		United Parcel Service
Southwest	British Airways		Yangtze River Express Airlines
Spirit	Cathay Pacific		
Sun Country	China		
United	China Eastern		
US Airways	China Southern		
Virgin America	Copa		
	El Al Israel		
	Emirates		
	Eva Airways		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa		
	Malaysia		
	Mexicana		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	TACA		
	Thai Airways		
	Virgin Atlantic		
	Virgin Blue International Airlines		
	WestJet		

¹ In 2009, Delta and Northwest merged but continue to operate under two FAA certificates. The combined carrier is flying under the Delta name at LAX.

Source: Department of Airports of the City of Los Angeles

Aviation Activity

For calendar year 2008, LAX ranked as the 6th busiest airport in the world and the 3rd busiest in the United States in terms of total number of enplaned and deplaned passengers (totaling approximately 59.5 million) according to ACI. For calendar year 2008, ACI statistics ranked LAX as the 13th busiest airport in the world and the 4th busiest in the United States in terms of total cargo with approximately 1.6 million enplaned and deplaned metric tons. The following table shows the air passenger activity, total operations and cargo volume at LAX relative to the world's busiest airports.

TABLE 7
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PRELIMINARY TOP 15 WORLDWIDE RANKINGS – CALENDAR YEAR 2008

Rank	Airport	Total Passengers	Airport	Total Operations	Airport	Total Cargo (metric tons) ¹
1	Atlanta (ATL)	90,039,280	Atlanta (ATL)	978,824	Memphis (MEM)	3,695,438
2	Chicago (ORD)	69,353,876	Chicago (ORD)	881,566	Hong Kong (HKG)	3,660,901
3	London (LHR)	67,056,379	Dallas (DFW)	656,310	Shanghai (PVG)	2,602,916
4	Tokyo (HND)	66,754,829	Los Angeles (LAX)	622,506	Seoul (ICN)	2,423,717
5	Paris (CDG)	60,874,681	Denver (DEN)	619,503	Anchorage (ANC)	2,339,831
6	Los Angeles (LAX)	59,497,539	Las Vegas (LAS)	578,949	Paris (CDG)	2,280,050
7	Dallas (DFW)	57,093,187	Houston (IAH)	576,062	Frankfurt (FRA)	2,111,031
8	Beijing (PEK)	55,937,289	Paris (CDG)	559,816	Tokyo (NRT)	2,100,448
9	Frankfurt (FRA)	53,467,450	Charlotte (CLT)	536,253	Louisville (SDF)	1,974,276
10	Denver (DEN)	51,245,334	Phoenix (PHX)	502,499	Singapore (SIN)	1,883,894
11	Madrid (MAD)	50,824,435	Philadelphia (PHL)	492,038	Dubai (DXB)	1,824,992
12	Hong Kong (HKG)	47,857,746	Frankfurt (FRA)	485,783	Miami (MIA)	1,806,770
13	New York (JFK)	47,807,816	London (LHR)	478,518	Los Angeles (LAX)	1,629,525
14	Amsterdam (AMS)	47,430,019	Madrid (MAD)	469,740	Amsterdam (AMS)	1,602,585
15	Las Vegas (LAS)	43,208,724	Detroit (DTW)	462,520	Taipei (TPE)	1,493,120

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

Source: *ACI Traffic Data last updated July 28, 2009*, Airports Council International.

As seen in Table 8 which follows, after the events of September 11, 2001 and the economic slowdown in the early part of this decade, passenger enplanements and deplanements at LAX decreased 16.5% in Fiscal Year 2002 and 1.4% in Fiscal Year 2003. From Fiscal Year 2003 through Fiscal Year 2007, total enplaned and deplaned passengers at LAX increased at a compound annual growth rate of 2.7%. Several factors contributed to slow passenger enplanement growth at LAX including decreased demand levels along the West Coast of the United States and systemwide changes in the airlines' routes and structures and seat capacities. Due to the global economic environment and capacity reductions by U.S. and foreign flag carriers, total enplanements and deplanements decreased 9.2 percent in Fiscal Year 2009 from Fiscal Year 2008. For further discussion of historical passenger activity and factors affecting aviation demand and the airline industry, see APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." The fiscal year used for national comparisons is different from the Department's fiscal year. See also "CERTAIN INVESTMENT CONSIDERATIONS – Financial Condition of the Airlines."

The following table presents historical total revenue operations (landings and takeoffs) and total domestic and international enplanements and deplanements at LAX for Fiscal Years 2000 through 2009.

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

Fiscal Year⁽¹⁾	Revenue Operations		Enplanements and Deplanements			Passenger Growth
	Total Operations	Operations Growth	Domestic⁽²⁾	International⁽²⁾	Total⁽²⁾	
2000	745,421	--	49,570,344	16,510,467	66,080,811	--
2001	795,723	6.7	49,639,031	17,553,941	67,192,972	1.7
2002	625,457	(21.4)	41,490,373	14,623,209	56,113,582	(16.5)
2003	605,514	(3.2)	40,761,700	14,571,467	55,333,167	(1.4)
2004	596,915	(1.4)	42,335,711	15,704,827	58,040,538	4.9
2005	616,482	3.3	44,240,522	17,024,908	61,265,430	5.6
2006	606,277	(1.7)	44,058,954	17,376,983	61,435,937	0.3
2007	614,335	1.3	44,691,774	16,842,864	61,534,638	0.2
2008	629,724	2.5	44,834,824	17,427,929	62,262,753	1.2
2009	539,771	(14.3)	41,245,222	15,301,817	56,547,039	(9.2)

⁽¹⁾ Fiscal Year ended June 30.

⁽²⁾ 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
(RANKED BY FISCAL YEAR 2009 RESULTS)
HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE⁽¹⁾

Airline	FY 2005			FY 2006			FY 2007			FY 2008			FY 2009		
	Enplanements	Share	Share	Enplanements	Share	Share	Enplanements	Share	Share	Enplanements	Share	Share	Enplanements	Share	Share
1 American Airlines	4,492,113	14.7%	15.1%	4,642,853	15.1%	15.2%	4,679,905	15.2%	14.8%	4,611,217	14.8%	15.1%	4,277,478	15.1%	15.1%
2 United Airlines	4,858,603	15.9	15.7	4,825,156	15.7	15.7	4,826,434	15.7	14.0	4,360,069	14.0	13.7	3,871,963	13.7	13.7
3 Southwest Airlines	3,763,817	12.3	12.8	3,930,014	12.8	12.4	3,817,855	12.4	12.4	3,851,867	12.4	12.6	3,556,203	12.6	12.6
4 Delta Air Lines ⁽²⁾	2,329,863	7.6	7.3	2,230,835	7.3	7.5	2,312,650	7.5	7.6	2,358,251	7.6	7.6	2,145,884	7.6	7.6
5 Alaska Airlines	1,436,584	4.7	4.8	1,459,669	4.8	4.8	1,479,679	4.8	4.5	1,409,966	4.5	4.8	1,360,046	4.8	4.8
6 SkyWest Airlines	1,277,811	4.2	4.3	1,317,516	4.3	4.6	1,425,685	4.6	4.4	1,383,225	4.4	4.6	1,289,602	4.6	4.6
7 Continental Airlines	970,303	3.2	3.5	1,085,628	3.5	3.8	1,170,936	3.8	3.7	1,143,870	3.7	3.9	1,104,162	3.9	3.9
8 Northwest Airlines ⁽²⁾	1,103,405	3.6	3.6	1,118,732	3.6	3.7	1,129,526	3.7	3.6	1,133,442	3.6	3.9	1,091,261	3.9	3.9
9 US Airways	1,506,080	4.9	4.2	1,287,043	4.2	4.0	1,238,267	4.0	3.6	1,110,117	3.6	3.7	1,060,803	3.7	3.7
10 Virgin America ⁽³⁾	--	--	--	--	--	--	--	--	--	343,589	1.1	2.6	733,879	2.6	2.6
11 CMA Mexicana Airlines	618,550	2.0	2.3	712,492	2.3	1.9	572,616	1.9	2.0	636,272	2.0	2.1	596,599	2.1	2.1
12 Qantas Airways	569,952	1.9	1.9	594,801	1.9	2.0	620,142	2.0	2.0	614,211	2.0	2.1	590,960	2.1	2.1
13 Air Canada	449,757	1.5	1.6	487,446	1.6	1.7	508,083	1.7	1.5	477,779	1.5	1.5	424,024	1.5	1.5
14 American Eagle Airlines	512,923	1.7	1.6	502,148	1.6	1.7	509,076	1.7	1.6	485,023	1.6	1.4	406,422	1.4	1.4
15 Korean Airlines	344,808	1.1	1.2	356,190	1.2	1.1	338,740	1.1	1.1	335,803	1.1	1.2	334,256	1.2	1.2
16 Air New Zealand	441,285	1.4	1.4	433,578	1.4	1.2	381,369	1.2	1.2	386,452	1.2	1.2	334,028	1.2	1.2
17 Horizon Air	128,627	0.4	0.7	202,763	0.7	0.8	252,551	0.8	1.2	373,233	1.2	1.1	316,753	1.1	1.1
18 British Airways	254,371	0.8	0.9	289,601	0.9	0.9	274,435	0.9	1.0	296,390	1.0	1.0	284,737	1.0	1.0
19 Air France	253,446	0.8	0.8	250,465	0.8	0.9	273,314	0.9	0.9	280,763	0.9	1.0	281,619	1.0	1.0
20 Cathay Pacific Airways	215,110	0.7	1.0	301,119	1.0	1.0	312,261	1.0	1.1	326,263	1.1	0.9	244,372	0.9	0.9
Other ⁽⁴⁾	5,020,843	16.6	15.3	4,627,097	15.3	15.2	4,659,485	15.2	16.7	5,224,537	16.7	14.0	4,023,927	14.0	14.0
Airport Total⁽⁴⁾	30,548,251	100.0%	100.0%	30,655,146	100.0%	100.0%	30,783,009	100.0%	100.0%	31,142,339	100.0%	100.0%	28,328,978	100.0%	100.0%

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

⁽²⁾ In 2009, Delta and Northwest merged but continue to operate under two FAA certificates. The combined carrier is flying under the Delta name at LAX.

⁽³⁾ Began operating at LAX in Fiscal Year 2008.

⁽⁴⁾ Totals may not add due to individual rounding.

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

The following table presents the total revenue landed weight for the 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 2009 RESULTS)
(000 LBS.)

	Airline	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	
		Landed Weight		Landed Weight		Landed Weight		Landed Weight		Landed Weight	Share ⁽²⁾
1	United Airlines	7,255,290		7,261,268		7,144,632		6,558,553		5,765,733	12.4%
2	American Airlines	6,530,522		6,216,216		6,327,454		6,182,921		5,667,801	12.1
3	Southwest Airlines	4,880,226		5,004,196		4,982,430		5,092,746		5,068,050	10.9
4	Delta Air Lines ⁽³⁾	3,277,142		2,990,123		3,116,374		3,033,961		2,549,234	5.5
6	Federal Express	1,956,507		1,936,856		1,876,769		1,775,030		1,642,089	3.5
5	SkyWest Airlines	1,579,730		1,640,735		1,748,625		1,784,746		1,634,395	3.5
7	Alaska Airlines	1,747,446		1,714,678		1,831,490		1,684,252		1,530,621	3.3
8	Northwest Airlines ⁽³⁾	1,644,806		1,698,251		1,650,884		1,572,378		1,458,649	3.1
9	Qantas Airways	1,338,635		1,409,692		1,435,397		1,442,048		1,434,230	3.1
10	Continental Airlines	1,292,606		1,329,656		1,421,707		1,387,393		1,286,565	2.8
11	US Airways	1,186,957		1,003,338		907,645		1,315,542		1,231,410	2.6
12	Korean Airlines	1,166,751		1,147,742		1,116,542		1,137,760		1,138,866	2.4
13	Virgin America ⁽⁴⁾	--		--		--		520,530		923,066	2.0
14	CMA Mexicana Airlines	871,919		955,836		842,123		844,061		807,107	1.7
15	Cathay Pacific Airways	693,234		909,054		926,376		929,710		747,759	1.6
16	Eva Airways	749,455		793,100		776,928		769,663		666,451	1.4
17	China Airlines	685,498		719,650		728,974		738,316		650,588	1.4
18	British Airways	515,340		594,090		594,090		679,770		634,410	1.4
19	Air New Zealand	860,046		851,797		732,190		740,537		628,380	1.4
20	Asiana Airlines	--		--		--		570,672		620,966	1.3
	Other	13,371,194		12,928,549		13,256,688		13,338,356		10,112,777	22.6
	Airport Total ⁽²⁾	52,227,730		51,786,381		52,128,707		52,098,945		46,699,147	100.0%

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

⁽²⁾ Totals may not add due to rounding.

⁽³⁾ In 2009, Delta and Northwest merged but continue to operate under two FAA certificates. The combined carrier is flying under the Delta name at LAX.

⁽⁴⁾ Began operating at LAX in Fiscal Year 2008.
Source: Department of Airports of the City of Los Angeles.

In Fiscal Year 2009, according to traffic reports submitted to the Department by the airlines, LAX total air cargo volume was approximately 1.6 million tons. According to ACI, LAX ranked 13th in the world in air cargo volume in calendar year 2008. 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⁽¹⁾	Domestic Cargo	Annual Growth	International Cargo	Annual Growth	Total Cargo	Annual Growth
2000	1,263,279	--	965,904	8.8	2,229,183	--
2001	1,112,803	(11.9)	1,032,259	6.9	2,145,062	(3.8)
2002	953,264	(14.3)	929,127	(10.0)	1,882,391	(12.2)
2003	1,015,712	6.6	1,001,045	7.7	2,016,757	7.1
2004	1,032,947	1.7	1,028,893	2.8	2,061,840	2.2
2005	1,051,046	1.8	1,085,327	5.5	2,136,373	3.6
2006	994,637	(5.4)	1,122,527	3.4	2,117,164	(0.9)
2007	975,734	(1.9)	1,105,899	(1.5)	2,081,633	(1.7)
2008	877,455	(10.1)	1,095,273	(1.0)	1,972,728	(5.2)
2009	728,705	(17.0)	886,609	(19.1)	1,615,315	(18.1)

⁽¹⁾ Fiscal Year ended June 30.

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

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

Competition

LAX’s “Air Trade Area” refers to the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles, CSA) as designated by the United States Bureau of the Census and includes the five-county area of Los Angeles, Orange, Riverside, San Bernardino and Ventura counties. There are five air carrier airports within the LAX Air Trade Area. According to statistics collected from individual airports and by ACI, LAX is the primary airport in the LAX Air Trade Area, with approximately 72% of the total enplaned passengers and approximately 74% of the cargo in calendar year 2008, down from approximately 76% and 77%, respectively, in 2001. Three secondary airports, LA/Ont (which is a part of the Airport System), Bob Hope Airport (BUR) in Burbank and John Wayne Airport (SNA) in Orange County, provide air service to major domestic markets and together accounted for approximately 25% of the air service in the LAX Air Trade Area for calendar year 2008. One other secondary airport, Long Beach Airport (LGB), provides limited air service to destinations outside of the LAX Air Trade Area and accounted for approximately 3% of the air service in the LAX Air Trade Area in 2008. The LAX Air Trade Area has one commuter service airport, Oxnard, that provides intra-region flights, including a few flights per day to and from LAX.

Certain Other Matters Related to LAX

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 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 and CSCDA bonds have buy-back rights, whereby the Department may, at any time, purchase the financed facilities by retiring the bonds used to finance those facilities. In addition to the United Settlement (and subject to consummation thereof), the Department has decided to pursue the implementation of the Uniform Capital Charge. To effect this change, the Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants 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 “AGREEMENTS FOR THE USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases,” “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Program” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings” for a description of the Department’s plan to effect certain changes in connection with LAX cost structures by, among other things, restructuring certain third-party debt used to finance improvements at certain terminals.

Emergency Management

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

The Department is required by certain federal, state, City and other directives to develop and maintain a number of airport emergency plans to ensure protection of lives and property. The Department is also subject to Homeland Security Presidential Directive 5, which requires compliance with the NIMS and the National Response Framework. The State requires compliance with SEMS. FAR 139 defines specific emergency plan components that must be developed and maintained in the LAX and LA/ONT Airport Certification Manuals. These plans set forth emergency procedures to ensure prompt response to emergencies to save lives, minimize the possibility and extent of personal and property damage and ensure recovery of the critical transportation infrastructure. The Department has included these emergency procedures in the Airport Rules and Regulations for LAX and LA/ONT. The Department hold emergency plan exercises as required by TSA security directives, FAR 139 mandates and City exercise programs. The Department held a tabletop exercise on April 27, 2007 to prepare for the full scale exercise simulating an aircraft disaster scheduled for May. The full-scale LAX Air Exercise, required by FAR 139, was conducted on May 15, 2007. This year’s annual FAR Part 139 tabletop exercise occurred on May 20, 2009. A yearly security exercise under TSA mandates is held under the direction of Airport Police and incorporates airport stakeholders. The Department conducts and participates in a number of additional scheduled exercises with federal, airline and City agencies.

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

AGREEMENTS FOR USE OF AIRPORT FACILITIES

General

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

Operating Permits – Landing Facilities and Landing Fees

The Department has entered into separate, but substantially similar, operating permits covering the use of landing facilities with air carriers serving LAX. These operating permits grant operating rights to each airline typically for the same five-year term, and are commonly referred to as the “Air Carrier Operating Permits” or the “ACOPs.” The Department is currently authorized to issue ACOPs that expire June 30, 2010. The ACOPs are terminable by either party on 30 days’ notice. The ACOPs require each airline to pay a landing fee to the Department for each aircraft that lands at LAX. The landing fee generally is calculated as the product of (i) the units of maximum gross landed weight of the airline, with each unit being 1,000 pounds, multiplied by (ii) the landing fee rate currently in effect. Even in the absence of such ACOPs, carriers are required to comply with all LAX operating procedures and regulations, including the uninterrupted payment of landing fees. The landing fee rates to be charged during each Fiscal Year are based upon the Department’s then-current budget. At the end of each Fiscal Year, the landing fee rates for that Fiscal Year are adjusted to reflect the actual expenses incurred. All adjustments for deficiencies are billed when determined and overages are refunded to the affected airlines. The ACOPs provide that the airline landing fee rates may be adjusted up to two times each Fiscal Year. The most recent landing fee increase took place in July 2009. The Department expects that the ACOPs will be renewed upon their expiration, though no assurances can be given that they will be, or that the terms of the new ACOPs will be the same as the existing terms. It is assumed for the purposes of the forecasts in the Report of the Airport Consultant that they are renewed on the same terms. Air carriers that are not party to an ACOP pay significantly higher landing fees than air carriers that are party to an ACOP.

Airport Terminal Tariff and Leases

As described in more detail below, certain airlines and a consortium of airlines at LAX (the “Long-Term Lease Airlines”) lease terminal building space under long-term terminal building leases (the “Long-Term Leases”). Other airlines lease terminal building space under short-term leases with terms similar to the LAX Passenger Terminal Tariff (the “Airport Terminal Tariff”). In September 2009, the Airport Terminal Tariff was amended to include, in addition to airlines, businesses involved in aeronautical activities other than governmental activities or concessions (each an “Aeronautical User”). The Department may require Aeronautical Users occupying or otherwise using terminal space at LAX without an existing lease to pay for terminal space through fees and charges set forth in the Airport Terminal Tariff, as described in more detail below.

Long-Term Leases

LAX has lease arrangements at its passenger terminal facilities with the Long-Term Lease Airlines, which are comprised of American Airlines Inc. (“American”), Continental Airlines Inc. (“Continental”), Delta Air Lines (“Delta”), LAX Two Corp. and United Air Lines, Inc. (“United”). The terms of the Long-Term Leases range from 35 to 40 years and generally expire between 2017 and 2025. Under these leases, the Long-Term Lease Airlines pay various charges, including reimbursements to the Department for maintenance and operations of the terminals and a portion of the costs of maintaining and operating LAX (“M&O Charges”). Terminal space in Terminals 2, 4, 5, 7, 8 and a portion of Terminal 6 are leased pursuant to Long-Term Leases between the applicable Long-Term Lease Airlines and the Department. Significant construction of each of the terminals subject to a Long-Term Lease was financed by third-party debt payable solely from payments made by the Long-Term Lease Airlines or their subtenants. See also “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings” and “CAPITAL IMPROVEMENT PLANNING – Capital Improvement Plan.” Following is a description of certain provisions, policies and events relating to the Long-Term Leases:

- Terminal rents under the Long-Term Leases are charged beginning January 1 of each year, and have historically been calculated incorporating actual requirements from the prior Fiscal Year (e.g., calendar 2010 rents will be based on actual Fiscal Year 2009 requirements), except as described under “—Long-Term Lease Litigation and Interim Settlement Agreement” below.
- The Long-Term Leases provide for certain preferential use rights, although Long-Term Lease Airlines also agree to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective pro rata direct costs plus a reasonable administrative fee.
- Rental rates on pre-existing terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. The Long-Term Lease Airlines are also required to reimburse the Department for the costs of maintenance and operations of the terminals and a portion of the costs of maintaining and operating LAX through the payment of M&O Charges. Historically, the Long-Term Lease Airlines each were required to pay a charge equivalent to 15 percent of the direct costs of terminal maintenance and operation as a proxy for certain terminal maintenance and operations costs at LAX such as security costs, general administrative costs and access costs (costs associated with the roadways in and connecting to LAX) (the “Proxy Amount”).
- In December 2006, the Department approved increased M&O Charges that included all direct and indirect maintenance and operations costs allocated to the Terminal Cost Center, retroactive to January 1, 2006. The “Terminal Cost Center” is comprised of all passenger terminal buildings, other related and appurtenant facilities, and associated land, whether owned, operated, or maintained by the Department. The new M&O Charges are higher than the Proxy Amount due to the inclusion of security costs and full indirect costs that had not previously been included by the Department in the Proxy Amount. The Long-Term Lease Airlines disputed the right of the Department to make these changes. Settlement agreements concerning, among other things M&O Charges, were reached with the Long-Term Lease Airlines for calendar years 2006, 2007, 2008 and a portion of 2009, as described in “—Long-Term Lease Litigation and Settlement Agreements” below.
- The Long-Term Leases provide the Department with the right under certain circumstances to defease third-party debt that financed terminal improvements. See also “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.”
- In the event that the leased premises are damaged or destroyed such that the Department can not repair, replace or reconstruct such premises within a reasonable time, the Long-Term Leases may be terminated at the applicable Long-Term Lease Airlines’ option. If the Long-Term Lease Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from LAX, by any final action, order or ruling of any federal or State governmental authority, the Long-Term Lease Airlines may, at their option, terminate their respective Long-Term Leases by 30 days’ written notice.
- See also the discussion of rental credits under “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases – Rental Credits.”

The Airport Terminal Tariff

The Airport Terminal Tariff applies to all Aeronautical Users using terminal space at LAX without an existing lease. The Airport Terminal Tariff has no term or expiration date but is subject to change from time to time by the Board. The Board has approved the use of the Airport Terminal Tariff in all terminals at LAX. Currently, the Airport Terminal Tariff applies to certain Aeronautical Users using space in Terminal 1, Terminal 3, TBIT and Terminal 6. The Airport Terminal Tariff may be applied to non-airline Aeronautical Users in TBIT.

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

Terminal rates under the Airport Terminal Tariff are calculated based on a compensatory rate-making methodology, where all related costs in the Terminal Cost Center are allocated to any entities using or occupying terminal space. Under the Airport Terminal Tariff, the terminal expenses include the following components:

- Base Charge: Generally equal to the greater of (1) (a) the Aeronautical Users' space use factor (which is determined based on the area used by the Aeronautical Users, whether exclusively or jointly (the "Space Use Factor")) multiplied by the per square foot rate based on an appraised value (as annually adjusted to reflect increases in the consumer price index and subject to five-year reappraisals), or (b) the Space Use Factor multiplied by the per square foot negotiated rate (as annually adjusted to reflect increases in the consumer price index)(for cases in which negotiated rates apply), or (2) Terminal Capital Charges. "Terminal Capital Charges" are composed of direct terminal debt service, coverage on direct terminal debt service and direct terminal amortization.
- Terminal Regular Expenses: Equal to direct and indirect costs of maintenance and operation of the applicable terminal and any required maintenance and operation reserve deposit.
- Terminal Special Expenses: Equal to debt service, debt service coverage and/or amortization related to certain airline equipment.
- Airport Infrastructure Charges: Equal to indirect terminal debt service, coverage on indirect terminal debt service and indirect terminal amortization.

Under the Airport Terminal Tariff, the portion of terminal costs allocated to the Aeronautical Users is, in general, based on each Aeronautical Users' Space Use Factor and a pro rata portion of those parts of the terminal areas not exclusively used by Aeronautical Users or other tenants (generally, public use or common use areas). For each Aeronautical Users, its Space Use Factor includes the Aeronautical Users' exclusive use area, its joint use areas and certain international joint use areas, if applicable.

Certain airlines using terminal space subject to the Airport Terminal Tariff have entered into either (i) a letter agreement approved by the Board that amends the terms of the Airport Terminal Tariff (a "Letter Agreement"), or (ii) a Partial Settlement Agreement (as defined below). The basic rate, expenses and charges for capital improvements for airlines that have entered into a Letter Agreement or a Partial Settlement Agreement are now generally allocated based on each airline's Space Use Factor, without a pro rata portion of charges related to those parts of the terminal areas not exclusively used by airlines or other tenants. The basic rate, expenses and charges for capital improvements for airlines that have not entered into a Letter Agreement or a Partial Settlement Agreement are allocated according to each airline's Space Use Factor and a pro rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common areas).

The Airport Terminal Tariff requires Aeronautical Users subject to the Airport Terminal Tariff to provide a performance guaranty which is at least three times the sum of the estimated monthly installments of base charges, terminal expense charges, airport infrastructure charges and other additional amounts.

The calculation of terminal rates under the Airport Terminal Tariff is described in greater detail in APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "—Complaints Regarding the Airport Terminal Tariff and Subsequent U.S. DOT Decision" below.

Virgin America has executed a 5-year terminal lease agreement, and United has executed a 13-year terminal lease agreement covering its premier ticket counters in Terminal 6 (the "United Ticket Counter Lease"), each with the Department and containing provisions similar to the Airport Terminal Tariff. In connection with (and subject to consummation of) the United Settlement, the United Ticket Counter Lease will be amended.

Long-Term Lease Litigation and Settlement Agreements

In 2007, three airlines (American, United and Continental) operating out of Terminals 4, 6, 7 and 8 under Long-Term Leases filed an action against the Department in Los Angeles federal district court claiming, among other things, that their Long-Term Leases do not permit the Department to increase their M&O Charges. This action was dismissed in 2008, pursuant to settlement agreements between each of the three airlines and the Department (the “American, United and Continental Settlement Agreements”).

Similarly, in 2007 LAX Two’s primary member, Northwest (Terminal 2), and Delta (Terminal 5) filed adversary proceedings in Bankruptcy Courts for the Southern District of New York seeking relief to, among other things, prevent the Department from charging increased M&O Charges under their Long-Term Leases. The portion of the adversary proceedings relating to the increased M&O Charges was dismissed in 2008, pursuant to settlement agreements between LAX Two and Northwest on the one hand, and Delta, on the other and the Department (the “LAX Two/Delta Settlement Agreements”). The Northwest and Delta adversary proceedings also raised issues concerning the Department’s right to defease third-party debt that financed terminal improvements and the airlines’ rights to re-let in Terminals 2 and 5. These aspects of the Delta litigation were dismissed without prejudice. The defeasance claim in the Northwest case was transferred to the U.S. District Court for the Central District of California. Summary judgment motions in this case were filed in August 2009 and are expected to be argued in 2010. Settlement negotiations are underway. See “—Airport Terminal Tariff and Leases – Rental Credits” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits.”

The American, United and Continental Settlement Agreements and the LAX Two/Delta Settlement Agreements, are referred to herein collectively as the “Settlement Agreements.” The Settlement Agreements permit the Long-Term Lease Airlines to bring new actions against the Department for disputes concerning M&O Charges for calendar years after 2008, if an agreement on future M&O Charges was not reached by December 31, 2008 (the “M&O Agreement Deadline”). In January 2009, each of the parties to the Settlement Agreements agreed to extend the M&O Agreement Deadline to April 30, 2009. The Department and American have agreed to further extend the M&O Agreement Deadline under its Settlement Agreement until December 31, 2009. On October 5, 2009 the Board approved a global settlement among the Department, United and the trustee for certain holders of bonds (the “United Bondholders”), the proceeds of which were used to finance improvements to Terminals 7 and 8 (the “United Settlement”). Pursuant to the United Settlement, the United Bondholders will receive approximately \$75 million as a settlement for their claims, which amount shall be funded in part from approximately \$22 million of disputed rent which has been held in escrow (a M&O Rental Credit, as defined below), proceeds of the sale of United stock and payment from the Department of an amount not to exceed \$52.7 million depending on the value of the United stock at the time of its sale. The payment from the Department is expected to be financed by the issuance of Subordinate Commercial Paper Notes. Pursuant to the United Settlement, the Department and United will amend and restate United’s lease arrangements at LAX. Following such amendment and restatement, United’s rent will increase and United will be required to pay full M&O Charges not later than 2014 and to pay the Uniform Capital Charge (as described in “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings.”) The United Settlement is contingent upon approval of the amendments by the Board, the City Council and the United States Bankruptcy Court.

The Department continues to engage in negotiations with the other Long-Term Lease Airlines regarding M&O Charges. The Department is unable to predict whether the Department and the other Long-Term Lease Airlines will reach a long-term agreement regarding the M&O Charges.

To the extent that the Long-Term Lease Airlines have previously made payments to the Department for M&O Charges in calendar years 2006, 2007 or 2008 in excess of the amounts payable by the respective airlines pursuant to the Settlement Agreements, as amended, the Department issued a rental credit (the “M&O Rental Credit”) to each such Long-Term Lease Airline for the excess amount. Beginning on January 1, 2008, each Long-Term Lease Airline is permitted to apply its M&O Rental Credit against LAX terminal rental charges and M&O Charges, landing fees or other charges owed by such Long-Term Lease Airline to the Department until the balance of such M&O Rental Credit is reduced to zero. The Department agreed not to seek to recover any portion of the M&O Rental Credit from such Long-Term Lease Airline through other rents, fees or other charges. See “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases – Rental Credits” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits.”

Pursuant to these Settlement Agreements, as amended, the Department and the Long-Term Lease Airlines agreed that for calendar years 2006, 2007, 2008 and a portion of 2009, the Long-Term Lease Airlines' M&O Charges would be calculated in the same manner as calendar year 2005, with an additional charge for the direct terminal security costs incurred by the Department for the Long-Term Lease Airlines' terminals. The parties also agreed on the following Fiscal Year costs to calculate the M&O Charges for calendar years 2006, 2007, 2008 and a portion of 2009:

- For calendar year 2006, the Long-Term Lease Airlines' M&O Charges, including direct terminal security costs, were calculated based on Fiscal Year 2005 actual costs.
- For calendar year 2007, the Long-Term Lease Airlines' M&O Charges, including direct terminal security costs were calculated based on Fiscal Year 2005 actual costs.
- For calendar year 2008, the Long-Term Lease Airlines' M&O Charges, including direct terminal security costs were calculated based on Fiscal Year 2006 actual costs.
- For the period from January 1, 2009 through April 30, 2009 (or September 30, 2009 for American), the Long-Term Lease Airlines' M&O Charges, including direct terminal security costs were calculated based on Fiscal Year 2008 actual costs.

As a condition of the Settlement Agreements, as amended, the Long-Term Lease Airlines also agreed to pay a portion of the costs associated with the rehabilitation or replacement of the LAX Central Utility Plant (the "CUP"). The total amount collected from the Long-Term Lease Airlines for calendar years 2006, 2007, 2008 and a portion of 2009 for direct terminal security costs is approximately \$39.7 million. The Department deposited an equivalent amount of money in a Major Maintenance Account (the "MMA") which will be used to fund costs associated with CUP rehabilitation or replacement. The Long-Term Lease Airlines further agreed that they would pay an allocable portion of CUP costs, provided that the total CUP costs do not exceed \$218.75 million (or a greater amount if the Department funds any excess amount from its cash reserves or other sources that do not affect the terminal base rates paid by the Long-Term Lease Airlines under their respective Long-Term Leases). The Settlement Agreements, as amended, specify that CUP costs are to be allocated to all Cost Centers (as described below) on "a fair and equitable basis" and that any CUP costs allocated through the Terminal Cost Center to individual terminals will be allocated to the Long-Term Lease Airlines based on the area of each such airline's useable terminal space.

In accordance with the Settlement Agreements, as amended, and the United Settlement, the Department expects to finance the costs of the CUP with Additional Senior Bonds, Additional Subordinate Bonds and/or Subordinate Commercial Paper Notes, amounts on deposit in the MMA, grants, if any, and any other funds available to the Department.

The "Cost Centers" are comprised of the Terminal Cost Center; the Apron Cost Center, which is generally comprised of the land and paved areas primarily adjacent to passenger terminal buildings; the Airfield Cost Center, which is generally comprised of the land and facilities that support air navigation and flight activities, including aircraft access to, and egress from, apron areas; the Aviation Cost Center, which is generally comprised of the land and facilities related to air cargo, general aviation, fixed base operator operations, aircraft fueling, aircraft maintenance, airline services and other aviation related activities; the Commercial Cost Center, which is generally comprised of the land and facilities not located in passenger terminal buildings that are provided for non-aeronautical commercial and industrial activities; the Systems Cost Center, which generally includes the costs of providing, maintaining, operating and administering airport systems; the General Maintenance Cost Center, which generally includes the costs of providing, maintaining, operating, and administering maintenance services, facilities and equipment that cannot be directly allocated to cost centers; the General Administration Cost Center, which generally includes the general administrative and support costs related to providing, maintaining, operating and administering LAX that cannot be directly allocated to cost centers; the Access Cost Center, which generally includes the costs of providing, maintaining, operating, and administering facilities and services for on-airport and off-airport ground access for vehicles and pedestrians, including airside and landside access and airport access generally.

The forecasts in the Report of the Airport Consultant assume that the provisions incorporated in the Settlement Agreements, as amended (which specify terminal rents and fees for calendar years 2006, 2007, 2008 and a portion of 2009, and allow the Department to recover a portion of terminal security costs) extend through Fiscal Year 2016. The final resolution of the legal matters relating to the Long-Term Lease Agreements and the negotiations described below under “—2009 Airline Negotiations” could result in different terminal rentals than are projected for Fiscal Years 2010-2016 in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

Complaints Regarding the Airport Terminal Tariff and Subsequent Decisions

In February 2007, seven domestic airlines operating at LAX from Terminal 1 (Southwest Airlines and US Airways) (the “T1 Complainants”) and Terminal 3 (Alaska Airlines, AirTran Airways, ATA Airlines, Frontier Airlines and Midwest Airlines) (the “T3 Complainants”) and together with the T1 Complainants, the “T1/3 Complainants”) filed a complaint with the U.S. DOT alleging that new terminal rates and charges imposed pursuant to the Airport Terminal Tariff were unreasonable and discriminatory. The T1/3 Complainants generally alleged that the new terminal charges under the Airport Terminal Tariff are unreasonable and unjustly discriminatory because they employ a new methodology (including the allocation of costs to airlines based on each airline’s Space Use Factor and a pro rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally public use or common use areas)) resulting in significantly higher terminal charges relative to terminal charges under the Long-Term Leases.

The T3 Complainants filed an additional claim concerning the Department’s imposition of the market value method to determine the Base Charge. The T3 Complainants claimed the method was unreasonable because it was not cost-based and also objected because it was imposed based on the Department’s subjective opinion of what constitutes “market value” rather than pursuant to an agreed-to or independent appraiser’s assessment.

In February 2007, twenty-two international airlines operating at TBIT (the “TBIT Complainants”) also filed a complaint with the U.S. DOT. The TBIT Complainants challenged the imposition of changes to the M&O Charges that had been imposed on all airlines retroactively to January 2006. The U.S. DOT treated this complaint as a follow-up complaint to the T1/3 Complainants’ complaint. In April 2007, a second set of international airlines operating at TBIT filed a second complaint with the U.S. DOT challenging the imposition of the rentable space methodology and the increased M&O Charges as unreasonable and unjustly discriminatory. This case, although stayed, is still pending. However, the TBIT Complainants have agreed that they may proceed, if at all, only with respect to issues not decided in connection with the T1/3 Complainants’ complaint.

In June 2007, the U.S. DOT issued its Final Decision (the “U.S. DOT Decision”) regarding the complaints filed by the T1/T3 Complainants and the TBIT Complainants. The T1/3 Complainants, TBIT Complainants and the Department subsequently filed a petition for review of the U.S. DOT Decision in the U.S. Court of Appeals for the District of Columbia Circuit (the “Court of Appeals”). Thereafter, the TBIT Complainants moved to withdraw their petition for review, which motion was granted in June 2008.

In 2008, the Department and the TBIT Complainants entered into a partial settlement agreement (the “Partial Settlement Agreement”) settling, among other things, certain rates and charges pending the outcome of the petition for review of the U.S. DOT Decision in the Court of Appeals. The Court of Appeals issued its opinion on August 7, 2009. The most significant conclusions reached by the Court of Appeals’ opinion and the U.S. DOT Decision are described below:

- The Court of Appeals affirmed the U.S. DOT Decision that the increased M&O Charges and the Department’s commercial compensatory methodology were non-discriminatory and not unreasonable when used to recover fully-allocated costs of maintenance and operation of the terminal, including the increasing costs for general administration, ground transportation and airport security.
- The U.S. DOT ruled that an airport does not violate requirements that its rates be reasonable if it uses a commercial compensatory method that allocates the costs of public terminal space on the basis of “rentable” space. With respect to the U.S. DOT’s application of such ruling at LAX and its finding that the Department’s use of the commercial compensatory method was unjustly discriminatory as applied in setting the tariffs for Terminal 1 and 3 at LAX because the Department is bound by long-term leases to use a “useable” space method in calculating rental

rates for other terminals at LAX, the Court of Appeals remanded the issue to the U.S. DOT. The Court of Appeals held that the U.S. DOT unlawfully placed the burden of persuasion upon the Department to justify its use of different methods for determining rentable space for the T1/3 Complainants and the Long-Term Lease Airlines.

- The U.S. DOT ruled that fair market value is not inherently unreasonable and can be used in setting terminal rental rates, provided that fair market value is determined either by agreement or by an independent objective appraisal of what other aeronautical users would pay. First, the Court of Appeals found that the U.S. DOT did not explain the disparate treatment of fees for airfield and for non-airfield (i.e., terminal) space, since the U.S. DOT requires airports to set airfield fees based upon the “historic cost” but allowed airports to use any reasonable methodology (such as fair market value) to set non-airfield fees. The Court of Appeals accordingly remanded the matter to the U.S. DOT to either justify or to abandon its disparate treatment of airfield and non-airfield space. Then, the Court of Appeals held that limiting the determination of fair market value in the terminal to the consideration of lost aeronautical opportunities (as opposed to other commercial opportunities) was arbitrary and capricious, and directed the U.S. DOT on remand, either to justify or to abandon its objection to the Department’s considering non-aeronautical uses when setting terminal rents based on fair market value. However, the Court of Appeals upheld the requirement for an independent objective appraisal to determine fair market value.
- Although the U.S. DOT did not rule on the T1/3 Complainants’ assertions that LAX has monopoly power over the provision of airport services, the Court of Appeals remanded this issue, directing the U.S. DOT to explain why the case did not present the extraordinary situation in which such allegation of monopoly powers would be relevant to the fee dispute.

The Department is unable to predict whether any further review of the Court of Appeals’ ruling will be sought in the U.S. Supreme Court or how the U.S. DOT will rule on issues remanded.

The forecasts in the Report of the Airport Consultant assume that the rents and fees specified in the Airport Terminal Tariff (as applied pursuant to the Partial Settlement Agreement with respect to TBIT and as applied pursuant to the Letter Agreements with respect to Terminal 1, Terminal 3 and a portion of Terminal 6) will continue in Terminals 1 and 3 and the portion of Terminal 6 that is subject to the Airport Terminal Tariff through Fiscal Year 2016. The Report of the Airport Consultant also assumes that the “useable” space methodology currently employed in Terminals 1, 3 and 6 will also be used in TBIT through Fiscal Year 2016. The final resolution of the legal matters relating to the Airport Terminal Tariff could result in different terminal rentals than are assumed in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

2009 Airline Negotiations

In connection with the Settlement Agreements, as amended, the Department and the Long-Term Lease Airlines are obligated to work diligently, along with the other airlines serving LAX, to attempt by the respective M&O Agreement Deadlines under the Settlement Agreements, as amended, to reach an agreement regarding LAX rates and charges structure, the future capital needs of LAX, and the manner by which such capital needs will be met. Such negotiations are expected to include, without limitation, the following: (1) a reasonable financing plan for necessary capital improvements at LAX, including improvements in the terminal areas, and the manner by which the capital costs for such improvements can be recovered from all LAX users over the life of the improvements; and (2) ways in which the leasing arrangements at LAX can be structured to create incentives for the Department to improve operating efficiencies, limit costs and increase non-airline revenues. The Department has continued to engage in negotiations with the Long-Term Lease Airlines regarding M&O Charges. The Department is also engaged in similar discussions with other airlines operating at LAX that do not have Long-Term Leases. See the discussion of the United Settlement in “—Long-Term Lease Litigation and Settlement Agreements” above.

In the event that no agreement is reached on M&O Charges and new litigation over M&O Charges is filed, such litigation will not affect any M&O Charges payable by the airlines for calendar years 2006, 2007, 2008 and a portion of 2009, pursuant to the Settlement Agreement, as amended, with the Long-Term Lease Airlines. The forecasts in the Report of Airport Consultant assume that the provisions incorporated in the Settlement Agreements, as amended, extend through Fiscal Year 2016 with respect to the Long-Term Lease Airlines and that the rents and fees specified in the Airport Terminal Tariff are applied using the “useable” space methodology through Fiscal Year

with respect to all other airlines operating at LAX. New lease agreements may contain different terms and could result in different terminal rentals than are assumed in the Report of the Airport Consultant. While the Department does not believe such terminal rentals would be materially lower than those assumed in the Report of the Airport Consultant, no assurance can be given that they would not be.

Rental Credits

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

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

From time to time the Department grants rental credits to tenants to resolve disputes with such tenants. Rental credits have ranged from as low as approximately \$1.4 million to as high as approximately \$49 million in the last five completed Fiscal Years. In Fiscal Year 2009 rental credits equaled approximately \$49 million, a significant portion of which consisted of M&O Rental Credits. See “—Long-Term Lease Litigation and Settlement Agreements.”

Most recently, in connection with the Settlement Agreements described under “—Long-Term Lease Litigation and Settlement Agreements,” the Department has granted M&O Rental Credits aggregating approximately \$43 million to the Long-Term Lease Airlines, reflecting payments previously made to the Department in excess of negotiated amounts payable for the applicable calendar years pursuant to the related Settlement Agreements, as amended. Each Long-Term Lease Airline may apply its respective M&O Rental Credit against LAX terminal rental charges, maintenance and operation expenses, landing fees or other charges owed by such airline to the Department until the balance of such credit is reduced to zero. For further discussion of the Long-Term Leases and the settlements related thereto, including the Department’s obligations thereunder, see “—Long-Term Leases” and “—Long-Term Lease Litigation and Settlement Agreements.”

The Department currently uses rental credits to finance its obligations with respect to capital leases with certain airlines. Rental credits are applied as an offset to amounts owed to the Department by such airlines for terminal leases and landing fees. Because these credits are applied as an offset to amounts owed to the Department by airlines, the Department receives less money from these airlines than their leases would provide absent the rental credit. Thus, although the rental credits are not secured by any pledge of or lien on the Department’s revenues, the effect of using such rental credits is the creation of a higher payment priority for such credits than for the Senior Bonds, including the Series 2009 Senior Bonds. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits.”

Concession and Parking Agreements

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

There are a total of 13 food and beverage agreements at LAX, with the largest concessionaire being Host International, Inc. The concession agreements with the food and beverage operators are terminable with notice and extend generally through December 2010; however, most concessionaires operating in TBIT have signed extensions to December 31, 2012. The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (“MAG”) or a percentage of gross revenues. The percentage rents generally range from 14% to 20% of gross revenues for food and nonalcoholic beverages and 20% to 25% for alcoholic beverages and merchandise. In

total, the MAGs for these agreements are approximately \$21.8 million. For Fiscal Year 2009, revenues to the Department from food and beverage concessions totaled approximately \$31.8 million.

The primary gift and news operator at LAX is Hudson Media Inc., doing business as Airport Management Services, LLC (“AMS”). The current agreement with AMS expires on December 31, 2012 with two one-year options and provides for an annual concession fee equal to \$15.5 million or 17% of gross receipts, whichever is greater. There are also three smaller operators that have agreements which expire in December 2010 and provide total MAGs of \$810,000. For Fiscal Year 2009, revenues to the Department from gift and news concessions totaled approximately \$16.8 million.

Duty free revenues at LAX are generated from the sale of duty free merchandise at LAX. The exclusive duty free operator at LAX is DFS Group L.P. (“DFS”), which has been the duty free concessionaire at LAX since 1982. DFS’s exclusive agreement expires on December 31, 2012 with two one-year renewal options. The agreement with DFS provides for a concession fee equal to 30% of annualized gross receipts or a minimum annualized amount of \$26.0 million, whichever is greater. For Fiscal Year 2009, revenues to the Department from duty free sales at LAX were approximately \$30.5 million.

Approximately 40 rental car companies operate at LAX, with vehicle rental sites located off-airport. Ten rental car companies (the “Approved Rental Car Companies”) operating at LAX provide free shuttle services between LAX and their respective locations and are permitted to pick up and drop off their customers directly from the airline terminals. Customers of the other rental car companies use the free LAX Shuttle Bus to reach the off-airport rental car terminal to meet their rental car courtesy shuttle.

The Approved Rental Car Companies are required to pay to the Department the greater of a MAG (\$1.0 million to \$15.4 million per year), or ten percent of their total gross revenues from airport operations to the Department annually. For Fiscal Year 2009, the Approved Rental Car Companies paid \$56.9 million in concession fees to the Department, although their total MAGs were only slightly above \$50 million. This amount is significantly higher than their historic concession fees, which ranged between \$33 million and \$37 million. The agreements with the Approved Rental Car Companies expire January 31, 2010. The Department currently expects to extend the agreements with the Approved Rental Car Companies for an additional two-year period, through January 31, 2012.

The exclusive contract with advertising concessionaire JCDecaux Airport, Inc. (“JCDecaux”) expires in April 2013 and may be extended for an additional four years, provided that the terms and conditions of the extension are agreeable to both parties. This agreement provides for an annual concession fee equal to the greater of a MAG or 70% of gross sales. JCDecaux exceeded its sales goals for the first twelve months of the program, with sales in excess of \$22 million. The current MAG for this contract is \$11 million and is scheduled to increase to \$14 million by Fiscal Year 2013. Fiscal Year 2009 advertising revenues to the Department were approximately \$13.1 million. Gross receipts and concession fees are expected to grow in the fourth and subsequent years of the contract, as additional display locations are placed into service.

The Department has entered into an operating agreement with New South Parking-California (“New South”) for the management of certain parking facilities at LAX and VNY. The current agreement is scheduled to expire in May 2010, subject to two one-year renewal options. This agreement may be terminated by the Department and converted to a month-to-month contract on 30 days’ notice. The agreement requires New South to remit the gross revenues from the parking facilities it operates, on a daily basis, to the Department. The Department compensates New South for certain personnel expenses incurred in the management and operation of the parking facilities. For Fiscal Year 2009, parking revenues to the Department were approximately \$67 million.

In July 2009, the Department purchased the Park One Property adjacent to LAX which is operated as the Park One parking lot. In connection with the purchase, the Department assumed an operating lease with PNF-LAX, Inc. (the “PNF Lease”). The PNF Lease is expected to provide the Department with escalating annual revenue of approximately \$8.2 million during 2010 plus a percentage rent on 100% of gross revenues after certain thresholds are met.

FINANCIAL AND OPERATING INFORMATION CONCERNING LAX

Summary of Operating Statements

The following table summarizes the financial results from operations for LAX for the Fiscal Years 2005 through 2008 (derived from audited financial statements) and Fiscal Year 2009 (derived from unaudited financial statements). See APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007.”

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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

	2005	2006	2007	2008	2009 ⁽²⁾
Operating revenues:					
Aviation revenue					
Landing fees	\$ 134,015	\$ 146,019	\$ 148,937	\$ 171,822	\$ 164,489
Building rentals	101,153	119,271	107,338	146,206	185,457
Other aviation revenue ⁽⁵⁾	49,876 ⁽⁴⁾	51,428	61,689	61,932	59,528
Concession revenue	194,386	200,564	227,177	275,659	265,182
Airport sales and services	1,978	2,034	2,824	2,577	2,229
Miscellaneous revenue	1,234	1,451	2,012	2,030	2,366
Total operating revenue	<u>\$ 482,642</u>	<u>\$ 520,767</u>	<u>\$ 549,977</u>	<u>\$ 660,226</u>	<u>\$ 679,251</u>
Operating expenses:					
Salaries and benefits	\$ 199,238	\$ 231,313	\$ 255,536	\$ 291,015	\$ 298,612
Contractual services	135,313	148,606	141,306	151,155	148,627
Administrative expense	3,970	1,787	725	1,665	1,951
Materials and supplies	37,692	34,043	43,313	37,870	38,738
Utilities	24,378	23,633	20,101	27,674	29,018
Advertising and public relations	8,820	9,843	10,015	8,286	7,967
Other operating expenses	(1,458)	2,099	(2,472)	67	(2,002)
Total operating expenses before	<u>\$ 407,953</u>	<u>\$ 451,324</u>	<u>\$ 468,524</u>	<u>\$ 517,732</u>	<u>\$ 522,911</u>
Income from operations before depreciation and amortization	\$ 74,689	\$ 69,443	\$ 81,453	\$ 142,494	\$ 156,340
Depreciation and amortization	(59,710)	(64,571)	(72,438)	(83,908)	(86,927)
Operating Income	<u>\$ 14,979</u>	<u>\$ 4,872</u>	<u>\$ 9,015</u>	<u>\$ 58,586</u>	<u>\$ 69,413</u>
Non-Operating revenues (expenses):					
Passenger facility charges	\$ 113,739	\$ 114,694	\$ 116,083	\$ 116,705	\$ 103,982
Interest income	28,668	33,902	39,502	49,477	53,602
Change in fair value of investments	(2,978)	(15,292)	10,386	22,207	2,723
Gain (loss) on sale of securities	3,867	217	1,082	--	--
Other non-operating revenue	6,457	1,209	810	1,096	1,868
Interest expense	(16,998)	(12,155)	(15,266)	(18,278)	(20,483)
Bond expense	(302)	(364)	(345)	(428)	(455)
Other non-operating expenses	(29)	(6,600)	--	294	(26,529)
Net non-operating revenue (expenses)	<u>\$ 132,424</u>	<u>\$ 115,611</u>	<u>\$ 152,252</u>	<u>\$ 171,073</u>	<u>\$ 114,708</u>
Income before capital grant contributions	147,403	120,483	161,267	229,659	184,121
Capital grant contributions	791	32,064	62,947	34,555	12,457
TSA Contributions ⁽⁵⁾	--	--	11,094	52,330	75,784
Inter-agency transfers	(3,410)	--	(43,511)	(7,188)	(470)
Change in net assets	144,784	152,547	191,797	309,356	271,892
Residual equity transfers (to) from other funds	--	--	--	--	--
Net assets, beginning of year	\$1,879,752	\$2,024,536	\$2,177,083	\$2,368,880	\$2,678,236
Net assets, end of year	\$2,024,536	\$ 2,177,083	\$ 2,368,880	\$2,678,236	\$2,950,128

⁽¹⁾ Totals may not add due to rounding.

⁽²⁾ Derived from unaudited financial statements.

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

⁽⁵⁾ In the Fiscal Year ended June 30, 2005, TSA Contributions were included in other aviation revenue.

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

Management Discussion of Fiscal Year 2009

For Fiscal Year 2009, LAX had an increase in net assets of approximately \$271.9 million, compared to approximately \$309.4 million for Fiscal Year 2008. Operating revenues at LAX for Fiscal Year 2009 were approximately \$679.2 million, up 2.9% from Fiscal Year 2008. Factors contributing to this increase are as follows:

- Revenue from landing fees decreased approximately \$7.3 million, or 4.3%, from Fiscal Year 2008 and revenue from concessions decreased approximately \$10.5 million, or 3.8%, from Fiscal Year 2008 due to the decrease in passenger traffic.
- The decreases in revenue from these two categories were offset by an approximately \$39.3 million, or 26.8%, increase in revenue from building rentals which has been collected but set aside due to settlement of disputes with various airlines over terminal rents. Building rental revenues are not expected to increase in the future at a comparable rate but are expected increase steadily.

Operating and administrative expenses before depreciation and amortization at LAX for Fiscal Year 2009 increased by approximately \$5.2 million, or 1.0%, over Fiscal Year 2008. Factors contributing to this increase were as follows:

- The increase in administrative expense is due to increases in salary expenses and contractual services. These increases were offset in part by decreases in the cost of utilities, insurance and other categories.
- Depreciation and amortization for Fiscal Year 2009 increased by approximately \$3 million, or 3.6%, from Fiscal Year 2008 largely as a result of newly constructed facilities being placed into service and capitalized on the Department's books.

Non-operating revenues for Fiscal Year 2009 decreased by approximately \$56.3 million, or 32.9%, from Fiscal Year 2008 primarily as a result of a 10.9% decrease in PFC revenue and declining fair market value of investments. Capital grant contributions declined by \$22.1 million, or 64%, due to the receipt of less FAA grant monies. TSA contributions in Fiscal Year 2009 increased by approximately \$23.5 million, or 44.8%, from Fiscal Year 2008 due primarily to the TSA grant monies for in-line baggage screening projects. LAX made approximately \$470,000 of interagency transfers in Fiscal Year 2009 to pay for expenses at VNY.

In December 2008, GASB issued Statement No. 49 (Accounting and Financial Reporting for Pollution Remediation Obligations) ("GASB 49"). This statement requires state and local governments to provide the public with information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to financial statements. The Department is in the process of implementing GASB 49 in connection with the preparation of its Fiscal Year 2009 audited financial statements. To this end, the Department initially plans to create a \$12.8 million reserve as a liability for projected hazardous impacts and future environmental pollution cleanup and plans to take additional measures as they become necessary, to comply with GASB 49.

In June 2009, GASB issued Statement No. 51 (Accounting and Financial Reporting for Intangible Assets) ("GASB 51"). This statement establishes standards for accounting and financial reporting of intangible assets for all state and local governments. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks and computer software. GASB 51 will become effective for the Department beginning in Fiscal Year 2010. Retroactive reporting is required. The Department cannot reasonably quantify the likely financial impact at this time, and no assurance can be given that such impact will not be material.

The following tables set forth the top ten revenue providers at LAX for Fiscal Year 2009.

TABLE 13
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE PROVIDERS
FISCAL YEAR 2009
(DOLLARS IN THOUSANDS)⁽¹⁾

1. American Airlines Inc.	\$ 63,718
2. United Airlines Inc.	62,528
3. Southwest Airlines Co.	45,562
4. DFS Group L.P.	31,230
5. Delta Air Lines Inc. ⁽²⁾	25,807
6. The Hertz Corporation	22,006
7. Alaska Airlines Inc.	20,076
8. Host International Inc.	20,056
9. Continental Airlines	19,030
10. Airport Management Services LLC	16,796

⁽¹⁾ Excludes revenue from federal government. The amounts in this table reflect amounts billed by the Department to the applicable revenue provider as of June 30, 2009.

⁽²⁾ In 2009, Delta and Northwest merged but continue to operate under two FAA certificates. The combined carrier is flying under the Delta name at LAX.

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

The following tables set forth top ten revenue sources at LAX for Fiscal Year 2009.

TABLE 14
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
TOP TEN REVENUE SOURCES
FISCAL YEAR 2009⁽¹⁾
(DOLLARS IN THOUSANDS)

1. Building Rentals	\$ 185,457
2. Landing Fees	164,489
3. Auto Parking	67,289
4. Car Rentals	56,890
5. Lease of Ground Areas	45,186
6. Food & Beverage	31,804
7. Duty Free Sales	30,502
8. Customer Facility Charges	22,086
9. Gifts & News	16,847
10. Advertising	13,086

⁽¹⁾ The amounts in this table reflect the amounts received by the Department from the applicable revenue sources as of June 30, 2009.

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; except that no action of the Board may become final until the expiration of five meeting days of the City Council during which the City Council has convened in regular session. The City Council may veto the action of the Board within 21 days after voting to bring the matter before it, whereupon the matter is remanded to the Board, or the action of the Board becomes final, as provided in Section 245(a) of the Charter.

Fiscal Year 2010 Budget

Department management developed the Fiscal Year 2010 LAX Operating Budget after considering a number of factors including recent years' operating revenue and expense trends, uncertainties surrounding the level of passenger traffic at LAX and the assumption of new additional debt service being paid during the fiscal year. Staff from each of LAX's divisions prepared and submitted their preliminary budgets within the constraints defined by budget staff and submitted additional requests for review in February 2009. Budget hearings were conducted in April 2009 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 2010 Operating Budget on June 22, 2009.

The Fiscal Year 2010 LAX Operating Budget projects operating revenues of approximately \$664.0 million, 0.2% lower than budgeted for Fiscal Year 2009. The Department has projected that LAX aviation revenues will increase due to increased cost recovery from airline tenants at LAX but that such increase will be mitigated by significant decreases in concession and parking revenues due to passenger traffic declines. The Fiscal Year 2010 LAX Operating Budget projects operating expenses of approximately \$554.8 million, approximately 1.9% higher than the Fiscal Year 2009 LAX Operating Budget. The Fiscal Year 2010 LAX Operating Budget does not include appropriations for the 2009 Projects or other capital improvement projects. See "CAPITAL IMPROVEMENT PLANNING." Under the Fiscal Year 2010 LAX Operating Budget, the Department also budgeted for an unallocated balance reserve of \$20 million to meet unanticipated expenditures in Fiscal Year 2010. See also "THE DEPARTMENT OF AIRPORTS – Employee and Labor Relations" and "Retirement Plan" regarding a discussion of certain budgetary pressures, cost saving measures and retirement funding.

Fiscal Year 2009 Budget

The Fiscal Year 2009 LAX Operating Budget projected operating revenues of approximately \$639.2 million, 9.5% higher than budgeted Fiscal Year 2008 operating revenues. The Fiscal Year 2009 LAX Operating Budget projected operating expenses of approximately \$557.5 million, 6.3% higher than the Fiscal Year 2008 LAX Operating Budget.

Historical Debt Service Coverage

The following table shows historical debt service coverage on the Senior Bonds, Subordinate Bonds and the Subordinate Commercial Paper Notes for Fiscal Years 2005 through 2009.

TABLE 15
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
HISTORICAL DEBT SERVICE COVERAGE
FISCAL YEARS 2005-2009⁽¹⁾
(DOLLARS IN THOUSANDS)

	2005	2006	2007	2008	2009
Pledged Revenues⁽²⁾					
Total Operating Revenues	\$ 480,575	\$ 518,053	\$ 546,688	\$ 658,472	\$ 678,259
Interest Income	20,118	25,366	26,026	31,409	35,268
Total Pledged Revenues	\$ 500,693	\$ 543,419	\$ 572,714	\$ 689,881	\$ 713,527
LAX Maintenance and Operations Expenses ⁽³⁾	(406,274)	(447,136)	(466,668)	(515,025)	(519,495)
Net Pledged Revenues ⁽⁴⁾	\$ 94,418	\$ 96,283	\$ 106,046	\$ 174,856	\$ 194,032
Senior Bond Aggregate Annual Debt Service	\$ 32,326	\$ 29,852	\$ 19,306	\$ 19,300	\$ 18,433
Senior Bond Debt Service Coverage Ratio	2.92x	3.23x	5.49x	9.06x	10.53x
Subordinate Bond Debt Service ⁽⁵⁾	\$ 1,613	\$ 2,622	\$ 6,356	\$ 10,640	\$ 15,777
Total Debt Service Coverage	2.78x	2.96x	4.13x	5.84x	5.67x

⁽¹⁾ Unaudited.

⁽²⁾ As defined in the Senior Indenture.

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

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

⁽⁵⁾ Only actual debt service with respect to the Subordinate Commercial Paper Notes is reflected.

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

Report of Airport Consultant; Projected Debt Service Coverage

The following table sets forth the calculations of revenues, expenses, debt service and debt service coverage on the Senior Bonds, the Subordinate Bonds and combined coverage for Fiscal Years 2010 through 2016 as projected by the Airport Consultant.

TABLE 16
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORT
PROJECTED DEBT SERVICE COVERAGE
FISCAL YEARS 2010-2016⁽¹⁾
(DOLLARS IN THOUSANDS)

	2010	2011	2012	2013	2014	2015	2016
Pledged Revenues ⁽²⁾	\$ 705,120,648	\$ 778,303,573	\$ 854,668,573	\$ 921,757,926	\$ 1,016,770,350	\$ 1,119,316,984	\$ 1,188,224,717
LAX Maintenance and Operations Expenses ⁽³⁾	555,692,065	577,950,442	606,797,014	637,084,715	705,354,951	740,567,698	777,541,683
Net Pledged Revenues ⁽⁴⁾	\$ 149,428,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
Senior Bond Aggregate Annual Debt Service ⁽⁵⁾	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
Senior Bond Debt Service Coverage Ratio ⁽⁷⁾	7.31x	3.52x	3.47x	3.03x	2.45x	2.33x	2.52x
Net Subordinate Pledged Revenues	\$ 128,983,199	\$ 143,398,759	\$ 176,503,808	\$ 190,856,160	\$ 184,071,211	\$ 215,922,892	\$ 247,896,585
Subordinate Bonds Aggregate Annual Debt Service ⁽⁶⁾	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
Subordinate Bonds Debt Service Coverage Ratio ⁽⁷⁾	4.40x	4.22x	3.88x	3.53x	3.00x	2.77x	3.09x
Total Debt Service Coverage	3.00x	2.20x	2.12x	1.92x	1.65x	1.57x	1.69x

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

⁽²⁾ As defined in the Senior Indenture.

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

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

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

⁽⁶⁾ For the purposes of these projections, the Airport Consultant has assumed that approximately \$85 million of the Department's \$182 million of outstanding Subordinate Commercial Paper Notes will be repaid with the proceeds of the Series 2009 Bonds. See "PLAN OF FINANCE." The Airport Consultant has also assumed that the Subordinate Commercial Paper Notes outstanding after the issuance of the Series 2009 Bonds will be repaid with future Senior Bonds or Subordinate Bonds. Otherwise, debt service associated with the Subordinate Commercial Paper Notes is not reflected in these projections. Assumes the issuance of Additional Subordinate Bonds. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings."

⁽⁷⁾ No Transfers were assumed for purposes of calculating debt service coverage ratios.

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

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

The activity projections in the Report of the Airport Consultant for LAX are lower than the projections included in the Report of the Airport Consultant prepared in July 2008 (with a Fiscal Year 2007 base year) in support of the issuance of the Series 2008 Bonds (the "2008 Report of the Airport Consultant"). In the 2008 Report of the Airport Consultant, the Airport Consultant's estimate of activity at LAX for Fiscal Year 2008 was close to the actual Fiscal Year 2008 results (30.9 million enplanements projected as compared to 31.1 million actual enplanements). However, the Airport Consultant has concluded that the severity of the cutbacks in airline service, significant increases in fuel prices and worldwide recessionary impacts that occurred after the issuance of the Series 2008 Bonds contributed to the 9.0 percent decrease in enplanements at LAX in Fiscal Year 2009 and were not anticipated at the time that the 2008 Report of the Airport Consultant was prepared. The current estimate of a further (although less significant) decline in LAX activity in Fiscal Year 2010 was also not anticipated at the time the 2008 Report of the Airport Consultant was prepared. The current projections of LAX activity contained in the Report of

the Airport Consultant are substantially lower than projections reflected in the 2008 Report of the Airport Consultant.

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

Investment Practices of the City Treasurer

All moneys held in the Airport Revenue Fund are currently invested by the City Treasurer in investments authorized by State law. The City Treasurer invests temporarily idle cash for the City, including that of the Department, as part of a pooled investment program (the "Pool") which combines general receipts with special funds for investment purposes and allocates interest earnings on a pro rata basis when the interest is earned and distributes interest receipts based on the previously established allocations. Table 17, reported by the City Treasurer's Office from unaudited financial statements, summarizes assets of the Pool as of June 30, 2009.

TABLE 17
CITY OF LOS ANGELES POOLED INVESTMENT FUND⁽¹⁾
ASSETS AS OF JUNE 30, 2009
(Dollars in Millions)

	Book (Carrying Value⁽²⁾)	Percent of Total	Department Carrying Value⁽³⁾	LAX Carrying Value⁽⁴⁾
Deposits	\$ 868	14.90	\$ 229	\$ 211
US Treasury Securities	1,621	27.84	429	394
Federal Agency Securities	1,129	19.39	299	274
Commercial Paper – Discounts	1,189	20.42	314	289
Medium Term Corporate Notes	1,016	17.45	269	247
Total	\$ 5,863	100.00%	\$ 1,540⁽⁵⁾	\$ 1,414⁽⁵⁾

⁽¹⁾ Derived from unaudited financial statements. Based on General Pool 9218 – Combined, Portfolio Management Report provided by City Treasurer's Office.

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

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

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

⁽⁵⁾ Includes securities lending collateral and effect of change in market valuation of investments.

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

The average life of the investment portfolio in the Pool as of June 30, 2009 was 743 days.

The City's treasury operations are managed in compliance with the California State Government Code and a statement of investment policy which sets forth permitted investment vehicles, liquidity parameters and maximum maturity of investments. See also Note 3 – APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF LOS ANGELES WORLD AIRPORTS (DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES, CALIFORNIA) LOS ANGELES INTERNATIONAL AIRPORT FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007."

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 Federal Emergency Management Agency ("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 carries commercial aviation liability insurance with coverage limits of \$1.3 billion for losses arising out of liability for airport operations. The deductible on the commercial aviation liability coverage is \$10,000 per occurrence with an annual \$400,000 aggregate deductible. This aviation liability coverage incorporates a foundation of comprehensive in-house claims management program, incremental claims analysts and adjusters and both outside and inside defense counsel. The liability coverage has endorsements of coverage for all third-party

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

The Department carries general all-risk property insurance with coverage limits of \$1.5 billion for all Department properties. The deductible on this coverage is \$100,000. The Department's insurance also incorporates a property insurance special endorsement that provides coverage for property losses resulting from acts of terrorism (both domestic and foreign). Coverage under this endorsement parallels the general all-risk limits of \$1.5 billion. The Department's insurance coverage also incorporates a property insurance special endorsement that provides for coverage for "boiler and machinery" losses up to a covered limit of \$100 million and property insurance special endorsement that provides coverage for "business interruption" losses to the Airport System resulting from a covered property peril. Coverage for business interruption is limited to \$100 million and the deductible is 36 hours from initial interruption.

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

The Department has purchased insurance to cover catastrophic property, flood, wind and earthquake losses up to \$25 million. The deductible for this coverage is 5% per insured structure. The Department is self-insured for these catastrophic losses in excess of \$25 million.

The Department 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 August 1, 2009, there was approximately \$98.5 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, 2006 AND 2007."

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

CAPITAL IMPROVEMENT PLANNING

LAX Master Plan

The "LAX Master Plan," which was adopted by the Board in 2004, is a broad policy statement regarding the conceptual strategic framework for future improvements at LAX and describes how LAX can accommodate its appropriate share of the region's aviation demand, while balancing those needs with environmental concerns, safety and security and the concerns of LAX's neighbors.

The LAX Master Plan separates the commercial and private vehicle landside components of LAX from the passenger processing facilities and gates. The LAX Master Plan includes plans for a new landside Ground Transportation Center ("GTC"); a new Intermodal Transportation Center ("ITC") with connection to the Los Angeles County Metropolitan Transportation Authority's light rail line known as the Metro Green Line; new on-airport roadways to support the GTC and ITC, redevelopment of the Central Terminal Area to support a variety of enhanced security measures; and construction of an automated people mover system to connect the GTC, ITC and a proposed new consolidated rental car facility to the Central Terminal Area. The LAX Master Plan also includes the crossfield taxiways and associated projects, which were approved by the Board and the City Council in March 2009,

and a proposed reconfiguration of TBIT to enhance the Airport's ability to accommodate "next-generation" aircraft, such as the Airbus A380 and the Boeing 787 and 747-8.

In December 2004, the City Council gave its final approval to the LAX Master Plan, certain associated entitlements and certified the final environmental impact report. In January 2005, several petitioners (the "petitioners") challenged the approval of the LAX Master Plan and the environmental impact report. The lawsuits were settled, subject to compliance with the terms of a comprehensive settlement agreement. See "Settlement of Master Plan Litigation" below.

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

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

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

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

The environmental analysis phase of the LAX Specific Plan Amendment Study began in calendar year 2008 and is expected to culminate with a final environmental impact report to be considered by the Board and City Council in late 2010 or early 2011. The cost of this process is not yet known, as the extent of the environmental analysis is expected to be determined by the range and complexity of the alternatives to be studied.

Settlement of Master Plan Litigation

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

The gate reductions provided for in the stipulated settlement are expected to be achieved through the build out of improved contact passenger gate facilities as approved in the FAA’s Record of Decision issued in connection with the LAX Master Plan. The requirement to reduce gates is expected to remain in effect until December 31, 2020. If LAX does not have 75 million passengers annually or if the LAX Master Plan is substantially revised pursuant to the Specific Plan Amendment Study process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction in gates is necessary.

Agreements Relating to Master Plan Litigation

The Department also has entered into a Cooperation Agreement and a Community Benefits Agreement with the LAX Coalition for Economic, Environmental and Educational Justice (the “Coalition”) which provide environmental mitigation programs and jobs-related benefits to communities that would be impacted by the implementation of the LAX Master Plan. The Department also reached agreement with the Lennox and Inglewood school districts to provide noise abatement improvements at specific schools within the two school districts. Under the school settlement agreements, the Department agreed to fund, among other things, certain noise abatement and other pollution mitigation measures not to exceed \$111 million for the Lennox school district and not to exceed \$118.5 million for the Inglewood school district. Each of these school settlement agreements is conditioned upon FAA approval of expenditures and use of airport revenues for the specified purposes, which approval the FAA did not provide. The school districts sought a legislative approval from Congress which subsequently passed a law allowing the FAA to approve the collection of PFC revenues for some school settlement expenditures. The approval of such PFC collection is subject to a determination by the Secretary of Transportation that the schools are adversely affected by airport noise and the proposed improvements meet certain criteria. A letter has been sent to the Secretary of Transportation seeking a determination that the Lennox Schools are adversely affected by airport noise. The FAA has not yet made a determination.

Capital Improvement Plan

Pursuant to Section 11.28.3 of the Los Angeles Administrative Code, not later than June 1 of each year, the Department is required to provide, for informational purposes only, to the Mayor, the Trade, Commerce and Tourism Committee (formerly known as the Commerce, Energy and Natural Resources Committee) of the City Council and to the City Controller, a capital plan or budget covering at least the next Fiscal Year describing: (i) the proposed capital expenditures of the Department and projects planned to be implemented by the Department, (ii) the proposed method(s) of financing such proposed expenditures including a discussion, if relevant, of financing alternatives and (iii) a description of funding sources including any proposed debt financings.

Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, the City Council and the City Controller every two years in conjunction with submittal of its annual budget. The most recent capital improvement plan submitted by the Department pursuant to the Charter was submitted on August 17, 2005 and covered the three year period ended June 30, 2008. The most recent debt accountability report was transmitted to the City Council on August 26, 2009.

Capital Improvement Program

The Department approaches the development of its Capital Improvement Program (“CIP”) with a strategic focus on delivering facilities that will support LAX’s position as a premier international gateway airport and maintaining a reasonable cost structure for the airlines operating at LAX. On a formal basis the Department reviews and assesses the CIP annually, and continuously on an informal basis, in light of many factors, including, but not limited to, improved information regarding the condition and/or requirements of new and existing facilities, improved cost estimates for contemplated projects, new opportunities for investment or acquisition that arise from time to time, current and forecasted traffic levels and changes within the industry that may influence the cost of the CIP. The Department’s analysis of these factors and other information may result in changes to timing of or scope of contemplated projects and the addition or removal of projects from the CIP.

The Department is in the process of updating its CIP for Fiscal Years 2010 through 2016. The CIP will reflect the Department’s review of previously proposed projects as well as the identification of new projects. The total projects under consideration for inclusion in the CIP for the Fiscal Years 2010 through 2016 are expected to cost in excess of \$5.6 billion and are expected to be financed with a combination of federal grants, Department funds and additional Senior Obligations and/or additional Subordinate Obligations. These projects, including their capital and operating costs, financing and estimated revenue impacts, have been included in the financial analysis included in the Report of the Airport Consultant. The updated CIP is expected to include, among other projects, those projects to be funded or reimbursed, as applicable, with, among other things, the proceeds of the Series 2009 Bonds (*i.e.*, 2009 Projects), including:

- The Terminal Projects – comprised of completion of TBIT improvements, in-line baggage screening system improvements for Terminal 3 and certain terminal elevator and escalator replacements.
- Airfield and Apron Projects – comprised of construction of crossfield taxiways and associated projects, a second phase of airfield intersection improvements, a third phase of airfield operations area perimeter fence replacement and construction of an aircraft rescue and fire fighting station.
- Parking Projects – comprised of acquisition of the Park One Property and certain parking area elevator and escalator replacements.
- Debt Restructuring – comprised of certain debt refundings.

The 2009 Projects are currently estimated to cost approximately \$1.03 billion including design, engineering, construction, escalation for inflation (as appropriate) and contingency amounts.

The CIP is expected to also include certain projects (the “Other Incorporated Projects”) (each as described in more detail in the Report of the Airport Consultant), including:

- Terminal Projects – comprised of construction of the core and concourses in connection with the TBIT reconfiguration, known as “Bradley West,” other terminal improvements, CUP replacement, refunding of certain third-party debt used to finance airport improvements and acquisition of related improvements, lease terminations, terminal elevator and escalator replacements and establishment of an additional reserve for terminal projects.
- Airfield and Apron Projects – comprised of noise mitigation and soundproofing, development of Bradley West adjacent aprons, construction of a west maintenance facility pad and related infrastructure, pavement management program, construction of certain Bradley West related taxiways and associated projects, certain airfield safety improvements and other airfield and apron projects.
- Infrastructure and Other Projects – comprised of certain additional parking area elevator and escalator replacements, technology infrastructure construction, seismic retrofitting of facilities in the Central Terminal Area pedestrian and vehicular bridges, technology upgrades, Central Terminal Area repairs, renovations, improvements and other projects.
- Debt Restructuring – comprised of cash defeasance of certain debt.

The Other Incorporated Projects are currently estimated to cost approximately \$4.6 billion including design, engineering, construction, escalation for inflation (as appropriate) and contingency amounts.

The Department plans to undertake the Other Incorporated Projects and any future projects only if demand at LAX warrants such projects, the costs of such projects are reasonable and the financing thereof is available at reasonable rates.

The development of the CIP will also impact the way the Department operates and structures its airline charges at LAX in the future. Due to the nature of past agreements at LAX, including the Long-Term Leases, the cost of some capital investment in some terminals has been borne by airlines while the cost of some capital investment in others has been borne by the Department. The Department has decided to pursue the implementation of a Uniform Capital Charge. To effect this change, the Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants which could be terminated on terms favorable to the Department. For example, in March 2009, the Department closed a transaction with United for the repurchase of Terminal 6 gate and federal inspection services improvements (among other things) at a cost of approximately \$35 million. See also the discussion of the United Settlement in “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Long-Term Lease Litigation and Settlement Agreements.” As indicated in the Report of the Airport Consultant, the Department has identified financial capacity for the purpose of entering into other such transactions in the future. See “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Future Financings” and “LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Conduit Financings.”

The estimated costs of, and the projected schedule for, the Department’s capital projects are subject to a number of uncertainties. In addition, it is possible that the Department may pursue projects not incorporated in the analysis reflected in the Report of the Airport Consultant. The Department may not ultimately proceed with the projects described above, including the 2009 Projects, or may proceed with them on a different schedule, resulting in different results than those included in the projections. See “CERTAIN INVESTMENT CONSIDERATIONS – Delays and Cost Increases; Future Capital Projects; Additional Indebtedness.”

The 2009 Projects

The 2009 Projects are projects at LAX that are expected to be funded in part with the proceeds of the Series 2009 Bonds and include terminal projects, airfield and apron projects, parking projects and the restructuring of certain debt. For a discussion of the 2009 Projects, including expected sources of funding, see “—Capital Improvement Program” and APPENDIX A - “REPORT OF THE AIRPORT CONSULTANT.”

Passenger Facility Charges

The Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the “1990 PFC Act”) and the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) (“AIR 21,” and collectively with the 1990 PFC Act, the “PFC Acts”) permit public agencies controlling certain commercial service airports (those with regularly scheduled service and enplaning 2,500 or more passengers annually) to charge each

enplaning passenger a facility charge of \$1.00, \$2.00, \$3.00, \$4.00 or \$4.50. Public agencies wishing to impose and use passenger facility charges must apply to the FAA for the authority to do so. The purpose of the passenger facility charge is to develop additional capital funding sources to provide for the expansion of the national airport system. The proceeds from passenger facility charges must be used to finance eligible airport-related projects that preserve or enhance the safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system or furnish opportunities for enhanced competition between or among air carriers.

PFC revenues are collected by air carriers as part of the price of a ticket and then remitted to the Department. The air carriers are permitted by the PFC Acts to retain a portion of each PFC collected (currently \$0.11 of each PFC collected) as compensation for collecting and handling PFC revenues. PFC revenues received by the Department are net of this collection fee. With respect to an airline operating at LAX which is involved in bankruptcy proceedings, it is unclear whether the Department would be afforded the status of a secured creditor with regard to PFC revenues collected or accrued with respect to that airline. See "CERTAIN INVESTMENT CONSIDERATIONS – Effect of Airline Bankruptcies."

The Department has received approval from the FAA to impose and use \$1,649,373,752 of PFC revenues, (including investment income) which are expected to be collected in full by January 1, 2012. Such approval is to collect a \$4.50 PFC on each enplaning passenger at LAX. The following table sets forth a summary of the Department's approved PFC applications relating to LAX.

Airport industry groups have requested that federal PFC regulations be changed to increase the PFC program's maximum PFC level from its current level of \$4.50. As part of a recent proposed bill for FAA Reauthorization for 2009, the House of Representatives passed an increase in the maximum PFC level to \$7.00. The Senate's Bill for Reauthorization did not include an increase for the maximum PFC level, but it proposes the creation of a pilot program in which a limited number of airports would be allowed control over the PFC rate (with no maximum level). A Reauthorization Bill that could potentially increase the maximum PFC level has not yet been adopted by the Senate.

The projections of the Airport Consultant assume a \$4.50 PFC through the projection period. If the maximum PFC level is increased and the Department obtains approval to increase the PFC level at LAX during the projection period, the Department plans to use the additional PFC revenues (through either pay-as-you-go spending or increased payments of debt service) to reduce the level of projected airline payments reflected in the Report of the Airport Consultant. If the current \$4.50 maximum PFC level is not increased during the projection period and/or if the Department is not able to obtain approval for a higher PFC level at LAX during the projection period, the Department expects to explore other funding alternatives and to seek other ways to reduce the level of projected airline payments reflected in the Report of the Airport Consultant, although there can be no assurance that any such alternatives will be feasible or implemented. See "THE REPORT OF THE AIRPORT CONSULTANT."

TABLE 18
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES
LOS ANGELES INTERNATIONAL AIRPORTS
APPROVED PFC APPLICATIONS

PFC Application	Approval Date	Initial Approval Amount	Amended Approval Amount
1	1993	\$100,000,000	\$ 0
2	1996	167,109,000	116,370,846
3	1996	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
Total		\$821,385,968	\$ 1,649,373,752
Total collected as of June 30, 2009:			\$ 1,334,755,930

Source: Department of Airports of the City of Los Angeles

PFC revenues in the amount of approximately \$785 million have been approved by the FAA to fund the LAX Noise Mitigation program, including land acquisition and soundproofing (\$485 million for land acquisition and \$300 million for soundproofing). The Department's land acquisition program involves the voluntary acquisition of properties and relocation assistance for residents near LAX who express a preference for acquisition in lieu of

sound mitigation. The balance of the PFC revenues at LAX are to be used for a variety of projects including improvements to TBIT (including the payment of debt service on Senior Bonds and/or Subordinate Bonds issued to finance a portion of the improvements to TBIT).

Pledged Revenues do not include 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 and has not pledged PFC revenues to the payment of the Senior Bonds (including the Series 2009 Senior Bonds) or the Subordinate Obligations. However, 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 may (if approved by the FAA) use PFC revenues to pay the debt service on the Senior Bonds and/or the Subordinate Obligations. Pursuant to the PFC Resolution, the Department has elected to irrevocably commit to use \$19 million of PFC revenues in each year between 2011 and 2014 to pay debt service on PFC Eligible Bonds. The Department expects to use the irrevocably committed PFC revenues and certain other available PFC revenues to pay the debt service on the Series 2009 Senior Bonds and the Series 2008A Senior Bonds. Additionally, the Department expects, and the forecasts in the Report of the Airport Consultant assume, that a portion of the debt service on Additional Senior Bonds to be issued in the future will be paid from PFC revenues. The Department received approval from the FAA pursuant to an amendment to the Department's fifth PFC Application to use approximately \$468 million of PFC revenues to pay debt service on PFC Eligible Bonds. The Department expects to file additional applications with the FAA to collect additional PFC revenues that are expected to be used to pay the debt service on PFC Eligible Bonds. See APPENDIX A – "REPORT OF THE AIRPORT CONSULTANT." See also "CERTAIN INVESTMENT CONSIDERATIONS."

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

The Department expects the actual amount of PFC revenues received in each Fiscal Year to 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. See also "CERTAIN INVESTMENT CONSIDERATIONS – Considerations Regarding Passenger Facility Charges" and "—Effect of Airline Bankruptcies."

Federal Grants

Under the FAA's Airport Improvement Program ("AIP") the FAA awards grant moneys to airports around the country for capital improvement projects and airport operating costs. AIP grants include entitlement funds, which are apportioned annually based upon the number of enplaned passengers and cargo traffic, as well as discretionary funds, which are available at the discretion of the FAA based on a national priority system. Between June 2008 and May 2009, the Board authorized the acceptance of approximately \$25.8 million in federal AIP grants for the following projects at LAX: 1) \$2.0 million authorized in June 2008 for the Taxiway C-10 reconstruction project; 2) \$7.1 million authorized in June 2008 for the certain taxiway improvement projects; 3) \$3.2 million authorized in February 2009 for the certain taxiway improvement projects and 4) \$13.5 million authorized in June 2009 for certain taxiway improvement projects. The federal grant awards for certain taxiway improvements projects raised the cumulative amount of AIP grant funding for the south airfield improvement projects at LAX to approximately \$108.2 million. The south airfield improvement projects include the Runway 7R/25L project and certain taxiway improvement and associated projects at LAX. Prior AIP grants of approximately \$38.8 million and approximately \$29.5 million were accepted by the Department in August 2005 and March 2006 for the Runway 7R/25L project, and in April 2007 the Board authorized the acceptance of a federal grant in the amount of approximately \$29.6 million for the certain taxiway improvement projects. As of June 2009 the Department has received approximately \$68.3 million of AIP entitlements and discretionary grants for the relocation of Runway 7R/25L and approximately \$36.7 million for the construction of a new center taxiway. The Department expects to receive approximately \$175 million in future AIP grant funding for various apron and taxiway projects included in

the Other Incorporated Projects. 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 Recovery Act authorized \$1.1 billion in one-time nationwide funding to support infrastructure improvements at U.S. airports. In April 2009, the Board authorized an award to the Department of up to \$15 million in federal Recovery Act grant funding to support the construction of a new aircraft rescue and fire fighting facility at LAX. In June 2009, a Recovery Act grant offer from the FAA in the amount of \$10.8 million was executed following receipt of project bids.

Pursuant to the Aviation and Transportation Security Act, the Department is eligible to receive moneys from the federal government as reimbursement for costs associated with additional law enforcement personnel, airport surveillance and the revalidation of all airport-issued and approved identification. During Fiscal Year 2009, the Department received approximately \$6.4 million for security-related reimbursements at LAX. In September 2003 the Department of Homeland Security awarded an approximate amount of \$256 million in the form of reimbursements to the Department for the installation of new in-line baggage screening systems at LAX and LA/ONT. As of June 2009 the Department had received approximately \$157.7 million for LAX and approximately \$21.4 million for LA/ONT from this in-line baggage screening systems grant. Additionally, in September 2008 and January 2009 the Board authorized the execution of certain agreements with the Department of Homeland Security for \$25 million and \$50 million respectively for additional reimbursement for costs associated with the installation of new in-line baggage screening systems at LAX.

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

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, the Department could ultimately become responsible for any the costs of compliance and/or required environmental cleanup. The timing and aggregate costs of such cleanups cannot be determined at this time.

Aircraft Noise Impacts

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

Compliance measures include sound insulation of incompatible structures to reduce the interior noise levels to acceptable levels, acquisition of incompatible properties located within the noise impact areas and the purchase of noise easements from affected property owners. LAX currently operates under a variance that was granted in June 2005, initially for a three-year period. Caltrans has notified the Department that LAX's existing variance shall continue in effect until Caltrans acts on the Department's renewal application. In 1997, the Department began the implementation of a Land Use Mitigation Program at LAX, which provides funding for both land acquisition and residential sound insulation programs. The goal of these programs is to reduce the number of residences in areas impacted by noise from airport operations, by voluntary acquisition of properties and relocation assistance for certain residential neighbors near LAX and acoustic treatment to certain other residential dwelling units. Acoustic treatment generally includes replacing doors and windows, modifying wood frame walls, adding insulation to attics and fitting chimneys and vents with dampers and/or acoustic louvers.

The approved Land Use Mitigation Program has an estimated total cost of \$785 million with approximately \$596.3 million expended as of August 31, 2009. The FAA has approved PFC applications and amendments for the Land Use Mitigation Program, thus allowing the entire amount of \$785 million estimated cost to be funded by PFC revenues. See “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges.”

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

Hazardous Substances

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

Recognizing the need for a comprehensive hazardous materials management policy to ensure the protection of LAX’s facilities, in 1987 the Board adopted the Hazardous Materials Management policy, which includes a program relating to underground tanks and hazardous substances.

The Department also has an Environmental Management Section tasked with performing soil and groundwater investigations, site remediation monitoring, storm water pollution prevention, wildlife biology, air quality and other environmental compliance programs and projects. The Environmental Management Section also monitors underground storage tanks and hazardous substances and perform regulatory reporting.

The Department conducts annual inspections of tenant and Department operations, regarding compliance with the Department’s National Pollutant Discharge Elimination System Stormwater Permit for Industrial Facilities, issued by the State Water Resources Control Board (the “Stormwater Discharge Permit”). These inspections seek to confirm compliance with the Stormwater Discharge Permit and are inclusive of hazardous material storage and handling practices for all operations at LAX. The Department maintains records of all known areas where hazardous materials have been accidentally discharged. The Department works cooperatively with the relevant regulatory agencies to insure the responsible tenants are remediating the contamination. There are currently two major remediation programs in place at LAX. Both of these programs involve the release of jet fuel to ground water underlying LAX. In both cases, the tenants, LAXFUEL Corporation (“LAXFUEL”) and Continental, respectively, have accepted responsibility for the remediation and active remediation systems are in place. LAXFUEL responded to a 125 gallon mechanical hydrant valve fuel release that occurred in July 2008, with remediation action that included an automatic alarm and shut-off valve system.

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

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

covers, among other things, certain indemnification for soil and groundwater contamination. Since 1991 and through the present, Honeywell has been investigating the groundwater contamination at the Park One Property. The Department expects Honeywell to continue its remediation of the soil contamination and investigation of the groundwater contamination and to design and implement requisite groundwater clean-up work.

Emission Standards

Air emissions associated with airport activities are governed by a number of federal, State and local regulations. Most notable of these are the California Clean Air Act (the “CCAA”), the California Global Warming Solutions Act (“AB32”), and various South Coast Air Quality Management District (“SCAQMD”) rules and regulations.

The FAA’s January 2005 Final Environmental Impact Statement relating to the LAX Master Plan includes various mitigation measures designed to reduce emissions from airport operations at LAX, including: requiring all airline and tenant ground service equipment to meet zero emission goals; providing 400 hertz power and preconditioned air at all passenger loading bridges, allowing aircraft to shut off their polluting auxiliary power units; installing ground power at all cargo and maintenance ramp areas, allowing cargo and maintenance operations to shut off their auxiliary power units; conversion of all airport shuttles and vans to low emission vehicles and reducing construction emissions through the use of low polluting construction equipment. In addition, the projected future activities associated with implementation of the LAX Master Plan have been sent to the United States Environmental Protection Agency for approval.

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

AB32 specifically regulates the release of certain “Greenhouse Gas” (“GHG”) emissions from stationary sources within the State. The Mandatory Reporting requirement under AB32 requires facilities that generate greater than 25,000 MTCO_{2e} per year to report their GHG emissions. The Department owns and operates a cogeneration plant at LAX, which is expected to be subject to this requirement, along with other stationary sources in the facility (e.g., natural gas boilers and heaters). This facility complies in all material respects with all requirements under AB32. The State Attorney General’s Office has been using CEQA aggressively to apply the provisions of AB32 to local and regional plans as well as to projects. As a result, project level CEQA analysis prepared for LAX Master Plan-related projects must include an analysis of the project’s potential GHG emissions and impacts.

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, paint spray booths and the use of various volatile organic chemical containing materials. The SCAQMD has a full-time inspector assigned to LAX. This inspector conducts routine inspections of LAX and tenant operations to verify compliance with the SCAQMD rules and regulations. In addition, the Department Environmental Services Division includes an Air Quality Section with five full-time professional staff assigned to maintain compliance with the various rules and regulations.

In May 2009, the Department received a “Notice of Intent to Sue,” alleging various violations under the Clean Air Act, from a law firm writing on behalf of an individual. To date, the Department has not been served in the lawsuit referred to in such Notice. The Department believes that its operations are in substantial compliance with the Clean Air Act, however it is not possible to predict whether the Department may be found to be in violation of the Clean Air Act, nor the amount of damages or fines that may be payable. There can be no assurance that such amounts will not be material.

Environmental Impact Report Process

In December 2004, after the Board adopted the LAX Master Plan, the Board and the City Council certified an Environmental Impact Report and adopted a comprehensive development program for the Airport, the LAX Master Plan (also known as “Alternative D”), the City’s general plan for LAX (known as the LAX Plan) and the LAX Specific Plan. The FAA issued the Federal Record of Decision on the Environmental Impact Statement for Alternative D in May 2005. The LAX Specific Plan and the stipulated settlement call for the LAX Specific Plan

Amendment Study, which is to comprehensively address security, traffic, aviation activity and corresponding environmental analysis prior to seeking approval to proceed with certain Yellow Light Projects, among other things.

As is described in further detail above under “CAPITAL IMPROVEMENT PLANNING – Settlement of Master Plan Litigation,” in February 2006, a stipulated settlement was reached with respect to litigation commenced by the Cities of El Segundo, Inglewood, and Culver City, the County of Los Angeles and ARSAC against the Department, the City, the City Council, the Mayor and the Board, challenging the environmental review and approval of the LAX Master Plan. This settlement removes potential litigation obstacles to allow the Department to proceed with a series of projects in the Master Plan Program for which an LAX Specific Plan Amendment Study is not required, while it processes that Study. These include all subsequent Department, Board and/or City Council approvals for all entitlements and other actions for any of the specific project components that implement Alternative D and that are not Yellow Light Projects, including for example the crossfield Taxiways project (a 2009 Project) and various other terminal, airfield and apron projects. The Alternative D State environmental review and approval was programmatic. Therefore, all site-specific projects that implement Alternative D are subject to project level environmental review.

Project level environmental reviews are complete for the south airfield improvement program, the TBIT interior project, the crossfield taxiway and associated projects and the TBIT reconfiguration project, also known as Bradley West. The Department has begun project-level environmental reviews for the LAX Specific Plan Amendment Study and the CUP replacement project. See “CAPITAL IMPROVEMENT PLANNING.”

CERTAIN INVESTMENT CONSIDERATIONS

The purchase and ownership of the Series 2009 Bonds involve investment risk. Prospective investors are urged to read this Official Statement, including the appendices hereto, in its entirety. The factors set forth below, among others, may affect the security for the Series 2009 Bonds. The information below 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 2009 Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other risks or considerations not discussed herein are or will not become material in the future.

Demand for Air Travel

The Series 2009 Senior Bonds are payable solely from Pledged Revenues (Net Pledged Revenues on and after the Pledge Change Date) and other available funds. The Series 2009 Subordinate Bonds are payable solely from Subordinate Pledged Revenues (subject to the amendment to the definition of Subordinate Pledged Revenues that will become effective on the Pledge Change Date) and such other available funds. Pledged Revenues, Subordinate Pledged Revenues and PFC revenues depend primarily on the level of aviation activity and enplaned passenger traffic at LAX.

Air travel demand has historically correlated to consumer income and business profits. For a discussion of the effect of the national economy on demand for air travel, see APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

The level of aviation activity and enplaned passenger traffic at LAX depend upon a number of factors including economic and political conditions; international hostilities such as those presently occurring in Iraq, Afghanistan and elsewhere in the Middle East; world health concerns such as the 2002-2003 Severe Acute Respiratory Syndrome (or SARS) outbreak and recent H1N1 influenza concerns; aviation security concerns including incidents of terrorism; accidents involving commercial passenger aircraft; airline service and routes; airline fares and competition; airline industry economics, including labor relations, fuel prices, aging aircraft fleets and other factors discussed in more detail under “ – Financial Condition of the Airlines” below; capacity of the national air traffic control and airport systems; capacity of LAX and competition from other airports and reliability of air service; and the availability and convenience of service at LAX, among others.

Many of these factors are outside the Department’s control. Drops in aviation activity and enplaned passenger traffic at LAX would result in reduced Pledged Revenues, Subordinate Pledged Revenues and PFC revenues. A number of these factors are discussed in APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.”

Financial Condition of the Airlines

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

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses. After a period of improved cash flow beginning in 2005, airlines are again facing significant challenges. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the U.S. economy, other regional and world economies, corporate profitability, security concerns and other factors. Structural changes to the industry also result from the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code. Since the events of September 11, 2001, a number of airlines, including, but not limited to, Air Canada, ATA, Aloha Airlines (“Aloha”), Delta, Frontier Airlines (“Frontier”), Hawaiian Airlines (“Hawaiian”), Independence Air, Maxjet, Mesaba Airlines, Midway Airlines (“Midway”), Northwest Airlines (“Northwest”), Skybus Airlines (“Skybus”), United, US Airways, Vanguard Airlines (“Vanguard Air”) and Varig Airlines (“Varig”), filed for bankruptcy reorganization. A number of these airlines currently remain under bankruptcy protection. See “– Effect of Airline Bankruptcies”.

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

The price of fuel has been a significant cost factor for the airline industry. Aloha, ATA and SkyBus cited high fuel prices as a contributing factor in their bankruptcy filings. While some airlines have hedged fuel prices through the purchase of oil futures contracts, the substantial increase in fuel prices has had a significant impact on profitability, and future fuel price increases or sustained higher prices could continue to affect the financial condition of airlines and the level of service they provide. High fuel prices also have an adverse impact on air cargo volumes. A number of airlines have indicated that they intend to reduce passenger and/or cargo service at LAX in conjunction with systemwide cuts. Several legacy airlines have approved double digit reductions in capacity in the past year. No assurance can be given that other airlines will not eliminate or reduce service at LAX.

The aviation industry is cyclical and subject to intense competition and variable demand. Traffic volumes are responsive to a number of factors described above under “—Demand for Air Travel.” Further, airline debt levels remain high, many airlines have large unfunded pension obligations and many airlines have an aging aircraft fleet and/or aging computer systems. The airlines are vulnerable to fuel price spikes, labor activity, recession and external shocks (such as terrorism, pandemics, military conflicts and natural disasters). As a result, financial performance can fluctuate dramatically from one reporting period to the next.

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

Effect of Airline Bankruptcies

A number of airlines serving LAX have filed for bankruptcy since September 11, 2001, including Air Canada, ATA, Delta, Frontier, Hawaiian, Maxjet, Midway, Northwest, United, US Airways, Vanguard and Varig. ATA, Maxjet, Midway, Vanguard and Varig have ceased operations. None of the airlines that have ceased operations was responsible for more than 1.5% of passenger enplanements at LAX. However, certain airline bankruptcies have resulted in reductions of service levels, even in cases where such airlines continued to operate in bankruptcy. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. It is not

possible to predict the impact on LAX of the recent, potential and any future bankruptcies, liquidations or major restructurings of other airlines.

In the event an airline that has executed an agreement with the Department and/or the City seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the Department and/or the City (i) within 120 days or later, if ordered by the court, with respect to its use agreements or leases of non-residential real property, but in no event more than 210 days unless additional time is agreed to in writing by the Department or the City or (ii) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and to provide adequate assurance of future performance under the applicable agreement. The Department is unable to predict whether any leases of non-residential real property with any airlines in bankruptcy proceedings may be assigned to third parties in the course of bankruptcy proceedings. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Department and/or the City for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Except for costs allocated to any such airline for post-petition usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of a use or other agreement in connection with an airline in bankruptcy, such as airfield costs, would be passed on to the remaining airlines under their respective use agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. Additionally, during the pendency of a bankruptcy proceeding, and until assumption or rejection of the affected agreements, a debtor airline may not, absent a court order, make any payments to the City or the Department on account of goods and services provided prior to the bankruptcy. Thus, the Department's stream of payments from a debtor airline might be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

Pursuant to the PFC Acts, the FAA has approved the Department's applications to require the airlines to collect and remit to the Department a PFC on each enplaning revenue passenger at LAX. See "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges." The PFC Acts provide that 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 PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. The airlines, however, are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Department cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at LAX. It is possible that the Department could be held to be an unsecured creditor with respect to unremitted 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. PFC revenues are expected to be used, but are not pledged to, the repayment of Bonds, including the Series 2009 Bonds.

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

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Department and potentially in delays or reductions in payments on the Series 2009 Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2009 Bonds.

Effect of Concessionaire Bankruptcies

A bankruptcy of any significant concessionaire at LAX could also result in delays or reductions in revenues received by the Department, for reasons similar to those discussed above with respect to airline bankruptcies. A number of rental car companies operating at LAX filed for bankruptcy protection after September 11, 2001 and it is possible that rental car companies or other concessionaires will file for bankruptcy protection in the future. Regardless of any specific adverse determinations in a concessionaire bankruptcy proceeding, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2009 Bonds.

Effect of Airline Industry Consolidation

The airline industry is in the process of fundamental change, and it is possible that one or more of the airlines serving LAX could consolidate. In 2009, Delta and Northwest merged but continue to operate under two FAA certificates and the combined carrier is flying under the Delta name at LAX. Certain other major domestic airlines have joined or may be forming alliances with other major domestic airlines. Depending on which airlines serving LAX, if any, merge or join alliances, the result may be fewer flights or decreases in gate utilization by one or more airlines, which decrease could be significant. Such decreases could result in reduced Pledged Revenues and Subordinate Pledged Revenues, reduced PFC collections and increased costs for the airlines serving LAX. It is not possible at this time to predict the effect on gate usage at LAX, or the corresponding impact on Pledged Revenues, Subordinate Pledged Revenues, PFC collections or airline costs, as a result of potential airline consolidation.

Aviation Security Concerns

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

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

Regulations and Restrictions Affecting LAX

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

In general, federal aviation law requires that airport fees charged to airlines and other aeronautical users be reasonable and that to receive federal grant funding, all airport generated revenues must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner that are directly and substantially related to air transportation of passengers or property. Although the Department believes it is in compliance with these requirements, the Department faces occasional challenges to the reasonableness of rates charged and payments made. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases – Complaints Regarding the Airport Terminal Tariff and Subsequent U.S. DOT Decision" and "CAPITAL IMPROVEMENT PLANNING – Federal 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 one of the existing challenges or the existing audit or in a future challenge or audit could limit the ability of the Department to charge airlines and other aeronautical rates sufficient to meet the covenants in the Master Senior Indenture, the Master Subordinate Indenture

and the Parity Subordinate Indenture, which would require the Department to increase rates and fees charged to non-aeronautical users, could result in the loss of certain federal funding and could have a material adverse impact on the Pledged Revenues and Subordinate Pledged Revenues. Further, federal grants are paid on a reimbursement basis and are subject to audit. Failure to comply with federal statutes and regulations can result in the loss of PFC revenues and federal grants.

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

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

Seismic Risks

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

Considerations Regarding Passenger Facility Charges

The Department has received FAA authorization to collect PFC revenues as described under “CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges.”

The Department expects to pay a portion of the debt service on the Senior Bonds with PFC revenues, and as a result, this portion of debt service is not included in the coverage calculations described in “FINANCIAL AND OPERATING INFORMATION CONCERNING LAX – Report of the Airport Consultant; Projected Debt Service Coverage” and in APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – Passenger Facility Charges.”

Pursuant to the PFC Resolution, the Department irrevocably committed \$19 million of PFC revenues in each year between 2011 and 2014 to the payment of debt service on certain PFC Eligible Bonds. The Series 2009 Senior Bonds and the Series 2008A Senior Bonds are PFC Eligible Bonds. The Department currently anticipates, and the forecasts in the Report of the Airport Consultant assume, that the Department’s use of PFC revenues to pay debt service on the PFC Eligible Bonds, including the Series 2009 Senior Bonds, will vary.

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

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

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

Considerations Regarding Series 2009C Subordinate Bonds ("Build America Bonds")

The Department currently intends to elect irrevocably to treat the Series 2009C Subordinate Bonds as "Build America Bonds" for the purposes of the Recovery Act and the Code. Subject to the Department's compliance with certain requirements of the Code, the Department expects to receive cash subsidy payments rebating a portion of the interest on the Series 2009C Subordinate Bonds from the United States Treasury in an amount equal to thirty-five percent of the interest payable on the Series 2009C Subordinate Bonds. Such cash subsidy does not constitute a full faith and credit guaranty of the United States but is required to be paid by the United States Treasury under the Code. If the subsidy payments are reduced or eliminated as a result of a change in the law, the Department may elect to redeem the Series 2009C Subordinate Bonds. See "—Redemption Provisions – Extraordinary Optional Redemption of the Series 2009C Subordinate Bonds."

The Department's receipt of the subsidy is subject to certain requirements including the filing of a form with the Internal Revenue Service prior to each Interest Payment Date. The Department makes no assurances regarding the future legislative or policy changes or the netting of other tax liabilities against the subsidy by the United States Treasury which may affect the amount or receipt of the subsidy payment. No holder of a Series 2009C Subordinate Bonds will be entitled to a tax credit with respect to the Series 2009C Subordinate Bonds. See "TAX MATTERS."

Delays and Cost Increases; Future Capital Projects; Additional Indebtedness

The estimated costs of, and the projected schedule for, the 2009 Projects, the Other Incorporated Projects and the other capital projects are described under "CAPITAL IMPROVEMENT PLANNING – Capital Improvements Program" and include in the financial analysis in the Report of the Airport Consultant are subject to a number of uncertainties. The ability of the Department to complete the 2009 Projects, the Other Incorporated Projects and the Department's other capital projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, earthquakes or other casualty events, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be made that the existing projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Additional Senior Bonds, Additional Subordinate Bonds and/or Subordinate Commercial Paper Notes and may result in increased costs to the airlines operating at the Airport.

In addition, certain funding sources are assumed to be available for such projects. For example, the Report of the Airport Consultant assumes that the Department will receive AIP grant funding and TSA funding for various projects referenced under "CAPITAL IMPROVEMENT PLANNING – Capital Improvement Program" and described in greater detail in the Report of the Airport Consultant. See also "—Considerations Regarding Passenger Facility Charges" above. No assurances can be given that such funding will, in fact, be available. If such funding source, or other funding sources incorporated in the Report of the Airport Consultant, are not available, the Department will have to eliminate or scale down projects or incur additional indebtedness, possibly including

issuing Additional Senior Bonds, Additional Subordinate Bonds or Subordinate Commercial Paper Notes, to finance such projects. Such changes could result in actual results differing materially from the projections in the Report of Airport Consultant.

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

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

Enforceability of Remedies; Limitation on Remedies

As discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – Events of Default and Remedies; No Acceleration,” there is no right to acceleration of payments to bondholders under either the Senior Indenture or the Subordinate Indenture and bondholders may be required to make a separate claim for each semiannual payment not paid. Further, as discussed above under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS,” the CP Reimbursement Agreements and the Subordinate Bonds Reimbursement Agreements permit the CP Banks and BNP, respectively, to accelerate the payments due the CP Banks and BNP, respectively, in certain circumstances. Further, the remedies available to the owners of the Series 2009 Bonds upon an Event of Default under the Senior Indenture and the Subordinate Indenture are in many respects dependent upon regulatory and judicial actions that are subject to discretion and delay. Under existing laws and judicial decisions, the remedies provided for in the Senior Indenture and the Subordinate Indenture may not be readily available or may be limited. Legal opinions to be delivered concurrently with the delivery of the Series 2009 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Series 2009 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the enforcement of creditors’ rights generally and by equitable remedies and proceedings generally as well as limitations on actions against public entities.

Rate Covenant Limitations

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS – Senior Bonds – Senior Rate Covenant” and “—Subordinate Obligations – Subordinate Rate Covenant,” the Senior Indenture and the Subordinate Indenture include covenants with respect to the establishment of rates and charges. However, the Senior Indenture and the Subordinate Indenture provide that so long as the Department is taking specified steps to meet the applicable rate covenant, an event of default will not be triggered until the end of the second subsequent Fiscal Year. The ability of the Department to increase rates and charges and to reduce maintenance and operation expenses is limited by, among other things, federal law (including the provisions thereof described under “—Regulations and Restrictions Affecting LAX”) and by the terms of the leases between the Department and airlines or other tenants.

Assumptions in the Report of the Airport Consultant

The Report of the Airport Consultant included as APPENDIX A incorporates numerous assumptions regarding the utilization of LAX and other matters and states that the report is subject to uncertainties. The Report of the Airport Consultant should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that the assumptions on which the forecasts in the Report of the Airport Consultant is based will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances will occur. Therefore, actual results achieved during the forecast period will vary from those set forth in APPENDIX A and the variations may be material. Further, the Report of the Airport Consultant does not cover the entire period through maturity of the Series 2009 Bonds. See APPENDIX A – “REPORT OF THE AIRPORT CONSULTANT.” See also “—Delays and cost increases; Future Capital Projects; Additional Indebtedness.”

Forward-Looking Statements

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

AIRLINE INDUSTRY INFORMATION

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

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

The Department undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any reports and statements filed with the SEC or U.S. DOT as described in this section or (ii) any material contained on the SEC’s website as described in this section, including, but not limited to, updated information on the SEC website or links to other Internet sites accessed through the SEC’s website. Any such information is not part of this Official Statement nor has such information been incorporated by reference herein, and such information should not be relied upon in deciding whether to invest in the Series 2009 Bonds.

LITIGATION

There is no litigation now pending or, to the best of the Department’s knowledge, threatened which seeks to restrain or enjoin the sale, execution, issuance or delivery of the Series 2009 Bonds or in any way contests the validity of the Series 2009 Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2009 Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2009 Bonds. Further, there is no pending litigation relating to the Airport System or the Department’s operations or business pertaining thereto that would reasonably be expected to have a material impact on Pledged Revenues or the operation of LAX, except as described under “AGREEMENTS FOR USE OF AIRPORT FACILITIES – Airport Terminal Tariff and Leases,” “CAPITAL IMPROVEMENT PLANNING – Settlement of Master Plan Litigation” and “—Agreements Relating to Master Plan Litigation” and “AIRPORT SYSTEM ENVIRONMENTAL MATTERS” and below.

A number of individuals have instituted litigation against the Department for damages in amounts that have not yet been specified nor determined. These claimants argue they have suffered damages due to the Department’s purchase, demolition and alleged failure to maintain neighboring properties as well as the Department’s alleged inappropriate use of, as yet, undemolished Department-owned parcels. According to the plaintiffs, the Department’s actions have caused a diminution of the value of the plaintiffs’ property, prevented the plaintiffs from using their property for its highest and best use (for example, conversions to condominiums) and lost rental income. The

Department believes that these cases are without merit and is seeking to dismiss them, however, no assurance can be given that these cases will be dismissed or regarding the outcome of these cases.

A fuel service provider has made a claim for damages against the Department in connection with a certain right of way license agreement granted by the Department to the provider. The provider claims that the Department offered, and the provider accepted, an extension of the right of way license agreement in connection with certain fuel pipeline relocation work undertaken by the provider. The Department disputes, among other things, that any such offer was made. The provider seeks damages in the amount of \$146.1 million for, among other things, lost profits for the loss of the extension and the right of way license agreement, reimbursement of pipeline relocation expenses and anticipatory breach of contract. The Department has denied the provider's claim and believes that the provider's claim is without merit. However, no assurance can be given that the provider will not file litigation or regarding the outcome of any such litigation, if filed.

On July 23, 2008, the City filed a complaint in the Superior Court for the County of Los Angeles, California, Case Number BC394944, which named a number of defendants, including Morgan Stanley & Co. and J. P. Morgan Securities Inc. The complaint alleges that the defendants manipulated the municipal derivatives market by various means to decrease the returns the City earned on guaranteed investment contracts and municipal derivative instruments. The complaint was removed to federal district court in the Central District of California on August 25, 2008 and subsequently consolidated for pre-trial coordination with other related actions in the Southern District of New York, Master Docket Number 08-CV-02516 (VM). Morgan Stanley & Co. and J.P. Morgan Securities Inc. are two underwriters of the Series 2009 Bonds. Neither the City nor such underwriters can predict the outcome of the lawsuit. The Department is not a party to such litigation. There can be no assurance that the Department will not become a party to the pending litigation or other similar litigation.

TAX MATTERS

Tax-Exempt Series 2009 Bonds

General. In the opinion of Kutak Rock LLP and QUATEMAN LLP, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2009 Senior Bonds, the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds (collectively, the "Tax-Exempt Series 2009 Bonds") is excluded from gross income for federal income tax purposes, except for interest on any Series 2009 Senior Bond for any period during which such Series 2009 Senior Bond is held by a "substantial user" of the facilities financed or refinanced by the Series 2009 Senior Bonds or by a "related person" within the meaning of Section 147(a) of the Code. Co-Bond Counsel are further of the opinion that (a) interest on the Series 2009 Senior Bonds and the Series 2009D Subordinate Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations; and (b) interest on the Series 2009E Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations. Notwithstanding Co-Bond Counsels' opinions that interest on the Series 2009E Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of federal alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

The opinions described in the preceding paragraph 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 Tax-Exempt Series 2009 Bonds. Failure to comply with such requirements could cause interest on the Tax-Exempt Series 2009 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Series 2009 Bonds. The Department will covenant to comply with such requirements. Co-Bond Counsel have expressed no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Series 2009 Bonds.

The accrual or receipt of interest on the Tax-Exempt Series 2009 Bonds may otherwise affect the federal income tax liability of the owners of the Tax-Exempt Series 2009 Bonds. The extent of these other tax consequences will depend upon such owners' particular tax status and other items of income or deduction. Co-Bond Counsel have expressed no opinion regarding any such consequences. Purchasers of the Tax-Exempt Series 2009 Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial

institutions, certain recipients of social security or railroad retirement benefits, taxpayers otherwise entitled to claim the earned income credit, or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Tax-Exempt Series 2009 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 Tax-Exempt Series 2009 Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The new reporting requirement does not in and of itself affect or alter the excludability of interest on the Tax-Exempt Series 2009 Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

Tax Treatment of Original Issue Discount. The Series 2009 Senior Bonds maturing on May 15, 2016 and bearing interest at 3.125%, on May 15, 2034 and on May 15, 2039 (collectively, the “Discount Tax-Exempt Bonds”) are being sold at an original issue discount. The difference between the initial public offering prices of such Discount Tax-Exempt Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated in the same manner for federal income tax purposes as interest, as described under “ – General” above.

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

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

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

Tax Treatment of Original Issue Premium. The Series 2009 Senior Bonds maturing on May 15, 2010 through, and including, May 15, 2015; on May 15, 2016 and bearing interest at 5.000%, on May 15, 2017 through, and including, May 15, 2023; on May 15, 2024 and bearing interest at 5.250%; and on May 15, 2029, the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds (collectively, the “Premium Tax-Exempt Bonds”) are being sold at a premium. An amount equal to the excess of the issue price of a Premium Tax-Exempt Bond over its stated redemption price at maturity constitutes premium on such Premium Tax-Exempt Bond. An initial purchaser of a Premium Tax-Exempt Bond must amortize any premium over such Premium Tax-Exempt Bond’s term using constant yield principles, based on the purchaser’s yield to maturity (or, in the case of Premium Tax-Exempt Bonds callable prior to their maturity, by amortizing the premium to the call date, based on the purchaser’s yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of interest for the period and the purchaser’s basis in such Premium Tax-Exempt Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Tax-Exempt Bond prior to its maturity. Although the purchaser’s basis may be reduced, no federal income tax deduction is allowed. Purchasers of the Premium Tax-Exempt Bonds should consult with their tax advisors with respect to the

determination and treatment of premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Tax-Exempt Bond.

Series 2009C Subordinate Bonds (Federally Taxable)

The following is a summary of certain material federal income tax consequences of the purchase, ownership and disposition of the Series 2009C Subordinate Bonds. This summary is based upon laws, regulations, rulings and decisions currently in effect, all of which are subject to change. The discussion does not address all federal tax consequences applicable to all categories of investors, some of which may be subject to special rules, including but not limited to, partnerships or entities treated as partnerships for federal income tax purposes, pension plans and foreign investors, except as otherwise indicated. In addition, this summary is generally limited to investors that are “U.S. holders” (as defined below) who will hold the Series 2009C Subordinate Bonds as “capital assets” (generally, property held for investment) within the meaning of Section 1221 of the Code.

Investors should consult their own tax advisors to determine the federal, state, local and other tax consequences of the purchase, ownership and disposition of the Series 2009C Subordinate Bonds.

As used herein, a “U.S. holder” is a “U.S. person” that is a beneficial owner of a Series 2009C Subordinate Bond. A “non U.S. holder” is a holder (or beneficial owner) of a Series 2009C Subordinate Bond that is not a U.S. person. For these purposes, a “U.S. person” is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in the Treasury Regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust’s administration and (ii) one or more United States persons have the authority to control all of the trust’s substantial decisions.

General. Interest on the Series 2009C Subordinate Bonds (including original issue discount, as discussed below) is not excludable from gross income for federal income tax purposes. Payments of interest with respect to the Series 2009C Subordinate Bonds will be includible as ordinary income when received or accrued by the holders thereof in accordance with their respective methods of accounting and applicable provisions of the Code.

Characterization of the Series 2009C Subordinate Bonds as Indebtedness. For federal income tax purposes, the Series 2009C Subordinate Bonds will be treated as indebtedness of the Department. The owners of the Series 2009C Subordinate Bonds, by purchasing the Series 2009C Subordinate Bonds, will be deemed to have agreed to treat the Series 2009C Subordinate Bonds as indebtedness of the Department for federal income tax purposes. The Department intends to treat the Series 2009C Subordinate Bonds as its indebtedness for tax and financial accounting purposes.

Disposition and Defeasance of Series 2009C Subordinate Bonds. Upon the sale, exchange, retirement or other taxable disposition (collectively, a “disposition”) of a Series 2009C Subordinate Bond, a Bondholder will generally recognize gain or loss equal to the difference between the amount realized on such disposition (less any accrued interest, which will be taxable as ordinary income in the manner described above under “General”) and the Bondholder’s adjusted tax basis in such Series 2009C Subordinate Bond. The Department may deposit moneys or securities with the Subordinate Trustee in escrow in such amount and manner as to cause the Series 2009C Subordinate Bonds to be deemed to be no longer outstanding under the Subordinate Indenture (a “defeasance”). A defeasance of the Series 2009C Subordinate Bonds may result in a reissuance thereof, in which event a Bondholder will also recognize gain or loss as described in the first sentence of this paragraph. Ordinarily, upon the disposition or defeasance of the Series 2009C Subordinate Bonds, such gain or loss will be treated as a capital gain or loss. At the present time, the maximum capital gain rate for certain assets held for more than twelve months is 15%. However, if a Series 2009C Subordinate Bond was subject to a discount at its initial issuance, a portion of such gain will be recharacterized as interest and therefore ordinary income. In February of 2009, the President proposed increasing the long-term capital gains rate to 20%. Neither the Department nor Co-Bond Counsel can predict whether this increase will receive Congressional approval.

Original Issue Discount. If the Series 2009C Subordinate Bonds are deemed to be issued with original issue discount, Section 1272 of the Code requires the current ratable inclusion in income of original issue discount greater than a specified de minimis amount using a constant yield method of accounting. In general, original issue discount is calculated, with regard to any accrual period, by applying the instrument’s yield to its adjusted issue price at the beginning of the accrual period, reduced by any qualified stated interest allocable to the period. The aggregate original issue discount allocable to an accrual period is allocated to each day included in such period. The

holder of a debt instrument must include in income the sum of the daily portions of original issue discount attributable to the number of days he owned the instrument. The legislative history of the original issue discount provisions indicates that the calculation and accrual of original issue discount should be based on the prepayment assumptions used by the parties in pricing the transaction.

A purchaser (other than a person who purchases a Series 2009C Subordinate Bond upon issuance at the issue price) who buys a Series 2009C Subordinate Bond at a discount from its principal amount (or its adjusted issue price if issued with original issue discount greater than a specified de minimis amount) will be subject to the market discount rules of the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of accrued market discount. Although the accrued market discount on debt instruments such as the Series 2009C Subordinate Bonds which are subject to prepayment based on the prepayment of other debt instruments is to be determined under regulations yet to be issued, the legislative history of the market discount provisions of the Code indicate that the same prepayment assumption used to calculate original issue discount should be utilized.

Owners of Series 2009C Subordinate Bonds purchased at a discount should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning such Series 2009C Subordinate Bonds.

Backup Withholding. Certain purchasers may be subject to backup withholding at the application rate determined by statute with respect to interest paid with respect to the Series 2009C Subordinate Bonds if the purchasers, upon issuance, fail to supply the applicable party or their brokers with their taxpayer identification numbers, furnish incorrect taxpayer identification numbers, fail to report interest, dividends or other “reportable payments” (as defined in the Code) properly, or, under certain circumstances, fail to provide the applicable party with a certified statement, under penalty of perjury, that they are not subject to backup withholding. Information returns will be sent annually to the Internal Revenue Service and to each purchaser setting forth the amount of interest paid with respect to the Series 2009C Subordinate Bonds and the amount of tax withheld thereon.

State, Local or Foreign Taxation. No representations are made regarding the tax consequences of purchase, ownership or disposition of the Series 2009C Subordinate Bonds under the tax laws of any other state, locality or foreign jurisdiction (except as provided in “—Exemption Under California State Law” below).

Circular 230. To ensure compliance with Treasury Circular 230, holders of the Series 2009C Subordinate Bonds should be aware and are hereby put on notice that: (a) the discussion in this Official Statement with respect to U.S. federal income tax consequences of owning the Series 2009C Subordinate Bonds is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer; (b) such discussion was written in connection with the promotion or marketing (within the meaning of Treasury Circular 230) of the transactions or matters addressed by such discussion; and (c) each taxpayer should seek advice based on its particular circumstances from an independent tax advisor.

Exemption Under California State Law

Co-Bond Counsel are of the opinion that under existing laws, regulations, rulings and judicial decisions, interest on the Series 2009 Bonds is exempt from State of California personal income taxes.

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 2009 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 2009 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 2009 Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2009 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Co-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 2009 Bonds and Co-Bond Counsel have expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

CERTAIN ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), imposes certain requirements on “employee benefit plans” (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, “ERISA Plans”) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA’s general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan’s investments be made in accordance with the documents governing the ERISA Plan. The prudence of any investment by an ERISA Plan in the Series 2009C Subordinate Bonds must be determined by the responsible fiduciary of the ERISA Plan by taking into account the ERISA Plan’s particular circumstances and all of the facts and circumstances of the investment. Government and non-electing church plans are generally not subject to Title I of ERISA. However, such plans may be subject to similar or other restrictions under state or local law.

In addition, ERISA and Section 4975 of the Code generally prohibit certain transactions between an ERISA Plan or “plan” as defined in and subject to Section 4975 of the Code and persons who, with respect to that plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of Section 4975 of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of a Series 2009C Subordinate Bonds could be viewed as violating those prohibitions. In addition, Section 4975 of the Code prohibits transactions between certain tax-favored vehicles such as individual retirement accounts and disqualified persons. Section 503 of the Code includes similar restrictions with respect to governmental and church plans. In this regard, the Department or any broker dealer of the Series 2009C Subordinate Bonds might be considered or might become a “party in interest” within the meaning of ERISA or a “disqualified person” within the meaning of Section 4975 of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Section 4975 of the Code or Section 503 of the Code. Prohibited transactions within the meaning of ERISA and Section 4975 of the Code or Section 503 of the Code may arise if the Series 2009C Subordinate Bonds are acquired by such plans or arrangements with respect to which the Department or any broker dealer is a party in interest or disqualified person.

In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above Code sections, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Series 2009C Subordinate Bonds. The sale of the Series 2009C Subordinate Bonds to a plan is in no respect a representation by the Department or the underwriters of the Series 2009C Subordinate Bonds that such an investment meets the relevant legal requirements with respect to benefit plans generally or any particular plan. Any plan proposing to invest in the Series 2009C Subordinate Bonds should consult with its counsel to confirm that such investment is permitted under the plan documents and will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA, the Code and other applicable law.

By its acceptance of a Series 2009C Subordinate Bond, each purchaser will be deemed to have represented and warranted that either (i) no “plan assets” of any plan have been used to purchase such Series 2009C Subordinate Bond, or (ii) the Underwriters are not a party in interest with respect to the “plan assets” of any plan used to purchase such Series 2009C Subordinate Bond, or (iii) the purchase and holding of such Series 2009C Subordinate Bonds is exempt from the prohibited transaction restrictions of ERISA and Section 4975 of the Code pursuant to a statutory exemption or an administrative class exemption.

RATINGS

S&P, Moody’s and Fitch, have assigned underlying ratings of AA, Aa3 and AA, respectively, to the Series 2009 Senior Bonds and ratings of AA-, A1 and AA-, respectively, to the Series 2009 Subordinate Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings, including any outlook thereon, should be obtained from the rating agency furnishing the same, at the following addresses: S&P, 55 Water Street, New York, New York 10041; Moody’s, 1 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. The Department furnished the rating agencies with certain information and materials concerning the Series 2009 Bonds and the Department, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies,

circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2009 Bonds.

LEGAL MATTERS

The validity of the Series 2009 Bonds and certain other legal matters are subject to the approving opinions of Kutak Rock LLP and QUATEMAN LLP, Co-Bond Counsel to the Department. A complete copy of the proposed forms of Co-Bond Counsels' opinions is contained in APPENDIX E hereto. Co-Bond Counsel and Disclosure Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain matters will be passed upon for the Department and the City by Carmen Trutanich, Esq., City Attorney. Certain matters in connection with the Official Statement will be passed upon for the Department by QUATEMAN LLP, Disclosure Counsel to the Department, and for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP. Orrick, Herrington & Sutcliffe LLP represents the City in other matters.

FINANCIAL ADVISORS

The Department has retained the services of Frasca & Associates, L.L.C. of New York, New York and Public Resources Advisory Group of Los Angeles, California, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2009 Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. Both of the Co-Financial Advisors perform other services for the Department.

AIRPORT CONSULTANT

The Report of the Airport Consultant prepared by Ricondo & Associates, Inc. has been included as APPENDIX A to this Official Statement with the consent of such consultants. The Report of the Airport Consultant was prepared in conjunction with the issuance of the Series 2009 Bonds. The Report of the Airport Consultant has not been revised to reflect the final terms of the Series 2009 Bonds. The Department has relied upon the analyses and conclusions contained in the Report, as of its date, in preparing this Official Statement. The financial projections in the Report of the Airport Consultant are based upon certain information and assumptions that were provided by, or reviewed and agreed to by the Department. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the financial projections set forth in the Report of the Airport Consultant. Ricondo & Associates, Inc. performs other services for the Department, including with respect to the calculation of rates and charges.

FINANCIAL STATEMENTS

The audited financial statements of the Department for Fiscal Years 2008 and 2007 are included as part of APPENDIX B attached hereto. The financial statements referred to in the preceding sentence have been audited by Macias, Gini & O'Connell LLP, independent auditors, as stated in its Independent Auditor's Report included in APPENDIX B. Macias, Gini & O'Connell LLP was not requested to consent to the inclusion of its report in APPENDIX B and it has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement (including the Report of the Airport Consultant), and no opinion is expressed by Macias, Gini and O'Connell LLP with respect to any event subsequent to the date of its report.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2009 Bonds, the Department will covenant to provide, or cause to be provided, to the Municipal Securities Rulemaking Board in an electronic format as prescribed by the Municipal Securities Rulemaking Board, for purposes of Rule 15c2-12 adopted by the SEC, certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain material events. The Department has never failed to comply in all material respects with any continuing disclosure undertakings with regard to Rule 15c2-12 to provide annual reports or notices of material events. 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 of the MSRB currently located at <http://emma.msrb.org>. Information on such website is not part of this Official Statement nor has such information been incorporated by reference herein, and such website should not be relied upon in deciding whether to invest in the Series 2009 Bonds.

UNDERWRITING

The Series 2009 Senior Bonds are being purchased from the Department by Morgan Stanley & Co. Incorporated, on its own behalf and on behalf of J.P. Morgan Securities Inc., E. J. De La Rosa & Co., Inc. and Goldman, Sachs & Co., the underwriters of the Series 2009 Senior Bonds (collectively, the “Series 2009 Senior Bonds Underwriters”), at a price of \$315,570,731.86 (consisting of the aggregate principal amount of \$310,410,000, plus net original issue premium of \$6,760,531.35 and less an underwriters’ discount of \$1,599,799.49) all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2009 Senior Bond Underwriters (the “Series 2009 Senior Bond Purchase Agreement”).

The Series 2009C Subordinate Bonds are being purchased from the Department by Barclays Capital Inc., on its own behalf and on behalf of M.R. Beal & Co., the underwriters of the Series 2009C Subordinate Bonds (together, the “2009C/D Subordinate Bonds Underwriters”), at a price of \$305,038,287.50 (consisting of the aggregate principal amount of \$307,350,000 and less an underwriters’ discount of \$2,311,712.50) all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2009C/D Subordinate Bond Underwriters (the “Series 2009C Subordinate Bond Purchase Agreement”).

The Series 2009D Subordinate Bonds are being purchased from the Department by the Series 2009C/D Subordinate Bonds Underwriters at a price of \$34,396,480.38 (consisting of the aggregate principal amount of \$31,815,000, plus an original issue premium of \$2,713,466.05 and less an underwriters’ discount of \$131,985.67), all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2009C/D Subordinate Bond Underwriters (the “Series 2009D Subordinate Bond Purchase Agreement”).

The Series 2009E Subordinate Bonds are being purchased from the Department by Samuel A. Ramirez & Company, Inc., the underwriter of the Series 2009E Subordinate Bonds (the “Series 2009E Subordinate Bonds Underwriter” and together with the Series 2009 Senior Bonds Underwriters and the Series 2009C/D Subordinate Bonds Underwriters, the “Underwriters”), at a price of \$41,697,716.68 (consisting of the aggregate principal amount of \$39,750,000, plus an original issue premium of \$2,110,907.70 and less an underwriters’ discount of \$163,191.02, all subject to the terms of a Bond Purchase Agreement between the Department and the Series 2009E Subordinate Bond Underwriter (the “Series 2009E Subordinate Bond Purchase Agreement” and together with the Series 2009 Senior Bond Purchase Agreement, the Series 2009C Subordinate Bond Purchase Agreement and the Series 2009D Subordinate Bond Purchase Agreement, the “Purchase Agreements”).

The Purchase Agreements each provide that the applicable Underwriters shall purchase all of the applicable Series 2009 Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in each Purchase Contract, the approval of certain legal matters by counsel, and certain other conditions. The applicable Underwriters may change the initial public offering yields set forth on the inside front cover hereof. The applicable Underwriters may offer and sell the applicable Series 2009 Bonds to certain dealers (including dealers depositing the applicable Series 2009 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.

Morgan Stanley & Co. Incorporated has provided the information contained in this paragraph for inclusion in this Official Statement. Morgan Stanley and Citigroup Inc., the respective parent companies of Morgan Stanley & Co. Incorporated, an underwriter of the Series 2009 Senior Bonds, and Citigroup Global Markets Inc., have entered into a retail brokerage joint venture. As part of the joint venture each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Morgan Stanley & Co. Incorporated and Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Series 2009 Bonds.

J.P. Morgan Securities Inc. has provided the information contained in this paragraph for inclusion in this Official Statement. J.P. Morgan Securities Inc., one of the underwriters for the Series 2009 Senior Bonds, has entered into an agreement (the “J.P. Morgan Distribution Agreement”) with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the Series 2009 Senior Bonds, at the original issue prices. Pursuant to the J.P. Morgan Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009 Senior Bonds with UBS Financial Services Inc.

MISCELLANEOUS

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

All references to the Charter, the Senior Indenture, the Subordinate Indenture, the Parity Subordinate Indenture, agreements with any other parties and laws and regulations herein and in the Appendices hereto are made subject to the detailed provisions of such documents, and reference is made to such documents and agreements for full and complete statements of the contents thereof. Copies of such documents are available for review at the offices of the Department which are located at One World Way, Los Angeles, California. This Official Statement is not to be construed as a contract or agreement between the City or the Department and the owners of any of the Series 2009 Bonds.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

AUTHORIZATION

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

DEPARTMENT OF AIRPORTS OF THE
CITY OF LOS ANGELES, CALIFORNIA

By: s/ Gina Marie Lindsey
Executive Director

APPENDIX A

Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2009 Series A
Subordinate Revenue Bonds, 2009 Series C and D
Subordinate Refunding Revenue Bonds, 2009 Series E

REPORT OF THE AIRPORT CONSULTANT

Ricondo & Associates, Inc.
105 East Fourth Street, Suite 1700
Cincinnati, OH 45202
513.651.4700 telephone
513.412.3570 facsimile

[THIS PAGE INTENTIONALLY LEFT BLANK]



October 23, 2009

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

***RE: Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds, 2009 Series A
Subordinate Revenue Bonds, 2009 Series C and D
Subordinate Refunding Revenue Bonds, 2009 Series E***

Appendix A: Report of the Airport Consultant

Dear Mr. Rothenberg:

This report sets forth findings, assumptions, and projections of the air traffic and financial analyses developed by Ricondo & Associates, Inc. (R&A) in conjunction with the planned issuance by the Department of Airports of the City of Los Angeles, California (the Department), of its Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the Series 2009 Senior Bonds), and its Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series C and D (the Series 2009 C and D Subordinate Bonds) to finance improvements at Los Angeles International Airport (the Airport or LAX). The Department also plans to issue its Los Angeles International Airport Subordinate Refunding Revenue Bonds, 2009 Series E (the Series 2009 Subordinate Refunding Bonds) to refund all of its outstanding Subseries 2002 C1 Subordinate Revenue Bonds. The Series 2009 C and D Subordinate Bonds and the Series 2009 Subordinate Refunding Bonds are collectively referred to in this report as the Series 2009 Subordinate Bonds. The Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds are collectively referred to in this report as the Series 2009 Bonds.

This report is intended for inclusion in the Official Statement for the Series 2009 Bonds as Appendix A: Report of the Airport Consultant.

Department of Airports of the City of Los Angeles

The Airport is owned by the City of Los Angeles, California (the City) and operated and maintained by the Department (which is also known as Los Angeles World Airports, or LAWA), a self-supporting, proprietary department of the City under the management and control of the Board of Airport Commissioners (the Board).



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

The City, acting through the Department, currently operates and maintains the Airport, LA/Ontario International Airport (LA/ONT), and Van Nuys Airport (VNY). In addition, the Department maintains LA/Palmdale Regional Airport (LA/PMD and, together with the Airport, LA/ONT, and VNY, the Airport System) although LA/PMD is not currently certificated by the FAA. Pledged Revenues and Maintenance and Operating Expenses (M&O Expenses) include certain income, revenue, and expenses derived from the Airport, as described in greater detail in Chapter 4 of this report, but exclude income, revenue, and expenses received by the Department from the other airports in the Airport System.

Series 2009 Bonds

Proceeds of the Series 2009 Bonds, along with certain other funds, will be used to: (1) fund a portion of the costs of certain ongoing and/or planned capital projects, including the completion of interior improvements to the Tom Bradley International Terminal at the Airport, elevator/escalator improvements (Phase 1 and 2), in-line baggage screening improvements, acquisition of the Park One property (adjacent to Airport property), construction of crossfield taxiway projects, airfield intersection improvements, and other improvements (these projects are collectively referred to in this report as the Series 2009 Projects); (2) refund outstanding Subseries 2002 C1 Subordinate Revenue Bonds; (3) reimburse the Department for certain prior expenditures with respect to the Series 2009 Projects; (4) refund outstanding commercial paper notes, the proceeds of which were used to finance a portion of the costs of the Series 2009 Projects; (5) fund capitalized interest; (6) fund debt service reserve funds; and (7) pay the costs of issuance of the Series 2009 Bonds, all as more fully described in this report.

Other Potential Refundings

In addition to issuing the Series 2009 Subordinate Refunding Bonds to refund all outstanding Subseries 2002 C1 Subordinate Revenue Bonds, the Department may potentially issue Senior Refunding Revenue Bonds, 2009 Series B (the Series 2009 Senior Refunding Bonds) to provide funds for the purchase of Series 2008 A and B Senior Revenue Bonds that may be tendered by investors. The Department likely would issue the Series 2009 Senior Refunding Bonds only if the Department expects the tender/refunding will result in annual debt service savings. The potential issuance of the Series 2009 Senior Refunding Bonds (or any other potential refunding bonds not mentioned above) and any associated debt service savings have not been assumed or discussed in the remainder of this report and have not been incorporated in the accompanying financial tables.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

The Department is also planning to use Department funds (cash) and/or commercial paper proceeds to defease all outstanding Subseries 2002 C2 Subordinate Revenue Bonds and all outstanding Series 2003 A Subordinate Revenue Bonds with Department funds prior to the end of FY 2010. The planned defeasance of these two outstanding series is incorporated in the financial tables accompanying this report.

Future Bonds

The Department anticipates issuing additional Senior Bonds and Subordinate Bonds subsequent to the issuance of Series 2009 Bonds to finance other capital projects described in this report that are anticipated to be completed during the projection period (as described in Sections 3.4 and 4.7 of this report). This report and the accompanying financial tables incorporate estimated future debt service requirements for the Series 2009 Bonds, as well as future Senior Bonds and Subordinate Bonds anticipated by the Department to be issued during the projection period Fiscal Year¹ (FY) 2010 through FY 2016 (the Projection Period). Such bonds are expected to fund all or a portion of the estimated costs of certain capital projects at the Airport (including, among other projects, the Series 2009 Projects) that the Department expects to be completed during the Projection Period. Estimated debt service requirements incorporated in this report for the Series 2009 Bonds and the future Senior and Subordinate Bonds anticipated to be issued during the Projection Period assume level annual debt service by bond series.

Senior and Subordinate Bond Indentures

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

Senior Bonds are secured by a pledge of Pledged Revenues (as defined in the Senior Indenture). Subject to a proposed amendment, following the Pledge Change Date, Senior Bonds will be secured by a pledge of Net Pledged Revenues (as defined in the Senior Indenture). The Series 2009 Senior Bonds will be issued pursuant to the Senior Indenture and the Tenth Supplemental Trust Indenture.

Subordinate Bonds are secured by Subordinate Pledged Revenues (as defined in the Subordinate Indenture). On or after the Pledge Change Date, the definition of Subordinate Pledged Revenues will change. The Series 2009 Subordinate Bonds will be issued pursuant to the Subordinate Indenture and the Fifth Supplemental Subordinate Trust Indenture.

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



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

The Senior and Subordinate Indentures require that certain covenants be met while any Senior or Subordinate Bonds are outstanding and that certain financial tests be met before future Senior or Subordinate Bonds can be issued, including additional bonds tests described in greater detail in Chapter 4 of this report.

Use of PFC Revenues

The Department plans to use certain passenger facility charge (PFC) revenues to pay a portion of the principal of and interest on the Series 2009 Senior Bonds, future Senior Bonds, and Outstanding Series 2008 Senior Bonds. Given the level of annual PFC revenues at the Airport (FY 2009 PFC collections excluding interest earnings were \$104.8 million) and substantial existing PFC Fund balances available to apply to projects undertaken during the Projection Period, the Department expects to use PFC revenues and available PFC Fund balances, particularly in the early years when debt service becomes payable, to pay certain principal and interest to help reduce the impact of future debt service on airline rates and charges. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year (allowing the Department to apply PFC revenues strategically to help manage to desired financial results—e.g., lower airline payments).

Pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant (generally requiring that Net Pledged Revenues equal at least 125 percent of Aggregate Annual Debt Service on the Senior Bonds each Fiscal Year), the principal of and/or interest on Senior Bonds paid with PFC revenues is excluded from Aggregate Annual Debt Service on the Senior Bonds. At this time, the Department does not plan to use PFC revenues to pay principal of and/or interest on any Subordinate Bonds or Subordinate Commercial Paper Notes.

The estimated capital project funding sources, projected airline payments, and other key financial results reflected in this report are based on the assumption that the current \$4.50 PFC level at the Airport is **not** increased to a higher PFC level throughout the Projection Period. The Department is actively involved in nationwide efforts to increase the current \$4.50 maximum PFC level nationwide. The Department plans to seek FAA approval for a higher PFC level at the Airport if in fact the maximum PFC level is increased by federal law. If the maximum PFC level is increased and the Department obtains approval to increase the PFC level at the Airport during the Projection Period, the Department plans to use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this report. If the current \$4.50 maximum level is not increased during the Projection Period and/or the Department is not able to obtain approval for a higher PFC level at the Airport during the Projection Period, the Department expects to explore other funding alternatives and seek other ways to reduce the level of projected airline payments reflected in this report.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

Report of the Airport Consultant and Findings

This report includes examinations of the underlying economic base of the Air Trade Area (as defined in this Report) for the Airport (Chapter 1); the historical and projected air traffic activity at the Airport, including assumptions (Chapter 2); a description of existing facilities and various planned and ongoing projects that are expected to be completed during the Projection Period (Chapter 3); and projected debt service, expenses, and revenues, with consideration of the anticipated impacts of the capital projects expected to be completed during the Projection Period (Chapter 4). Chapter 1 of this report has been prepared by Partners for Economic Solutions, a consulting firm based in Washington, D.C. specializing in regional economic analysis, as a subconsultant to R&A.

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

Economic Base

- The economic base of the Airport's Air Trade Area, as defined in this report, is broad and diversified and will continue to support long-term growth in demand for air transportation services at the Airport.
- The Air Trade Area has a substantial population base with approximately 18.4 million residents in 2009. It is ranked as the second largest metropolitan area in the United States. Population in the Air Trade Area is projected to grow during the forecast period at a rate comparable to that of the State of California (State or California) and the United States (U.S. or nation)
- At an estimated \$60,030 in 2009, the Air Trade Area's median household income is 9.7 percent higher than that of the U.S. and 2.6 percent lower than that of California. In addition, more than 2.2 million of the Air Trade Area's households earn more than \$75,000 per year, the income category that generates the greatest demand for airline travel, according to the Travel Industry Association.
- In 2009, 19 companies in the Air Trade Area are listed among the top 500 U.S. companies by *Fortune* magazine when ranked by annual revenue. The Air Trade Area has the fifth highest number of Fortune 500 headquarters in the United States. Major companies that are headquartered in the Air Trade Area include Walt Disney, Northrop Grumman, Amgen and Mattel.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

- 255 Air Trade Area companies have 3,692 branches, subsidiaries, or affiliates in foreign countries, and 998 foreign firms have 1,882 operations in the Air Trade Area.
- The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. The number of visitors to the Air Trade Area reached approximately 25.6 million in 2008 and generated \$13.8 billion in overnight visitor spending.
- Although the Air Trade Area is well-positioned with a broad and diverse economic base, its economic outlook is subject to overall economic conditions in the U.S. Recent surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for a modest rebound in real GDP growth by the end of 2009, and moderate economic recovery in 2010.
- At 12.3 percent (as of August 2009, non-seasonally adjusted), the unemployment rate in the Air Trade Area is higher than rates for the State and the nation. Similar to forecasts from NABE and Blue Chip Economic Indicators, a recent report from the Los Angeles County Economic Development Corporation (LAEDC) projects that unemployment rates in both California and the Air Trade Area will remain elevated in 2010. As with the U.S. overall, economic growth in California and the Air Trade Area is expected to resume in 2010 as household spending stabilizes and businesses bring production capacity and inventory stocks into alignment with sales. Economic recovery in the Air Trade Area is generally expected to follow statewide and national trends, and to support growth in projected activity at the Airport during the Projection Period.

Air Traffic

- As of August 2009, the Airport was served by 72 scheduled and nonscheduled passenger airlines and 17 all-cargo carriers.
- For the week ending September 18, 2009 the airlines serving the Airport provided nonstop service to 83 domestic markets with a total of 3,970 weekly flights; and nonstop service to 53 international markets with a total of 823 weekly flights.
- The Airport is one of the busiest airports in the world. In calendar year (CY) 2008, the Airport ranked 6th worldwide and 3rd nationwide in total passengers; 4th worldwide and 4th nationwide in total operations; and 13th worldwide and 5th nationwide in total cargo.²
- The Airport serves one of the nation's largest origin-destination (O&D) passenger bases, and was ranked second in the nation in the number of total O&D passengers in FY 2008.

² *ACI Traffic Data 2008*, Airports Council International (dated July 28, 2009).



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

- No airline dominates in shares of enplanements or provides hubbing activity at the Airport. Approximately 70 percent of domestic enplanements at the Airport are O&D passengers, with the remaining 30 percent being connecting passengers. When international enplanements are included, approximately 75 percent of total enplanements at the Airport are O&D passengers.
- The Airport is also one of the nation's premier international gateways and the only international gateway serving Southern California. In CY 2008, the Airport served approximately 99.6 percent of total Los Angeles region international enplanements and approximately 71.8 percent of total Los Angeles region enplanements.
- Total enplanements at the Airport increased from 26.6 million in FY 1995 to 33.8 million in FY 2001, with a compounded annual growth rate (CAGR) of 4.1 percent. This substantial growth was fueled, in part, by the stimulation of passenger demand from intense competition and fare wars among airlines (e.g., Southwest and Shuttle by United) serving the West Coast corridor.
- Between FY 2002 and FY 2008, total enplanements at the Airport increased at a CAGR of 1.7 percent, reaching 31.1 million enplanements in FY 2008.
- In FY 2009, due to the global economic downturn and capacity reductions by U.S. and foreign flag carriers, domestic enplanements at the Airport decreased 7.9 percent from FY 2008, and international enplanements at the Airport decreased by 12.0 percent from FY 2008.³ Total enplanements at the Airport decreased 9.0 percent in FY 2009, to 28.3 million.
- Based on an analysis of scheduled domestic and international departing seats, service announcements, and industry information regarding further reductions in seating capacity for CY 2009, total enplanements at the Airport are projected to decrease by 1.6 percent in FY 2010, relative to FY 2009 enplanements. Domestic passenger activity at the Airport is expected to decrease by 1.0 percent in FY 2010, and international activity at the Airport is expected to decrease 3.1 percent in FY 2010, relative to FY 2009 levels.
- The activity projections provided herein are lower than the projections included in the feasibility report we prepared in July 2008 (with a FY 2007 base year) in support of the Department's issuance of the Series 2008 Bonds (the 2008 Report). In the 2008 Report, our estimate of Airport activity for FY 2008 was close to the actual FY 2008 results (30.9 million enplanements projected versus 31.1 million actual). However the severity of cutbacks in airline service, increases in fuel prices, and worldwide recessionary impacts that occurred soon after the issuance of the Series 2008 Bonds contributed to a 9.0 percent decrease in

³ This 7.9 percent decrease in domestic enplanements at the Airport in FY 2009 was similar to the 7.8 percent decrease in domestic enplanements nationwide forecast by the Federal Aviation Administration (FAA) in April 2009 for federal FY ending September 30, 2009.



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

enplanements in FY 2009 and was not anticipated in the 2008 Report. In addition our current estimate of a further (although less significant) decline in Airport activity in FY 2010 was not anticipated in the 2008 Report. Accordingly, current projections of Airport activity (reflected in this report) are substantially lower than the projections presented in the 2008 Report.

- It is expected that in the long term the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. The Air Trade Area's broad and diverse economic base is expected to continue to support long-term growth in passenger demand, with regional demand continuing to be predominantly served at the Airport, including international travel and nonstop travel to major medium- and long-haul markets.
- Although there is still uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation are expected to improve in CY 2010 (which includes the first half of FY 2011), and recovery in passenger activity at the Airport is expected beginning in FY 2011, with total Airport enplanements projected to increase 1.9 percent relative to FY 2010.
- As discussed in Section 2.7 (Projections of Airport Activity), longer-term growth in total enplanements at the Airport is expected through the remainder of the Projection Period. Annual growth in total enplanements at the Airport is projected to range from 2.0 percent to 2.6 percent for FY 2012 through FY 2016.
- The activity projections provided herein for the Airport are more conservative when compared to the most recent nationwide projections prepared by the FAA in April 2009. The FAA's annual forecasts for the nation are prepared for federal budgeting and planning purposes and, therefore, can result in higher activity projections than those prepared by airport bond feasibility consultants for studies such as this report.
- The general growth pattern for Airport enplanements for actual FY 2009 through the end of the Projection Period (FY 2016) (increasing from 28.4 million in FY 2009 to 31.8 million in FY 2016) is similar to the general growth pattern and the actual increase in enplanements for the historical period FY 2002 to FY 2008 (in which enplanements increased from 28.1 million to 31.1 million). See Section 2.1 for detailed information. The first year in each of these periods (FY 2002 and FY 2009) reflected a substantial decrease from the prior year. The projected CAGR for Airport enplanements between actual FY 2009 and FY 2016 is 1.7 percent. The actual CAGR for Airport enplanements between FY 2002 to FY 2008 was 1.7 percent.

Financial Analysis

- The Series 2009 Projects and other capital improvements described in this report and reflected in the accompanying financial tables are expected (1) to be completed during the Projection Period, (2) to be funded in part with the Series 2009 Bonds and assumed



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

additional future Senior Bonds and Subordinate Bonds, and (3) to provide Airport facilities sufficient to satisfy future airline and air passenger needs through the Projection Period. The estimated financial impacts of the Series 2009 Projects and other capital improvements described in this report are reflected within the Projection Period.

- Airport operating and capital costs, including increased costs related to the Series 2009 Projects and other capital improvements described in this report (based on a \$4.50 PFC level at the Airport throughout the Projection Period), are expected to produce reasonable levels of airline rates and charges at the Airport during the Projection Period. Average airline cost per enplanement (future dollars) at the Airport is projected to increase from approximately \$10.77 in FY 2009 to approximately \$19.71 in FY 2016. As previously stated, if the maximum PFC level is increased by federal law, the Department plans to seek FAA approval for a higher PFC level at the Airport and use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this report. If the current \$4.50 maximum PFC level is not increased during the Projection Period and/or the Department is not able to obtain approval for a higher PFC level at the Airport during the Projection Period, the Department expects to explore other funding alternatives and seek other ways to reduce the level of projected airline payments reflected in this report.
- The amount of Department funds reflected in the estimated funding plan for the Series 2009 Projects and other capital improvements was based on an internal Department requirement that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to 365 days worth of LAX Maintenance and Operation Expenses.
- The Department and many of the airlines operating at the Airport have been involved in negotiations and various legal matters in recent years regarding certain aspects of the Airport's terminal rental rates. These negotiations and legal matters have involved both the airlines that are parties to long-term terminal leases as well as those airlines without long-term leases that are operating under the LAX Passenger Terminal Tariff or lease agreements with provisions similar to the LAX Passenger Terminal Tariff (discussed in Section 4.6 of this report). The Department has worked closely with the airlines and has reached various settlement agreements with the airlines on various issues related to terminal rents at the Airport. Please refer to the "AGREEMENTS FOR USE OF AIRPORT FACILITIES" section of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information. The financial projections reflected in this report incorporate assumptions discussed in Section 4.6 of this report regarding the Department's plan to issue future Senior Bonds to help fund the acquisition of certain existing terminal improvements that were previously and independently financed by certain long-term terminal lease tenants at the Airport. The final resolution of the ongoing negotiations and/or legal matters related to terminal rentals at the Airport could result in terminal rental revenues different than those



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

reflected in the financial tables accompanying this report for FY 2010 to FY 2016. However, the assumptions incorporated in the projections of terminal rental revenues reflected in this report (see Section 4.6 of this report) provide a reasonable basis for purposes of projecting Terminal rents and charges during the Projection Period.

- Airline rates and charges, together with other Pledged Revenues, are projected to be sufficient to ensure that all operating and maintenance expenses, debt service, and required fund deposit requirements are satisfied in each year of the Projection Period (through FY 2016).
- In FY 2010, debt service coverage for senior debt is projected to be 7.31x. In FY 2011, when the Series 2008A Senior, Series 2009 Senior, and planned Series 2010 Senior Bond principal begins to amortize, senior debt service coverage is projected to decrease to 3.52x. Between FY 2012 and FY 2013, senior debt service coverage is projected to range from 3.03x to 3.47x. In FY 2014, when planned Series 2011 Senior and subsequent series Senior Bond principal begins to amortize, senior debt service coverage is projected to decrease to 2.45x. In FY 2015, when nearly all future senior debt service is in effect, senior debt service coverage is projected to decrease to 2.33x. In FY 2016, when maximum annual senior debt service is reached, senior debt service coverage is projected to increase to 2.52x. In each year of the Projection Period, senior debt service coverage exceeds the 1.25x rate covenant requirement.
- Between FY 2011 and FY 2015, debt service coverage for combined senior and subordinate debt is projected to range from a high of 2.20x in FY 2011 to a low of 1.57x in FY 2015. In FY 2016, once overall debt service requirements have stabilized, debt service coverage for combined senior and subordinate debt is projected increase to 1.69x.

The techniques used in this report are consistent with industry practices for similar studies in connection with airport revenue bond sales. The information and assumptions incorporated in this report regarding the Airport were provided by or reviewed and agreed to by the Department. Accordingly, the forecasts reflect the Department's current plans at the Airport (recognizing that these plans are subject to change during the projection period) and, in R&A's judgement and the judgment of the Department's management, fairly present the expected level of financial results during the projection period. While R&A believes the approach and assumptions utilized are reasonable, some assumptions regarding future trends and events may not materialize. Achievement



Mr. Alan I. Rothenberg, President
Board of Airport Commissioners
October 23, 2009

of projections described in this report, therefore, is dependent upon the occurrence of future events, and variations may be material. R&A has no responsibility to update this report for events or circumstances occurring after the date of this report.

Sincerely,

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

RICONDO & ASSOCIATES, INC.

[THIS PAGE INTENTIONALLY LEFT BLANK]

TABLE OF CONTENTS

I.	Economic Base for Air Transportation.....	A-19
1.1	Summary	A-19
1.2	Air Trade Area	A-24
1.3	Demographic Profile	A-25
1.4	Income.....	A-30
1.5	Employment	A-34
1.6	Air Trade Area Tourism Industry	A-43
1.7	Economic Outlook	A-44
1.8	Economic Assumptions and Information Incorporated in Airline Traffic Projections	A-44
II.	Air Traffic.....	A-47
2.1	Summary	A-47
2.2	Role of the Airport	A-50
2.3	Regional Demand.....	A-54
2.4	Airlines Serving the Airport.....	A-58
2.5	Historical Airport Activity	A-61
2.6	Factors Affecting Aviation Demand and the Airline Industry	A-87
2.7	Projections of Airport Activity.....	A-91
III.	Airport Facilities and Capital Program.....	A-101
3.1	Existing Airport Facilities	A-101
3.2	Summary of Capital Planning	A-106
3.3	The Series 2009 Projects	A-107
3.4	Other Incorporated Projects	A-111
IV.	Financial Analysis	A-117
4.1	Financial Structure	A-117
4.2	Senior Indenture	A-119
4.3	Subordinate Indenture	A-123
4.4	Parity Subordinate Indenture.....	A-125
4.5	Air Carrier Operating Permit.....	A-127
4.6	Terminal Building Leases and Tariff	A-127
4.7	Financing Plan.....	A-131
4.8	Maintenance & Operation Expenses	A-143
4.9	Airport Revenues Other than Airline Terminal, Landing, and Apron Fees	A-146
4.10	Airline Revenues	A-154
4.11	Application of Pledged Revenues and Debt Service Coverage	A-158

LIST OF TABLES

Table No.

I-1	Summary of Key Economic Indicators	A-21
I-2	Population for Major Consolidated US Markets (2009)	A-25
I-3	Population Trends (2000-2020).....	A-26
I-4	Age Distribution (2009)	A-28
I-5	Population by Race and Ethnicity (2009).....	A-29
I-6	Educational Attainment (2009)	A-31
I-7	Income Trends (2009-2014).....	A-32
I-8	Households with Income of \$75,000 or More (2009)	A-33
I-9	Households with Income of \$75,000 and Above (2009-2014)	A-34
I-10	Civilian Labor Force and Unemployment Rates (1998-2009).....	A-35
I-11	Major Private Sector Employers in the Air Trade Area	A-36
I-12	Fortune 500 Headquarters Located in the Air Trade Area.....	A-37
I-13	Employment Trends by Major Industry Division (2000-2008)	A-39
I-14	2008 Total Trade by Conveyance (\$ Billions)	A-41
I-15	Top Airports for Overseas Non-Resident Arrivals (2008).....	A-45
II-1	Top 15 Worldwide Ranking of Activity – CY 2008	A-51
II-2	Top 20 Total Airports O&D Airports – FY 2008	A-52
II-3	Historical Domestic O&D Passengers – Calendar Year	A-53
II-4	Average One-Way Fares for Airports in the Air Trade Area- CY 2008	A-56
II-5	Regional Airport Shares of Total Enplanements – Calendar Year.....	A-57
II-6	Airlines Serving the Airport	A-59
II-7	Scheduled U.S. Flag Air Carrier Base - LAX	A-60
II-8	Scheduled Nonstop Activity for U.S. Flag & Foreign Flag Carriers - LAX.....	A-62
II-9	Scheduled Foreign Flag Air Carrier Base - LAX.....	A-63
II-10	Historical Enplanements - LAX	A-64
II-11	Nonstop Service by Southwest - LAX	A-67
II-12	Scheduled Domestic Departing Seats (LAX) by Selected Airlines and Airport Total	A-68
II-13	Historical Domestic Enplanements by Airline - LAX	A-70
II-14	Historical International Enplanements by Airline - LAX	A-72
II-15	Historical Total Enplanements by Airline - LAX	A-73
II-16	Primary Domestic O&D Passenger Markets - LAX	A-75
II-17	Nonstop Domestic Markets - LAX	A-76
II-18	Primary International O&D Passenger Markets - LAX	A-78
II-19	Nonstop International Markets – LAX.....	A-79
II-20	Historical Aircraft Operations – LAX.....	A-81
II-21	Historical Landed Weight (thousand pounds) – LAX.....	A-83
II-22	Historical Landed Weight by Airline (thousand pounds) – LAX.....	A-85
II-23	Historical Enplaned and Deplaned Cargo (tons) – LAX.....	A-86
II-24	Enplanement Projection Methodologies Analyzed and Incorporated	A-92
II-25	Enplanement Projections – LAX.....	A-95

LIST OF TABLES

Table No. (Continued)

II-26	Operations Projections - LAX.....	A-98
II-27	Landed Weight Projections (thousand pounds) – LAX	A-100
III-1	Summary of Series 2009 Projects and Other Incorporated Projects – Estimated Costs	A-109
IV-1	Summary of Series 2009 Projects and Other Incorporated Projects – Costs and Funding	A-133
IV-2	Estimated Sources and Uses of Funds – Series 2009 Bonds.....	A-138
IV-3	Expected Future Bond Issues (After Issuance of Series 2009 Bonds).....	A-140
IV-4	Debt Service	A-141
IV-5	Summary of LAX Maintenance and Operation Expenses	A-144
IV-6	Summary of Airport Revenues Other Than Airline Terminal Rentals and Signatory Airline Landing and Apron Fees	A-147
IV-7	Airline Terminal Rental Payments – All Terminals Combined	A-155
IV-8	Landing and Apron Fees	A-157
IV-9	Passenger Airline Cost per Enplaned Passenger	A-159
IV-10	Airport Cash Flow and Debt Service Coverage	A-160

LIST OF EXHIBITS

Exhibit No.

I-1	LAX Air Trade Area	A-20
II-1	Historical and Projected Enplanements (LAX) – FY 1995 to FY 2016.....	A-50
II-2	LAX Share of Air Trade Area Activity – CY 2008	A-54
II-3	Air Trade Area Airport Shares of Total Enplanements – CY 2008	A-58
II-4	Historical Domestic and International Enplanements - LAX.....	A-65
II-5	Shuttle by United Share of United Domestic Departing Seats	A-69
II-6	Domestic Enplanements by Airline (LAX) – FY 2009.....	A-69
II-7	International Enplanements by Airline (LAX) – FY 2009.....	A-71
II-8	Nonstop Domestic Markets	A-77
II-9	Nonstop International Markets	A-80
II-10	Landed Weight by Airline (LAX) – FY 2009	A-84
II-11	Historical Monthly Averages of Jet Fuel and Crude Oil Prices	A-88
III-1	Existing Airport Facilities and Series 2009 Projects	A-102

I. Economic Base for Air Transportation

The demand for air transportation activity, to a large degree, depends upon the demographic and economic characteristics of an airport's air trade area (i.e., the geographical area primarily served by an airport). The correlation between activity at Los Angeles International Airport (the Airport or LAX) and the economic vitality of the surrounding region is particularly strong as most of the Airport's passenger activity is origin and destination (O&D) activity, meaning that passengers either begin or end their trips at the Airport (whether they reside, work, commute for work or vacation in the Los Angeles region), as opposed to connecting through the Airport to other airports. Based on detailed calculations using actual passenger data, O&D passengers accounted for approximately 75 percent of total passengers at the Airport in CY 2008.

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

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

1.1 Summary

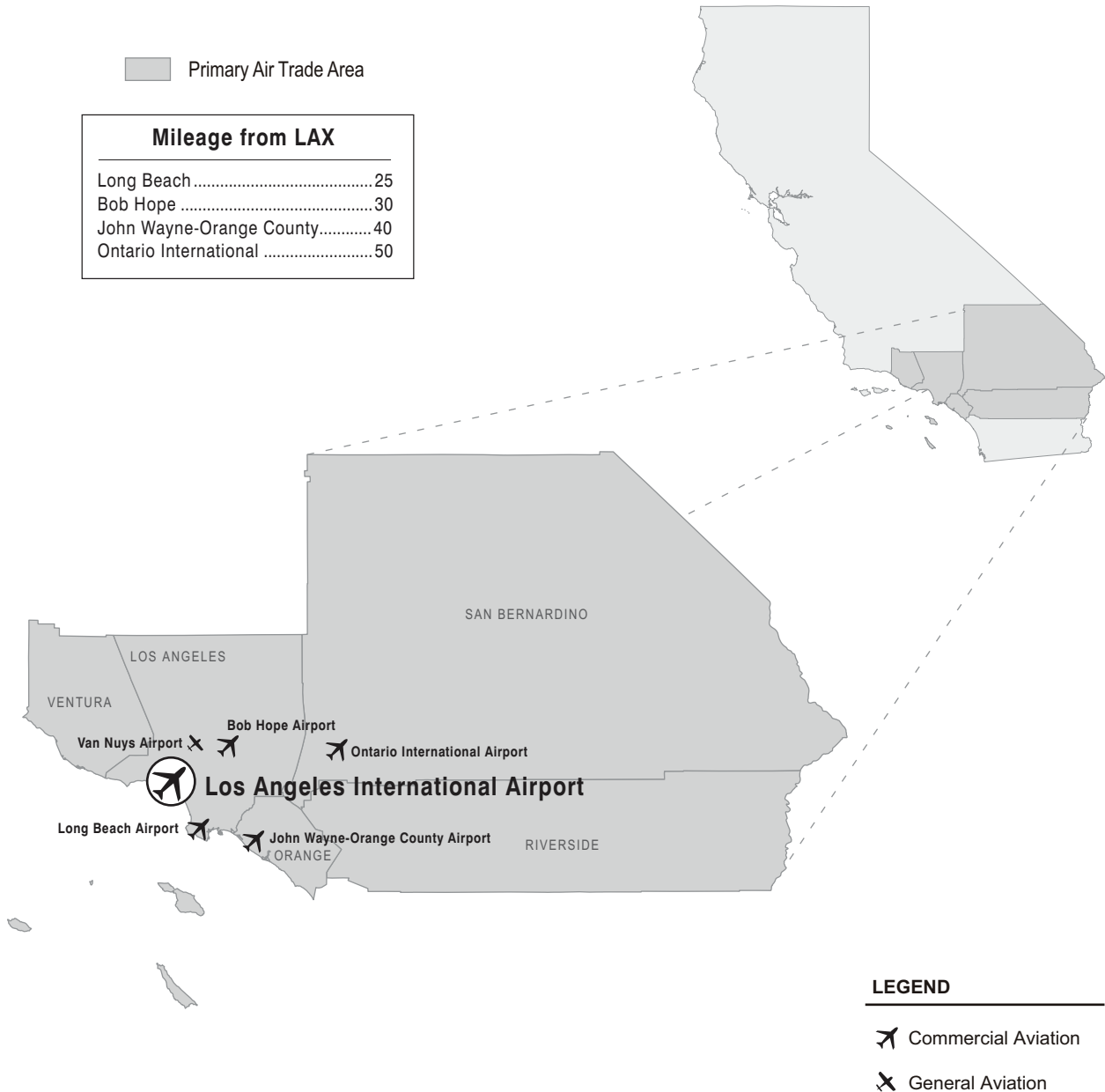
Table I-1 provides an overview of the key economic indicators presented and discussed in this chapter. A summary of key socioeconomic trends in the Air Trade Area includes the following:

- **Population.** The Air Trade Area has a substantial population base with approximately 18.4 million residents in 2009. It is ranked as the second largest metropolitan area in the United States.² Population in the Air Trade Area increased at a compounded annual growth rate (CAGR) of 1.3 percent between 2000 and 2009, compared with 1.2 percent in California and 1.0 percent in the U.S. Between 2009 and 2015, population in the Air Trade Area is projected to increase at a rate comparable to that of both California and the U.S.
- **Income.** Median household income in the Air Trade Area in 2009 was 9.7 percent higher than that of the U.S.³ and 2.6 percent lower than that of California. In addition, more than 2.2 million of the Air Trade Area's households earned more than \$75,000 in 2009, the income category that generates the greatest demand for airline travel according to the Travel Industry Association. As measured by the number of households with annual income of \$75,000 or more, the Air Trade Area is the second wealthiest market in the United States exceeded only by the New York-New Jersey-Bridgeport CSA. Income projections show continued growth in the number of the Air Trade Area's households with income greater than \$75,000 between 2009 and 2014. This suggests a continuing ability by the Air Trade Area's households to draw on discretionary income for spending on air travel.

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

² ESRI, Market Profile of the Los Angeles-Long Beach-Riverside Combined Statistical Area, May 2009.

³ ESRI, Market Profile of the Los Angeles-Long Beach-Riverside Combined Statistical Area, May 2009.



Note: The Department maintains LA/Palmdale Regional Airport, although it is not currently certificated by the FAA.

Source: Map Resources 2007
 Prepared by: Ricondo & Associates, Inc., August 2009.

Exhibit I-1

LAX Air Trade Area

Table I-1

Summary of Key Economic Indicators

	Air Trade Area	California	United States
Note: Best performing numbers or rates in each row are shown in bold and underlined font			
Population			
2000	16,438,250	34,004,051	282,194,308
2009 (Estimated)	18,432,448	37,933,734	309,731,508
2015 (Projected)	19,265,749	41,715,070	326,038,477
Population Growth ^{1/}			
2000-2009 (Estimated)	<u>1.3%</u>	1.2%	1.0%
2009-2015 (Estimated)	0.7%	0.8%	<u>0.9%</u>
Median Household Income			
2009 (Estimated)	\$60,030	<u>\$61,614</u>	\$54,719
2014 (Projected)	\$62,594	<u>\$64,088</u>	\$56,938
% 2009 Households in \$75,000-Above	38.3%	<u>39.6%</u>	33.3%
Growth In Civilian Labor Force ^{1/}			
1998-2008	<u>1.3%</u>	1.3%	1.1%
1998-2003	<u>1.5%</u>	<u>1.5%</u>	1.2%
2003-2008	<u>1.2%</u>	1.1%	1.1%
Unemployment Rate			
1998	5.8%	6.0%	<u>4.5%</u>
2003	6.4%	6.8%	<u>6.0%</u>
2008	7.2%	7.2%	<u>5.8%</u>
August 2009	12.3%	12.2%	<u>9.7%</u>
Growth in Nonagricultural Employment, 1998-2008 ^{1/}	1.1%	0.9%	<u>1.2%</u>
Employment By Industry, 2008			
Services	<u>44.9%</u>	44.0%	43.1%
Trade	<u>15.0%</u>	14.2%	14.6%
Fin/Ins/Real Estate	<u>11.2%</u>	10.5%	9.3%
Government	10.9%	13.0%	<u>13.6%</u>
Manufacturing	<u>8.6%</u>	7.6%	8.2%
Construction	6.2%	7.6%	<u>7.7%</u>
Transportation/Utilities	3.3%	2.9%	<u>3.6%</u>

Note:

1/ Compounded annual growth rate.

Sources: Various sources indicated on Tables I-3 through I-13 of this chapter

Prepared by: Partners for Economic Solutions, September 2009

- **Unemployment.** The seasonally adjusted annual unemployment rates for the Air Trade Area have been below those for the State of California in all years from 1998 through 2008 with the exception of 2000 and 2008 when they were equal. When the same comparison is made to the U.S., the Air Trade Area's unemployment rate was higher from 1998 through 2004, lower in 2005 and 2006, and then higher again in both 2007 and 2008. In August 2009 (latest data available), the non-seasonally adjusted unemployment rate for the Air Trade Area was 12.3 percent. This is above the rate in California overall where the seasonally adjusted unemployment rate was 12.2 percent. The seasonally adjusted unemployment rate for the U.S. was 9.7 percent in August 2009.⁴
- **Nonagricultural Employment.** Nonagricultural employment in the Air Trade Area grew by a CAGR of 1.1 percent during the 1998-2008 period, compared with 0.9 percent for the State of California and 1.2 percent for United States during this period. Measured by percentages, employment in major industry divisions (services, trade, manufacturing, transportation, utilities, etc.) in the Air Trade Area is generally consistent with that of California and the U.S. and indicate that the Air Trade Area has a diversified employment base.

As evidenced by the points above and the data reflected in Table I-1, the economic base of the Air Trade Area is relatively stable and diversified, and is capable of supporting the projected air transportation activity at the Airport (shown on Table II-25 of this report). This projected demand is supported by strong projected population growth, projected household income growth, a significant percentage of households in higher income categories, labor force growth, and growth in nonagricultural employment, as well as other key socioeconomic points regarding the Air Trade Area summarized below:

- **Potential Housing Market Stabilization.** Since 2008, foreclosure activity has been a major driver of home sales in the Air Trade Area, especially in Riverside and San Bernardino Counties. Although recovery in the Air Trade Area's housing market remains difficult to forecast, signs of stabilization are appearing. In addition, State and federal tax credit programs for first-time buyers have helped propel sales in the Air Trade Area, most notably for homes priced below \$500,000.⁵
- **Diversified Economy.** In spite of the current recession, the Air Trade Area's economy remains one of the nation's most dynamic and diverse. Basic industries extend far beyond the familiar three tiers of aerospace, entertainment and tourism that are typically associated with the Air Trade Area's economy. The 18 major industries that provide the Air Trade Area's economic base range from health services and bio-medicine to apparel design and toy manufacturing.⁶ The Air Trade Area's diverse economy yielded more than \$793 billion in gross regional product in 2008 — accounting for more than 46 percent of California's gross state product in that year.⁷ The distribution among the categories of nonagricultural employment in the Air Trade Area generally mirrored that of the nation in 2008, providing the area with an economic base as diversified as the national economy.

⁴ 2009 seasonally adjusted unemployment data for the Air Trade Area will be released in 2010.

⁵ "July Sales and Price Report," California Association of Realtors, August 25, 2009, <http://www.car.org/newsstand/newsreleases/julysalesandpricereport>, accessed August 27, 2009.

⁶ L.A. Stats, Los Angeles County Economic Development Corporation, April 2009.

⁷ Woods & Poole Economics, Inc., *2008 Complete Economic and Demographic Data*.

- **Large Number of Fortune 500 Companies Stimulates Demand for Business Travel.** In 2009, 19 companies in the Air Trade Area were listed among the top 500 U.S. companies by *Fortune* magazine when ranked by annual revenue. The Air Trade Area has the fifth highest number of Fortune 500 headquarters in the United States. Major companies that are headquartered in the Air Trade Area include Walt Disney, Northrop Grumman, Amgen, and Mattel.
- **Extensive International Business Network.** Data indicate that 255 companies in the Air Trade Area have 3,692 branches, subsidiaries, or affiliates in foreign countries. In addition, 998 foreign firms have 1,882 branches, subsidiaries, or affiliates in the Air Trade Area.⁸ In 2008, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$431.9 billion.⁹ Over \$78.7 billion in goods from the Los Angeles Customs District¹⁰ were conveyed by air (18 percent of the total), and the Los Angeles Customs District accounted for more than 59 percent of California's total trade by air.
- **Diversified Population.** The Air Trade Area's population is very diverse: 49.4 percent of the region's residents are non-white, compared with 28.0 percent for the nation as a whole. Persons of Hispanic origin make up 46.6 percent of the Air Trade Area's population, compared with 15.7 percent in the U.S.¹¹ This population diversity serves as a source of demand for both domestic and international air travel. According to survey data from the Travel Industry Association and Claritas Inc., ethnically and racially diverse social groups show stronger proportional demand for air travel compared to their share of total U.S. households.¹²
- **Significant Tourism Stimulates Demand for Leisure Travel.** The Air Trade Area offers a variety of cultural, recreational, and educational resources and activities, and the travel and tourism industry is an important source of employment. Approximately 25.6 million people traveled to the Air Trade Area in 2008 and generated \$13.8 billion in overnight visitor spending.¹³

The broad economic base of the Air Trade Area summarized above has contributed to the Airport's position as one of the busiest airports worldwide in 2008 in terms of passengers and cargo tonnage.¹⁴ The strength of key socioeconomic factors for the Air Trade Area (large population, high household

⁸ *Directory of American Firms Operating in Foreign Countries*, 20th edition, Uniworld Business Publications, Inc., 2009; *Directory of Foreign Firms Operating in the United States*, 14th edition, Uniworld Business Publications, Inc., 2008.

⁹ FT 920 U.S. Merchandise Trade: Selected Highlights February 2009, U.S. Dept. of Commerce, Bureau of the Census, www.census.gov/foreign-trade/Press-Release/2008pr/12/ft920, accessed June 23, 2009.

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

¹¹ ESRI, Market Profile of the Los Angeles-Long Beach-Riverside Combined Statistical Area, May 2009.

¹² See Section 1.3.3.

¹³ Los Angeles Convention and Visitors Bureau, Los Angeles Tourism by Numbers: 2008 Quick Facts, <http://discoverlosangeles.com/business-services/research-and-reports/LAquickfacts08.pdf>, accessed June 23, 2009.

¹⁴ Based on statistics from Airports Council International (ACI), <http://www.airports.org>, Data Centre, Traffic Data, accessed July 23, 2009.

income, diverse population) create a source of demand for air travel at the Airport. In addition, the Air Trade Area's mild climate and visitor attractions make it a top domestic and international air travel destination.

Although the Air Trade Area is well-positioned with a broad and diverse economic base, it still remains subject to overall economic conditions in the U.S. The national recession that began in December 2007 has been characterized by steep declines in housing construction, consumer spending and business investment. Recent surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics indicate consensus for a modest rebound in national real GDP growth by the end of 2009 and moderate economic recovery in 2010.¹⁵

Similar to forecasts from NABE and Blue Chip Economic Indicators, a recent report from the Los Angeles County Economic Development Corporation (LAEDC) projects that unemployment rates in both California and the Air Trade Area will remain elevated in 2010. LAEDC forecasts the majority of job losses in both California and the Air Trade Area will occur in the manufacturing, retail trade, construction, and finance/insurance/real estate industries. As with the U.S. overall, growth in California and the Air Trade Area is expected to resume in 2010 as household spending stabilizes and businesses bring production capacity and inventory stocks into alignment with sales.¹⁶

As described in more detail in Section 1.8 below and in Section 2.7 of this report, the methodologies employed in projecting airline traffic activity at the Airport included (among other methodologies) statistical linear regression modeling, which utilized certain local socioeconomic factors discussed in this chapter as the independent variable and enplanements as the dependent variable. As described in Section 2.7, the projection of enplanements using regression modeling with local socioeconomic factors provided a comparison benchmark for the ultimate projection of enplanements. The ultimate projection of enplanements incorporated in this report and the accompanying financial tables (in Chapter 4) resulted in a similar CAGR for FY 2009 to FY 2016 relative to the CAGR for each of the projections based on regression modeling with socioeconomic factors.

In addition, specific assumptions regarding the timing of economic recovery in the Air Trade Area and the State (described in Section 1.7 below) were incorporated into projections of airline activity (described in Section 2.7). Given the level of uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation, projected passenger enplanements at the Airport are conservatively assumed to recover at a slower pace than previously experienced following past U.S. recessions and as recently as those experienced at the Airport in FY 2004 and FY 2005.

1.2 Air Trade Area¹⁷

The Air Trade Area is served by five major passenger service airports: LAX; Bob Hope Airport in Burbank (BUR); Long Beach Airport (LGB); LA/Ontario International Airport (LA/ONT); and John Wayne Airport (SNA) in Orange County. Each of the five airports caters to particular types of

¹⁵ *NABE Outlook*, May 2009, National Association for Business Economics; *Blue Chip Economic Indicators*, Vol. 34, No. 9 September 10, 2009, Aspen Publishers.

¹⁶ *2009-2010 Mid-Year Update: Economic Forecast and Industry Outlook*, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation, July 2009.

¹⁷ The Air Trade Area refers to the Los Angeles-Long Beach-Riverside Combined Statistical Area (Los Angeles CSA) which is comprised of Los Angeles County, Orange County, Ventura County, Riverside County, and San Bernardino County.

passenger demand, owing to each facility's geographic proximity to businesses and population concentrations in the Air Trade Area, as well as to the availability of specific types of air services. The BUR, LGB, LA/ONT, and SNA airports draw passengers primarily from their surrounding areas for short- and medium-haul domestic service. LA/Palmdale Regional Airport (LA/PMD), which is located approximately 60 miles north of LAX in northeast Los Angeles County, no longer offers commercial air service.

Because of its significantly greater capacity, LAX captures demand from the entire Air Trade Area for international service and for most long-haul domestic trips. Exhibit I-1 graphically illustrates the location of the Air Trade Area within the State of California, and the location of the five commercial service airports within the Air Trade Area. The Air Trade Area is also served by Van Nuys Airport (VNY), a general aviation airport located in the San Fernando Valley, approximately 26 miles from LAX.

1.3 Demographic Profile

Data for population growth, age distribution, race, ethnicity, and educational attainment for the Air Trade Area are discussed below and are presented in Tables I-3 through I-6 which follow. Parallel data for California and the U.S. are also shown to provide a basis of comparison for trends in the Air Trade Area.

1.3.1 Population Growth

As measured by population, the Air Trade Area, with just over 18.4 million people in 2009, is the second-largest of the 126 Combined Statistical Areas (CSA) in the United States. Only the New York-New Jersey-Bridgeport CSA, with approximately 22.2 million people, represents a larger market for air transportation. Further, the Air Trade Area has approximately 8.4 million more people than the third-largest consolidated market in the United States (the Chicago-Naperville-Michigan City CSA). (See **Table I-2**.)

Table I-2
Population for Major Consolidated US Markets (2009)

Rank	Combined Statistical Area	Estimated Population
1	New York-Newark-Bridgeport	22,227,2845
2	LOS ANGELES-LONG BEACH-RIVERSIDE	18,432,448
3	Chicago-Naperville-Michigan City	9,980,213
4	Washington-Baltimore-Northern Virginia	8,428,585
5	Boston-Worcester-Manchester	7,540,533

Source: ESRI, May 2009
Prepared by: Partners for Economic Solutions, August 2009

Population growth is a key factor creating demand for air travel. According to the 2000 U.S. Census, the Air Trade Area had a population of more than 16 million; and by 2009 it had increased to more than 18.4 million. (See **Table I-3**.) The Air Trade Area added 1,994,198 to its population between

Table I-3
Population Trends (2000-2020)

	Historical		Projected	
	2000	2009	2015	2020
Air Trade Area	16,438,250	18,432,448	19,265,749	20,252,264
California	34,004,051	37,933,734	39,675,945	41,715,070
United States	282,194,308	309,731,508	326,038,477	342,020,014
Compounded Annual Growth Rate		2000-2009	2009-2015	2015-2020
Air Trade Area		1.3%	0.7%	1.0%
California		1.2%	0.8%	1.0%
United States		1.0%	0.9%	1.0%

Source: Woods & Poole Economics Inc., November 2008; ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

2000 and 2009 (or, over 221,000 per year), and its compounded annual growth rate (CAGR) over the nine-year period was similar to that of both California and the U.S. In 2009 the Air Trade Area accounted for 48.6 percent of California's population, and 6.0 percent of the U.S. population.

The Air Trade Area population forecast for the period 2009 to 2015 reflects a CAGR of 0.7 percent per year, nearly equaling the forecasted CAGR for California (0.8 percent) and for the U.S. (0.9 percent). It is expected that an increase in new residents in the Air Trade Area (833,301 between 2009 and 2015 and 986,515 between 2015 and 2020) will generate additional demand for air service at the Airport.

1.3.2 Age Distribution

Table I-4 shows that the median age in the Air Trade Area in 2009 (33.2 years) was lower than in both California (34.3 years) and the U.S. (36.9 years). This reflects a higher percentage of residents aged 19 years and below and a lower percentage of residents aged 55 years and above.

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

In 2009, Air Trade Area residents aged 35 to 54 made up 27.6 percent of the population, compared with 27.9 percent of the population in California and 28.3 percent in the U.S. This is the age group that tends to travel the most, particularly for business, and is represented in the Air Trade Area on a level commensurate with the population in both California and the U.S.

1.3.3 Population Diversity

The Air Trade Area's diverse population strengthens the competitiveness of the region and also contributes to demand for air travel. In a global economy, cultural diversity within a region's labor force is a distinct economic advantage, since employees with cultural and linguistic ties to international markets give companies an edge in establishing trade and investment opportunities.¹⁸ A culturally diverse population also engenders business, family, and cultural ties that create demand for air travel services to and from homeland countries. Survey data from the Travel Industry Association and Claritas Inc. indicate that several ethnically and racially diverse social groups show stronger proportional demand for air travel compared to their share of total U.S. households.¹⁹

As shown in **Table I-5**, the racial and ethnic composition of the Air Trade Area differs from that of California and of the nation as a whole. Data in Table I-5 show that the percentage of white residents in the Air Trade Area in 2009 (50.6 percent) was somewhat lower than that of California (54.5 percent), and significantly lower than the percentage in the U.S. overall (72.0 percent). Asians constituted a much larger share (11.6 percent) of the Air Trade Area's population compared with the U.S. (4.7 percent), but constituted a slightly smaller percentage when compared with California (12.5 percent). Black or African Americans represented 6.9 percent of Air Trade Area residents, compared with 6.2 percent of California's population and 12.7 percent of the U.S. population.

¹⁸ Frederic Docquier, "Skilled Migration and Business Networks", *Open Economies Review*, October 2008.

¹⁹ 2006 *Domestic Travel Market Report*, Travel Industry Association.

Table I-4
Age Distribution (2009)

	Air Trade Area	California	United States
Total Population	18,432,448	37,933,734	309,731,508
By Age Group:			
19 and Under	30.2%	29.0%	27.2%
20 – 24	7.5%	7.4%	6.9%
25 – 34	14.7%	14.5%	13.3%
35 – 44	14.0%	13.9%	13.7%
45 – 54	13.6%	14.0%	14.6%
55 – 64	9.7%	10.3%	11.4%
65 and Above	10.3%	10.9%	12.9%
Total	100.0%	100.0%	100.0%
Median Age	33.2	34.3	36.9

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

Table I-5

Population by Race and Ethnicity (2009)

	Air Trade Area	California	United States
Total Population	18,432,448	37,933,734	309,731,508
Race			
White	50.6%	54.5%	72.0%
Black or African American	6.9%	6.2%	12.7%
American Indian and Alaska Native	0.8%	0.9%	0.9%
Asian or Pacific Islander	11.6%	12.5%	4.7%
Other Race	24.3%	19.8%	6.8%
More than One Race	5.8%	6.1%	2.9%
Total	100.0%	100.0%	100.0%
Persons of Hispanic Origin ^{1/}	46.6%	38.3%	15.7%

Note:

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

Sources: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

The percentage of Hispanics in the Air Trade Area is dramatically higher than in California or the U.S. overall. As shown in Table I-5, in 2009 46.6 percent of Air Trade Area were Hispanic, compared with 38.3 percent statewide and 15.7 percent nationally.

1.3.4 Education

In absolute terms, the Air Trade Area is home to a large number of educated adults. According to data shown in **Table I-6**, more than 3.9 million people, or more than 34 percent of the Air Trade Area population over the age of 25 have a post-secondary degree (associate, bachelor's, graduate or professional). Although this percentage is nearly identical to that of the U.S. overall, it lags the percentage in California as a whole, where 36.6 percent of the population over the age of 25 have post-secondary degrees.

In the Air Trade Area, 3.9 million residents over the age of 25 hold a bachelor's degree, a graduate degree, or a professional degree. According to the Travel Industry Association's 2006 *Domestic Travel Market Report* (latest data available), persons with a college degree are more likely to use air service. The survey data indicate that 56 percent of air travelers are college graduates, while 24 percent have had some college and just 20 percent never attended college.²⁰

1.4 Income

Because 30.2 percent of the Air Trade Area's 18.4 million residents in 2009 were 19 years of age or younger (compared with 29.0 percent in California and 27.2 percent in the U.S. — see age distribution data in Table I-4), and because the majority of this group was presumably still in school and not full-time workers, or hold entry-level jobs, the 2009 per capita income figures for the Air Trade Area are skewed with a downward bias and slightly lagged those of California, although they closely matched those of the U.S. (See **Table I-7**). However, the Air Trade Area's estimated 2009 median household income is significantly higher than that of the U.S., but is lower than California's. In 2009, the Air Trade Area's median household income of \$60,030 was 9.7 percent higher than that of the U.S. (\$54,719) and 2.7 percent lower than California's (\$61,614). Income forecasts for 2014 show that this trend is expected to continue as the Air Trade Area will reach a median household income level of \$62,594, compared to \$64,088 in California and \$56,938 in the U.S.

For the purpose of assessing the Air Trade Area as an air travel market, it is useful to examine the distribution of high income households rather than per capita income data. As measured by the number of households with annual income of \$75,000 or more, the Air Trade Area is the second wealthiest market in the United States exceeded only by the New York-New Jersey-Bridgeport CSA (see **Table I-8**). In 2009, an estimated 2.2 million Air Trade Area households have an income of \$75,000 or more. According to the Travel Industry Association's 2006 *Domestic Travel Market Report* (latest data available), 62 percent of airplane trips are taken by travelers with an annual household income of \$75,000 or more. Data in **Table I-9** show that between 2009 and 2014, the number of households with income greater than \$75,000 in the Air Trade Area is projected to increase by 180,153.

²⁰ 2006 *Domestic Travel Market Report*, Travel Industry Association.

Table I-6

Educational Attainment (2009)

	Air Trade Area	California	United States
Population 25 years and over	11,464,486	24,131,967	203,796,862
Less than 9th Grade	12.3%	10.5%	6.5%
9th - 12th Grade, No Diploma	10.8%	9.7%	9.7%
High School Graduate	22.5%	22.2%	29.8%
Some College, No Degree	20.1%	21.0%	19.9%
Post-Secondary Degree	34.3%	36.6%	34.1%
<i>Associate Degree</i>	7.2%	7.5%	7.2%
<i>Bachelor's Degree</i>	17.8%	18.7%	17.1%
<i>Graduate/Professional Degree</i>	9.3%	10.4%	9.8%
Total	100.0%	100.0%	100.0%

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

Table I-7
Income Trends (2009-2014)

	Air Trade Area	California	United States
Per Capita Income			
2009 estimate	\$25,727	\$28,199	\$27,277
2014 forecast	\$26,838	\$29,471	\$28,494
CAGR 2009-2014	0.8%	0.9%	0.9%
Median Household Income			
2009 estimate	\$60,030	\$61,614	\$54,719
2014 forecast	\$62,594	\$64,088	\$56,938
CAGR 2009-2014	0.8%	0.8%	0.8%

Note: CAGR = Compounded annual growth rate

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, September 2009

Table I-8

Households with Income of \$75,000 or More (2009)

Rank	Combined Statistical Area	Estimated Households with Income of \$75,000 or More
1	New York-Newark-Bridgeport	3,631,663
2	LOS ANGELES-LONG BEACH-RIVERSIDE	2,247,039
3	Washington-Baltimore-Northern Virginia	1,600,223
4	Chicago-Naperville-Michigan City	1,573,714
5	San Jose-San Francisco-Oakland	1,471,239

Source: ESRI, May 2009

Prepared by: Partners for Economic Solutions, August 2009

1.5 Employment

1.5.1 1998-2008 and July 2009 Labor Force Trends and Unemployment Rates

Table I-10 shows that between 1998 and 2008, the Air Trade Area labor force grew at a CAGR of approximately 1.6 percent — higher than the labor force CAGR in both California (1.5 percent), and the U.S. (1.2 percent). In absolute terms, the labor force in the Air Trade Area increased by 1,099,000 workers between 1998 and 2008.

Although the seasonally adjusted annual unemployment rate in the Air Trade Area exceeded that of the U.S. from 1998 through 2004, it was lower than the national unemployment rate in 2005 and 2006, and was higher again in both 2007 and 2008. The Air Trade Area’s unemployment rate was lower than the State’s in all years from 1998 through 2008 with the exception of 2000 and 2008 when they were equal.

In August 2009 (latest data available), the unemployment rate for the Air Trade Area was 12.3 percent (non-seasonally adjusted).²¹ This is higher than the rate for California overall where the unemployment rate was 12.2 percent (seasonally adjusted). The unemployment rate for the U.S. was 9.7 percent in August 2009 (seasonally adjusted).

1.5.2 Major Employers in the Air Trade Area

As shown in **Table I-11**, major private sector employers in the Air Trade Area include internationally dominant aerospace companies (Boeing, Lockheed, Northrop Grumman), pharmaceutical and biotechnology companies (Allergan, Amgen, Baxter Healthcare), Walt Disney, a regional grocery chain, health care providers, and national retailers. In addition to providing a major source of local employment, these companies depend on air passenger and freight service for the continued health and expansion of their business enterprises. LAX’s role as an international passenger and air cargo hub make it an important resource for large employers in the Air Trade Area.

The Air Trade Area is headquarters for 19 companies on the list of Fortune 500 firms by annual revenue (see **Table I-12**). These companies operate throughout the U.S., Asia, Europe, and other

²¹ 2009 seasonally adjusted unemployment data for the Air Trade Area will be released in 2010.

Table I-9

Households with Income of \$75,000 and Above (2009-2014)

Location	2009 (Estimate)	2014 (Forecast)	CAGR 2009-2014
Air Trade Area	2,247,039	2,427,192	180,153
California	5,011,045	5,424,014	412,969
United States	38,821,890	42,403,938	3,582,048

Note: CAGR = Compounded annual growth rate

Source: ESRI, May 2009

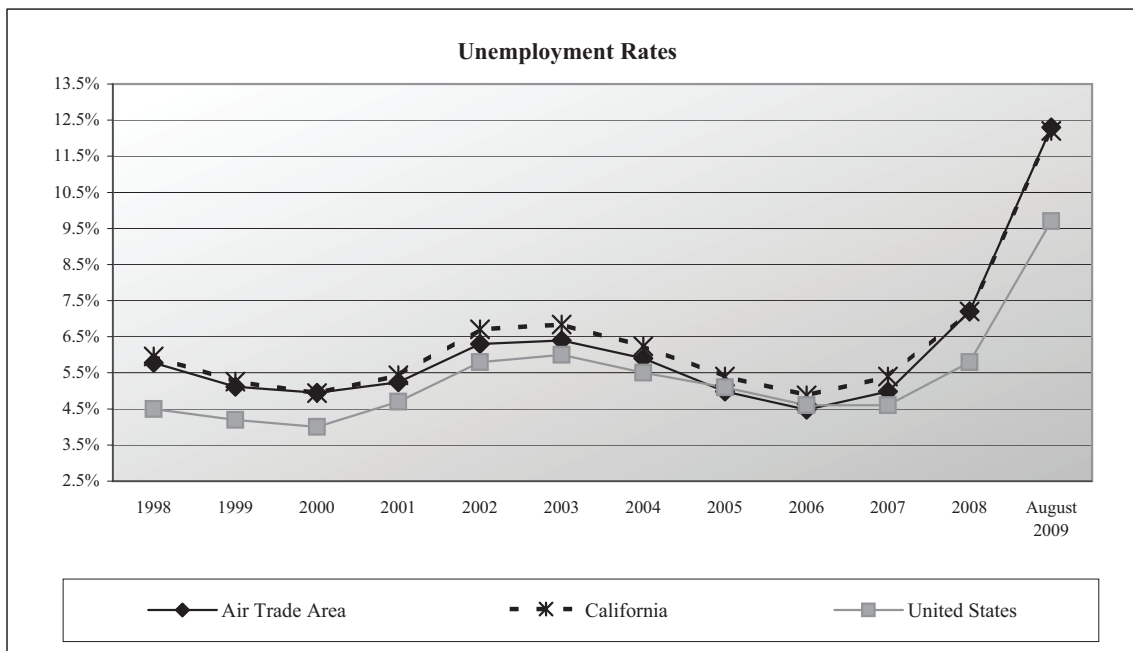
Prepared by: Partners for Economic Solutions, September 2009

Table I-10

Civilian Labor Force and Unemployment Rates (1998-2009)

Civilian Labor Force				Unemployment Rates			
Year	Air Trade Area	California	United States	Year	Air Trade Area	California	United States
1998	7,739,300	16,166,900	137,673,000	1998	5.8%	6.0%	4.5%
1999	7,875,900	16,430,600	139,368,000	1999	5.1%	5.3%	4.2%
2000	7,969,500	16,857,500	140,863,000	2000	4.9%	4.9%	4.0%
2001	8,139,800	17,152,100	141,815,000	2001	5.2%	5.4%	4.7%
2002	8,252,700	17,343,600	144,448,000	2002	6.3%	6.7%	5.8%
2003	8,336,900	17,418,700	146,233,000	2003	6.4%	6.8%	6.0%
2004	8,451,500	17,538,800	148,164,000	2004	5.9%	6.2%	5.5%
2005	8,588,000	17,740,400	148,843,000	2005	5.0%	5.4%	5.1%
2006	8,680,100	17,901,900	152,196,000	2006	4.5%	4.9%	4.6%
2007	8,778,700	18,188,100	153,124,000	2007	5.0%	5.4%	4.6%
2008	8,838,300	18,391,800	154,287,000	2008	7.2%	7.2%	5.8%
August 2009	8,807,500	18,391,000	154,577,000	August 2009	12.3%	12.2%	9.7%

Compounded Annual Growth Rate	Air Trade Area	California	United States
1998 - 2008	1.6%	1.5%	1.2%



Note: August 2009 data for the Air Trade Area are not seasonally adjusted; 2009 seasonally adjusted unemployment data for the Air Trade Area will be released in 2010

Sources: State of California Employment Development Department, Labor Market Information; U.S. Dept. of Labor, Bureau of Labor Statistics, September 2009

Prepared by: Partners for Economic Solutions, September 2009

Table I-11

Major Private Sector Employers in the Air Trade Area

Company Name	Industry	Location(s)
ABM Industries	Facility Services	Commerce
Allergan	Pharmaceuticals	Irvine
Amgen	Biotechnology	Thousand Oaks
AT&T Inc.	Telecommunications	Cerritos, Los Angeles, Anaheim
Bank of America	Financial Services	Brea, Los Angeles
Baxter Healthcare	Medical Devices	Westlake Village
Boeing	Aerospace	El Segundo, Huntington Beach, Seal Beach
CVS Caremark	Health Care	La Habra
Edison International	Utility	Rosemead
Fedex Corp.	Delivery Services	Los Angeles
First American Corp.	Title Insurance	Santa Ana
Fluor	Engineering Services	Aliso Viejo
Kaiser Permanente	Health Care	Anaheim, Panorama City, Pasadena, Fontana
Kroger	Grocery Retailer	Compton, Santa Ana
Lockheed Martin	Defense Systems	Palmdale
Northrop Grumman	Defense Systems	Los Angeles
Stater Bros. Holdings Inc.	Grocery Retailer	Colton
Target	Retailer	Los Angeles, Santa Ana, Fontana
The Home Depot	Retailer	Orange
The Irvine Company	Real Estate Development	Newport Beach
United Health Group	Health Care	Irvine
United Parcel Service	Delivery Services	Los Angeles
Verizon Communications Inc.	Telecommunications	Long Beach, Huntington Beach, Pomona
Vons	Grocery Retailer	Arcadia
Walmart	Retailer	San Bernardino
Walt Disney	Entertainment	Burbank, Anaheim
Wells Fargo	Financial Services	Los Angeles, Irvine
Yum Brands	Restaurants	Irvine

Sources: *The Lists 2009*, January 2009, Los Angeles Business Journal; *2009 Book of Lists*, January 2009, Orange County Business Journal; Major Employers in Riverside County, San Bernardino County, Ventura County, Employment Development Department, State of California, September 2009

Prepared by: Partners for Economic Solutions, September 2009

Table I-12

Fortune 500 Headquarters Located in the Air Trade Area

Company	Industry	Headquarters	Revenue (\$ million)	Fortune 500 Rank
Walt Disney	Entertainment	Burbank	37,843	60
Ingram Micro	Technology	Santa Ana	34,362	67
Northrop Grumman	Aerospace	Los Angeles	33,940	69
Occidental Petroleum	Energy	Los Angeles	24,480	98
DIRECTV Group	Telecommunications	El Segundo	19,693	126
Health Net	Health Care	Woodland Hills	15,366	165
Amgen	Biotechnology	Thousand Oaks	15,003	168
Edison International	Utility	Rosemead	14,112	184
Jacobs Engineering Group	Engineering	Pasadena	11,252	241
Reliance Steel & Alum.	Steel	Los Angeles	8,718	298
Western Digital	Technology	Lake Forest	8,074	319
Dole Food	Food Processing	Westlake Village	7,732	329
Avery Dennison	Paper Products	Pasadena	6,710	376
First American Corp.	Financial Services	Santa Ana	6,213	398
Mattel	Toy Manufacturing	El Segundo	5,918	415
DaVita	Health Care	El Segundo	5,660	433
AECOM Technology	Engineering	Los Angeles	5,216	458
CB Richard Ellis Group	Real Estate Services	Los Angeles	5,130	464
Broadcom	Technology	Irvine	4,658	495
Total Revenue			270,080	

Source: *Fortune*, May 4, 2009

Prepared by: Partners for Economic Solutions, September 2009

international locations and their activities extend to a network of more than 947 overseas offices, manufacturing plants, and other facilities.²² The reliance of these companies and their international suppliers, customers, and partners on face-to-face meetings and conferences, combined with their just-in-time inventory practices, suggests that the Air Trade Area will continue to be a significant source of demand for both business air travel and air freight shipments over the long term.

Two hundred fifty-five Air Trade Area companies have 3,692 branches, subsidiaries, or affiliates in foreign countries. In addition, 998 foreign firms have 1,882 branches, subsidiaries, or affiliates in the Air Trade Area.²³

1.5.3 Historical Employment Trends by Industry

An analysis of nonagricultural employment trends by major industry divisions, presented in **Table I-13**, indicates the sources of jobs in the local economy. In this table, employment trends in the Air Trade Area are compared to data for California and the U.S. in 2000 and 2008. Non-agricultural employment in the Air Trade Area increased from approximately 9.1 million workers in 2000 to more than 9.9 million workers in 2008. This increase represents a 1.1 percent CAGR during this period. Measured by percentages, major industry divisions in the Air Trade Area in 2008 were largely consistent with those of California and the U.S. and indicate that the Air Trade Area has a diversified employment base that is expected to provide the region with a foundation for recovery following periodic downturns in the business cycle.

1.5.3.1 Construction

The construction industry employed more than 621,000 workers in the Air Trade Area in 2008, accounting for 6.2 percent of total nonagricultural employment. This percentage is lower than in California and the U.S. where construction jobs accounted for 7.6 percent and 7.7 percent respectively of nonagricultural employment in 2008.

Development projects for public facilities are providing support to the construction industry in the Air Trade Area. Examples of current projects include:

- **Port of Long Beach \$750 Million Middle Harbor Redevelopment Project.** The \$750 million Middle Harbor Redevelopment Project has a 10-year build-out period and will expand and combine two existing container cargo terminals to create a 342-acre facility.²⁴
- **UCLA Life Sciences Building.** The 175,000 square-foot, \$122.9 million UCLA Life Sciences Building will be the new home of UCLA's Biological Sciences Department.²⁵
- **California State University Long Beach Research and Science Building.** This \$86.8 million, 160,000 square-foot building will provide facilities for the university's biology, physics, sciences, chemistry and geology departments.²⁶

²² *Directory of American Firms Operating in Foreign Countries*, 20th edition, Uniworld Business Publications, Inc., 2009.

²³ *Directory of American Firms Operating in Foreign Countries*, 20th edition, Uniworld Business Publications, Inc., 2009; *Directory of Foreign Firms Operating in the United States*, 14th edition, Uniworld Business Publications, Inc., 2008.

²⁴ Middle Harbor Redevelopment Project Fact Sheet, www.polb.com, accessed June 25, 2009.

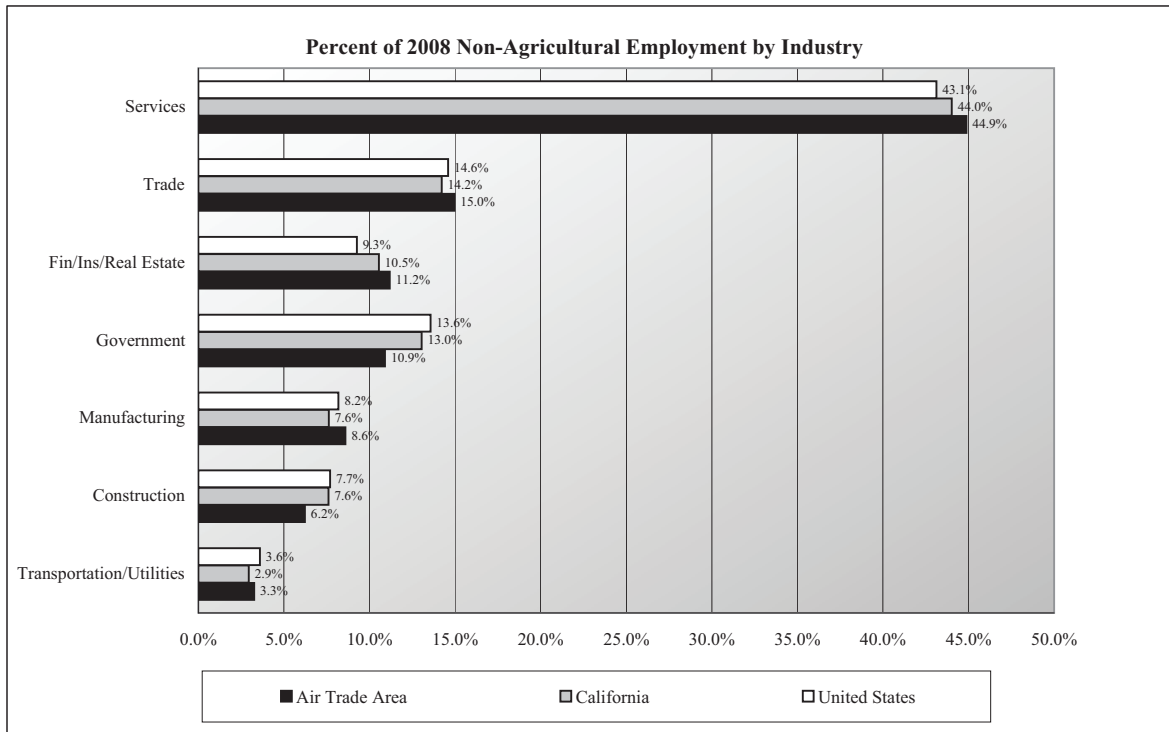
²⁵ 2008 Top Projects in California, www.california.construction.com, accessed June 25, 2009.

²⁶ "Hunt Breaks Ground on California State University, Long Beach Hall of Science," Press Room, Hunt Construction Group, www.huntconstructiongroup.com, accessed June 25, 2009.

Table I-13

Employment Trends by Major Industry Division (2000-2008)

Industry ^{1/}	Air Trade Area			California			United States		
	2000	2008	CAGR	2000	2008	CAGR	2000	2008	CAGR
Services	4,037,659	4,472,424	1.3%	8,400,863	9,141,680	1.1%	67,029,090	77,524,202	1.8%
Trade	1,340,076	1,492,213	1.4%	2,729,592	2,951,244	1.0%	24,856,334	26,220,042	0.7%
Manufacturing	1,055,997	856,403	-2.6%	1,972,529	1,581,564	-2.7%	17,856,195	14,701,709	-2.4%
Government	1,031,635	1,086,252	0.6%	2,560,477	2,709,812	0.7%	22,944,000	24,381,336	0.8%
Fin/Ins/Real Estate	808,683	1,114,283	4.1%	1,654,722	2,190,495	3.6%	13,110,589	16,650,533	3.0%
Transportation/Utilities	323,915	325,303	0.1%	636,173	612,408	-0.5%	6,136,759	6,476,447	0.7%
Construction ^{2/}	504,120	621,118	2.6%	1,341,730	1,578,974	2.1%	11,712,702	13,821,384	2.1%
Total	9,102,085	9,967,996	1.1%	19,296,086	20,766,177	0.9%	163,645,669	179,775,653	1.2%



Notes:

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

2/ Includes mining and forestry employment.

CAGR = Compounded Annual Growth Rate

Source: Woods & Poole Economics Inc., November 2008

Prepared by: Partners for Economic Solutions, September 2009

- **Mission Hospital Critical Care Facility.** This \$67 million four-level tower will provide Mission Viejo and surrounding Orange County communities with advanced high-tech diagnostic and critical care services.²⁷
- **The Broad CIRM Center at the University of Southern California.** This \$65 million, 93,000 square-foot facility at USC's Health Sciences Campus is the the first stem cell research facility to break ground with funding from the California Institute for Regenerative Medicine (CIRM).²⁸

1.5.3.2 Manufacturing

With 856,400 manufacturing workers, the Air Trade Area has the highest number of jobs in this industry compared to any other region in the U.S.²⁹ The diversity of the Air Trade Area's economy extends to the manufacturing sector where businesses range from aerospace and defense contractors to computer equipment, electronics, pharmaceuticals, medical devices, and many other types of specialized products. In 2008, manufacturing jobs made up 8.6 percent of nonagricultural employment in the Air Trade Area. This is higher than manufacturing employment in California (7.6 percent) and the U.S. overall (8.2 percent).

1.5.3.3 Trade

Approximately 1.5 million workers were employed in wholesale and retail trade in the Air Trade Area in 2008, accounting for approximately 15.0 percent of nonagricultural employment in the Air Trade Area. In California and the U.S., trade jobs accounted for approximately 14.2 percent and approximately 14.6 percent, respectively, of nonagricultural employment in 2008.

The economic fortunes of the Air Trade Area have become progressively more linked to the global economy and rely heavily on air passenger and air cargo service to move people and goods. In 2008, total trade activity (both imports and exports) between the Los Angeles Customs District and the rest of the world was valued at \$439.1 billion (See **Table I-14**). Businesses in the Air Trade Area have taken advantage of overseas markets and have expanded their operations internationally. Many of the Air Trade Area's top companies depend on offshore plants and suppliers for manufacturing and assembly as well as raw materials. This expanding international business activity generates demand for both international air travel and air freight services.

In 2008, more than \$78 billion in trade (including imports and exports) through the Los Angeles Customs District was conveyed by air (See Table I-14). This represents 18.2 percent of all trade through the Los Angeles Customs District, and more than 59 percent of California's total value of trade by air. The Air Trade Area's high rate of trade by air reflects the prevalence of just-in-time inventory management of high value components (especially in the technology, defense, and aerospace sectors), as well as an expanding global network of suppliers and manufacturers. Furthermore, as Air Trade Area companies continue to develop new international markets for their goods and services, their reliance on international passenger and air freight service at LAX will increase in the future.

²⁷ Portfolio, www.rbbinc.com, accessed June 25, 2009.

²⁸ School of Medicine/USC Dean's Report, December 2008.

²⁹ Woods & Poole Economics, Inc., 2008 Complete Economic and Demographic Data.

Table I-14

2008 Total Trade by Conveyance (\$ Billions)

Customs District	Value of Total Trade ^{1/}	Value of Total Trade by Air	Percent of Total Trade by Air
Los Angeles	431.9	78.7	18.2%
California	601.1	132.7	22.1%
United States	3,400.3	805.6	23.7%

Note:

1/ Total trade = total imports and exports

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

Source: U.S. Department of Commerce, Bureau of the Census, Foreign Trade Division, February 2009

Prepared by: Partners for Economic Solutions, September 2009

1.5.3.4 Transportation and Public Utilities

In terms of transportation jobs, the Airport itself is responsible for an estimated 18.1 percent of direct employment in the Air Trade Area's transportation and public utilities sector. The Airport's direct employment is estimated at 59,000 workers, and an additional 408,000 jobs in the Air Trade Area are attributable to it.³⁰

Approximately 325,000 workers were employed in the transportation and public utilities industries in the Air Trade Area in 2008. Employment in these two industries in 2008 accounted for 3.3 percent of nonagricultural employment in the Air Trade Area. Transportation and public utilities jobs made up 2.9 percent of nonagricultural employment in California and 3.6 percent of nonagricultural U.S. employment in 2008.

1.5.3.5 Finance, Insurance, and Real Estate

The finance, insurance, and real estate industries (FIRE) employed more than 1.1 million workers in the Air Trade Area in 2008. In 2008, FIRE employment accounted for 11.2 percent of total nonagricultural employment in the Air Trade Area versus 10.5 percent in California and 9.3 percent in the U.S.

1.5.3.6 Government

Approximately 1.1 million workers were employed in government in the Air Trade Area in 2008, representing 10.9 percent of nonagricultural employment. The Air Trade Area's share of government employment was lower than that of California and the U.S. where government jobs made up 13.0 percent and 13.6 percent of nonagricultural employment in 2008, respectively.

1.5.3.7 Services

Approximately 4.5 million workers were employed in the services industry in the Air Trade Area in 2008, accounting for 44.9 percent of nonagricultural employment — higher than both California and the U.S., where services accounted for 44.0 percent and 43.1 percent of nonagricultural employment, respectively.

The services industry is the largest job sector in the Air Trade Area and employs workers in a wide range of subsectors that vary greatly in size. In 2008, 24 percent of the Air Trade Area's service workers were employed in leisure and hospitality, 21 percent were employed in health care and 16 percent were employed in administration and support services. Other service sector categories include: professional, scientific and technical services (14 percent of service workers); information technology (eight percent); education (five percent); management of enterprises (three percent); and other services (eight percent).

Tourism in the Air Trade Area provides a significant source of demand for air travel and employs many workers in the leisure and hospitality subsector. An analysis of Air Trade Area attractions and visitor data is provided below.

³⁰ Includes workers at LAX or in nearby aviation-related facilities in professional and business services; concessions and retail; construction and maintenance; and in airline related fields such as flight operations, ticketing, baggage handling, aircraft maintenance, passenger assistance, and security screening. Master Plan Facts > LAX & the Economy, http://www.laxmasterplan.org/facts_economy.cfm, accessed June 29, 2009.

1.6 Air Trade Area Tourism Industry

1.6.1 Area Attractions

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

Fine arts collections such as the Los Angeles County Museum of Art, the Norton Simon Museum, the Huntington Library, the Museum of Contemporary Art, the Getty Villa and the Getty Center afford visitors and residents access to a broad selection of painting, sculpture, decorative arts, and cultural objects from a wide assortment of civilizations and eras. Likewise, performing arts venues in the Air Trade Area, such as the Walt Disney Concert Hall, offer acclaimed companies including the Los Angeles Philharmonic, Los Angeles Opera, and Los Angeles Master Chorale. Professional theater is thriving at venues such as the Pasadena Playhouse, Ahmanson Theatre, Geffen Playhouse, and the Mark Taper Forum. Multicultural performances also are available at the Bilingual Foundation of the Arts.

The Air Trade Area also offers travelers a scenic natural environment. With an annual average of 329 days of sunshine,³¹ outdoor activities can be pursued throughout the year. Visitors seeking recreation may visit the Angeles National Forest, Catalina Island, Lake Arrowhead, San Bernardino National Forest, and Santa Monica Mountains National Recreation Area. In addition, more than 100 miles of shoreline run from Malibu to San Clemente.

1.6.2 Tourism Trends

Because spending for both business and leisure travel is discretionary, the tourism industry is cyclically sensitive to changes in economic conditions. Historically, demand for leisure travel has been more closely tied to the economic cycle, and business travel has remained relatively constant. However, in the current recessionary environment, reductions in business travel expenses have been a high priority for many firms.

The Los Angeles Convention and Visitors Bureau estimates that 25.6 million people visited the Air Trade Area in 2008, generating a total of \$13.8 billion in overnight spending. These figures are slightly lower than those for 2007 when the Air Trade Area had 25.8 million visitors that generated \$14.2 billion in spending.³² Tourism-related industries are a leading employer in the Air Trade Area with 691,600 workers employed in this sector in 2007 (latest data available).³³ A survey from the U.S. Department of Commerce's Office of Tourism Industries shows that 2,345,741 travelers from overseas (excluding Canada and Mexico) arrived at LAX in 2008. This represents a 2.3 percent

³¹ Los Angeles Convention and Visitors Bureau, Fun Facts, <http://discoverlosangeles.com/guides/fun-facts/did-you-know.html>, accessed June 29, 2009.

³² Los Angeles Convention and Visitors Bureau, Los Angeles Tourism by Numbers: 2008 Quick Facts, <http://discoverlosangeles.com/business-services/research-and-reports/LAquickfacts08.pdf>, accessed June 23, 2009.

³³ *L.A. Stats*, Los Angeles Economic Development Corporation, April 2009.

increase over the figure for 2007 when 2,293,241 overseas travelers arrived at LAX. Following New York and Miami, the Air Trade Area was the third most popular U.S. destination for overseas travelers in both 2007 and 2008, ranking ahead of other major destinations such as San Francisco, Chicago, Honolulu, Atlanta, Washington, D.C. and Orlando. (See **Table I-15**).

1.7 Economic Outlook

The national recession, which began in December 2007, has been attributed to the interplay of three factors: a surge in liquidity caused by a period of unusually low interest rates; widespread excess leverage in the financial system; and an unprecedented rise in asset prices, particularly in residential real estate.³⁴ The recession has been characterized by steep declines in housing construction, consumer spending and business investment. In view of the consequent rise in the national unemployment rate and the contraction in gross domestic product, surveys of leading economists by Blue Chip Economic Indicators and the National Association for Business Economics (NABE) indicate consensus for a modest rebound in national real GDP growth by the end of 2009. More than 90 percent of each survey's forecast panel expect the recession to end by the fourth quarter of 2009. However, both forecast panels believe that the unemployment rate will remain elevated into the first half of 2010, and that consumer spending will be restrained as savings-conscious households reduce debt. The NABE forecast expects the economic recovery in 2010 to be moderate with annual GDP growth of 2.0 percent. The Blue Chip Economic Indicators forecast has a slightly more optimistic outlook of 2.4 percent growth in GDP in 2010.³⁵

Similar to forecasts from NABE and Blue Chip Economic Indicators, a recent report from the LAEDC projects that unemployment rates in both California and the Air Trade Area will remain elevated in 2010. LAEDC forecasts the majority of job losses in both California and the Air Trade Area will occur in the manufacturing, retail trade, construction, and finance/insurance/real estate industries.³⁶ As with the U.S. overall, growth in California and the Air Trade Area is expected to resume in 2010³⁷ as household spending stabilizes and businesses bring production capacity and inventory stocks into alignment with sales.

1.8 Economic Assumptions and Information Incorporated in Airline Traffic Projections

As described in more detail in Section 2.7 of this report, the methodologies employed in projecting airline traffic activity at the Airport included (among other methodologies) statistical linear regression modeling that utilized local socioeconomic factors as the independent variable and enplanements as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, per capita income, and employment. The regression modeling for each of the socioeconomic factors produced a coefficient that was applied to projections of the corresponding socioeconomic factor to estimate future enplanements. As described in Section 2.7, the projection of enplanements using regression modeling with local socioeconomic factors provided a comparison

³⁴ "After the Panic, Innovation," *Fortune*, March 30, 2009.

³⁵ *NABE Outlook*, May 2009, National Association for Business Economics; *Blue Chip Economic Indicators*, Vol. 34, No. 9 September 10, 2009, Aspen Publishers.

³⁶ *2009-2010 Mid-Year Update: Economic Forecast and Industry Outlook*, The Kyser Center for Economic Research, Los Angeles County Economic Development Corporation, July 2009.

³⁷ UCLA Anderson Forecast: National Recovery Linked to Global Solutions, http://uclaforecast.com/contents/archive/2009/media_32509_1.asp, accessed June 30, 2009.

Table I-15

Top Airports for Overseas Non-Resident Arrivals (2008)

Rank	U.S. Port of Entry	Number of Arrivals	% of All Overseas Arrivals
1	New York (JFK)	4,255,262	16.8%
2	Miami (MIA)	3,097,120	12.2%
3	Los Angeles (LAX)	2,345,741	9.3%
4	Newark (EWR)	1,834,483	7.2%
5	San Francisco (SFO)	1,422,728	5.6%
6	Chicago (ORD)	1,347,963	5.3%
7	Honolulu (HNL)	1,314,662	5.2%
8	Atlanta (ATL)	1,064,096	4.2%
9	Guam (GUA)	976,620	3.9%
10	Washington, D.C. (IAD)	836,176	3.3%
11	Orlando (MCO)	708,337	2.8%
12	Houston (IAH)	549,496	2.2%
13	Boston (BOS)	532,013	2.1%
14	Detroit (DET)	529,948	2.1%
15	Philadelphia (PHL)	427,212	1.7%
	Other Ports of Entry	4,099,594	16.2%
Total		25,341,451	100.0%

Note: Data include all countries except Canada and Mexico.

Source: U.S. Department of Commerce, ITA, Office of Tourism Industries, March 2009

Prepared by: Partners for Economic Solutions, September 2009

benchmark for the ultimate projection of enplanements, which then provided the basis for the financial analyses in Chapter 4 of this report. The ultimate projection of enplanements resulted in a similar CAGR for FY 2009 to FY 2016 relative to the CAGR for each of the projections based on regression modeling with socioeconomic factors.

In addition, specific assumptions regarding the timing of economic recovery in the Air Trade Area and the State of California (described in Section 1.7 above and in Section 2.1) were incorporated into projections of airline activity, as described in more detail in Section 2.7. Given the level of uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation, projected passenger enplanements at the Airport are conservatively assumed to recover at a slower pace than previously experienced following past U.S. recessions and as recently as those experienced at the Airport in FY 2004 and FY 2005.

II. Air Traffic

This chapter describes historical and projected air traffic activity at the Airport; key factors affecting these activity levels; and assumptions and methodologies analyzed and incorporated in projections of Airport activity. Following a summary of findings (Section 2.1), this chapter discusses the role of the Airport (Section 2.2), the Airport's share of regional demand relative to other Southern California airports (Section 2.3), the airlines serving the Airport (Section 2.4), historical Airport activity (Section 2.5), factors affecting aviation demand and the airline industry (Section 2.6), and projected Airport activity (Section 2.7).

It should be noted that some tables and exhibits in this chapter reflect fiscal year information and others reflect calendar year information, depending upon the availability of data.

2.1 Summary

The Airport serves one of the nation's largest total O&D passenger markets, and was ranked second in the nation in the number of total O&D passengers in FY 2008. The Airport is also one of the nation's premier international gateways and the only international gateway serving Southern California. Nationwide, the Airport's Air Trade Area is ranked second only to the New York CSA in a number of key statistical measurements including population, income, and number of households in higher income categories. This densely populated and relatively wealthy area attracts a broad base of U.S. and foreign flag air carriers to serve the Airport. As a result, the Airport has been, and is expected to continue to be, one of the busiest airports in the world, ranking among the top six airports worldwide in passenger activity and aircraft operations (take-offs and landings).

No airline dominates in shares of enplanements or provides "hubbing" activity at the Airport. Approximately 30 percent of the Airport's domestic passenger traffic (and 25 percent of the Airport's total passenger traffic) is connecting, and no air carrier accounted for more than 21 percent of the Airport's domestic enplanements between FY 2005 and FY 2009.

The Airport is one of five commercial service airports serving the Air Trade Area. Demand for air travel within this region is predominantly served through the Airport, particularly for international travel and nonstop domestic U.S. travel to major medium- and long-haul markets. In CY 2008, the Airport served approximately 99.6 percent of total Los Angeles region international enplanements and approximately 71.8 percent of total Los Angeles region enplanements. The other four commercial service airports in the Air Trade Area (including Bob Hope Airport--BUR, John Wayne Airport--SNA, Long Beach Airport--LGB, and LA/Ontario International Airport--LA/ONT) primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor (California, Oregon, and Washington). Certain of these airports (SNA, LGB, and BUR) continue to face a number of constraints regarding their future growth. For example, SNA served 9.0 million annual passengers in CY 2008 (approximately 87 percent of its current passenger cap). See Section 2.6.7.2 (Constraints at Other Area Airports) for further information.

Total enplanements at the Airport increased from 26.6 million enplanements in FY 1995 to 33.8 million in FY 2001, a compounded annual growth rate (CAGR) of 4.1 percent. This substantial growth was fueled, in part, by the stimulation of passenger demand from intense competition and fare wars among airlines (e.g., Southwest and Shuttle by United) serving the West Coast corridor.

Following the events of September 11, 2001, the elimination, in October 2001, of Shuttle by United service (which accounted for approximately 33 percent of United Airlines' domestic departing seats between FY 1995 and FY 2001) in October 2001, and the economic slowdown during the same period, total enplanements at the Airport decreased from 33.8 million in FY 2001 to 28.1 million in FY 2002 (a 16.9 percent decrease from FY 2001) and to 27.7 million in FY 2003 (a further 1.5 percent decrease from FY 2002). **Between FY 2002 and FY 2008, total enplanements at the Airport increased at a CAGR of 1.7 percent, reaching 31.1 million enplanements in FY 2008.** By comparison, U.S. enplanement activity increased at a CAGR of 2.8 percent during this same period.

Several factors contributed to the Airport's slower recovery compared to other U.S. airports, including decreased demand levels along the West Coast corridor, the secondary impacts of an economic downturn in the Silicon Valley in northern California, and systemwide changes in the airlines' route structures and seat capacity. See Section 2.5 (Historical Airport Activity) for further information.

In FY 2009, as a result of the global economic downturn and capacity reductions by U.S. and foreign flag carriers, domestic enplanements at the Airport decreased 7.9 percent from FY 2008, and international enplanements at the Airport decreased by 12.0 percent from FY 2008.¹ **Total enplanements at the Airport decreased 9.0 percent in FY 2009, to 28.3 million.**

Projections of aviation demand at the Airport (discussed in Sections 2.7.1, 2.7.2, and 2.7.3) were developed after analyzing several different projection methodologies for both the Near-Term (FY 2010) and the Longer-Term (FY 2011 to FY 2016)—including analysis of scheduled departing seats, a market share approach, regression modeling using socioeconomic variables, and trend analysis. The projections of Airport activity ultimately used for purposes of this report and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific projection methodologies and (2) a number of specific assumptions that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A.

Based on an analysis of scheduled domestic and international departing seats, service announcements, and industry information regarding further reductions in seating capacity for CY 2009, **total enplanements at the Airport are projected to decrease by 1.6 percent in FY 2010, relative to FY 2009 enplanements.** Domestic passenger activity at the Airport is expected to decrease by 1.0 percent in FY 2010, and international activity by 3.1 percent in FY 2010, relative to FY 2009 levels.

¹ This 7.9 percent decrease in domestic enplanements at the Airport in FY 2009 was similar to the 7.8 percent decrease in domestic enplanements nationwide forecast by the Federal Aviation Administration (FAA) in April 2009 for federal FY ending September 2009,

The activity projections provided herein are lower than the projections included in the feasibility report we prepared in July 2008 (with a FY 2007 base year) in support of the Department's issuance of the Series 2008 Bonds (the 2008 Report). In the 2008 Report, our estimate of Airport activity for FY 2008 was close to the actual FY 2008 results (30.9 million enplanements projected versus 31.1 million actual). However the severities of cutbacks in airline service, significant increases in fuel prices, and worldwide recessionary impacts that occurred soon after the issuance of the Series 2008 Bonds contributed to a 9.0 percent decrease in enplanements in FY 2009 that was not anticipated in the 2008 Report. In addition our current estimate of a further (although less significant) decline in Airport activity in FY 2010 was not anticipated in the 2008 Report. Accordingly, current projections of Airport activity (reflected in this report) are substantially lower than the projections presented in the 2008 Report.

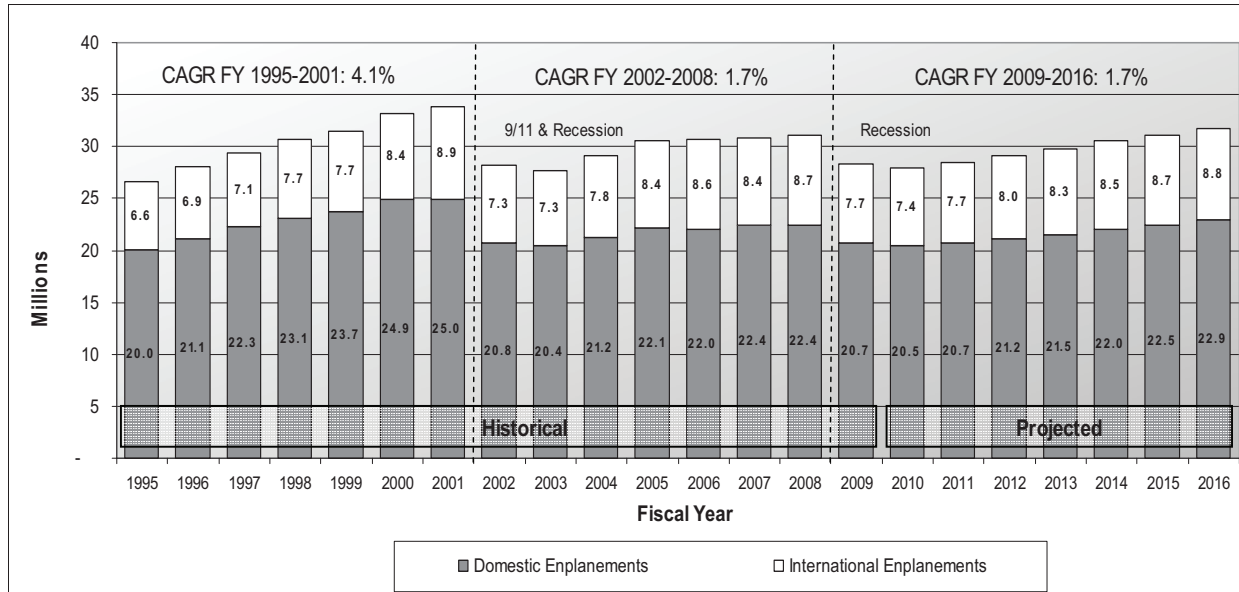
It is expected that in the long term the Airport will maintain its role as one of the premier airports worldwide, both in service to domestic O&D passengers and as an international gateway. Given the strength of its economic base and leading socioeconomic indicators, the Air Trade Area will support long-term growth in passenger demand, with regional demand continuing to be predominantly served at the Airport, including international travel and nonstop travel to major medium- and long-haul markets.

Although there is still uncertainty about the future of the national and global economies, economic conditions in the Air Trade Area, the State, and the nation are expected to improve in CY 2010 (which includes the first half of FY 2011). Recovery in passenger activity at the Airport is expected beginning in FY 2011, with total enplanements projected to increase 1.9 percent relative to FY 2010. Based on the actual increases in enplanements that occurred nationwide and at the Airport in FY 2004 (4.9 percent increase) and FY 2005 (5.0 percent increase) following sharp decreases in FY 2002 and FY 2003, it is possible that enplanement growth in FY 2011 could exceed our projections of 1.9 percent. However, given the severity of the recession and its impacts on the State and the Air Trade Area, including lower economic growth, higher unemployment, and a sharp downturn in the housing market, our projection of passenger enplanements at the Airport is conservative and reflects recovery from the decreases in FY 2009 and FY 2010 at a slower pace than previously experienced after past U.S. recessions, notably, the recovery in FY 2004 and FY 2005.

As discussed in Section 2.7 (Projections of Airport Activity), longer-term growth in total enplanements is expected through the remainder of the projection period. **Annual growth in total enplanements at the Airport is projected to range from 2.0 percent to 2.6 percent for FY 2012 through FY 2016, resulting in a CAGR of 1.7 percent for FY 2009 to FY 2016. This represents a projected increase of 3.4 million enplanements during this period.** It is expected that certain legacy carriers will re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international enplanements are projected to grow at a CAGR of 2.1 percent between FY 2009 and FY 2016, while domestic enplanements will experience a slower rebound at a projected CAGR of 1.5 percent between FY 2009 and FY 2016.

Exhibit II-1

Historical and Projected Enplanements (LAX) – FY 1995 to FY 2016



Source: City of Los Angeles, Department of Airports, July 2009 (historical); Ricondo & Associates, Inc., September 2009 (projected).
Prepared by: Ricondo & Associates, Inc., September 2009.

As shown on **Exhibit II-1**, the general growth pattern for Airport enplanements from FY 2009 (actual) through the end of the Projection Period (FY 2016) is similar to the historical experience of the historical period FY 2002 to FY 2008. The first year in each of these periods (FY 2002 and FY 2009) reflects a substantial decrease from the prior year. The comparison of the CAGR for each of these two periods further underscores the conservative nature of the activity projections through FY 2016.

2.2 Role of the Airport

The Airport is one of the busiest airports in the world. **Table II-1** presents the Airport’s worldwide ranking of activity in CY 2008. As shown, the Airport ranked 6th worldwide and 3rd nationwide in total passengers during this period with 59.5 million enplaned and deplaned passengers; 4th worldwide and 4th nationwide in total operations with 622,506 takeoffs and landings; and 13th worldwide and 5th nationwide in total cargo with 1.6 million enplaned and deplaned tons.²

The Airport serves one of the nation’s largest total O&D passenger bases. As shown in **Table II-2**, it was ranked second nationwide in total O&D passengers in FY 2008.

Table II-3 presents domestic O&D passengers for the Airport and the nation between CY 1998 and CY 2008. As shown, domestic O&D activity at the Airport increased from 31.9 million passengers in CY 1998 to 33.5 million in CY 2000. This increase represents a CAGR of 2.4 percent during this period, compared to 4.0 percent nationwide. Domestic O&D passengers at the Airport decreased at a compounded rate of 8.9 percent between CY 2000 and CY 2002, while nationwide activity decreased

² *ACI Traffic Data 2008*, Airports Council International (dated July 28, 2009).

Table II-1
Top 15 Worldwide Ranking of Activity - CY 2008

Passengers			Operations			Cargo		
World Rank	U.S. Rank	Airport	World Rank	U.S. Rank	Airport	World Rank	U.S. Rank	Airport
		Total Passengers			Total Operations			Total Cargo (tons)
1	1	Atlanta (ATL)	1	1	Atlanta (ATL)	1	1	Memphis (MEM)
2	2	Chicago (ORD)	2	2	Chicago (ORD)	2	2	Hong Kong (HKG)
3	3	London (LHR)	3	3	Dallas (DFW)	3	3	Shanghai (PVG)
4	4	Tokyo (HND)	4	4	Los Angeles (LAX)	4	4	Seoul (ICN)
5	5	Paris (CDG)	5	5	Denver (DEN)	5	2	Anchorage (ANC)
6	3	Los Angeles (LAX)	6	6	Las Vegas (LAS)	6	6	Paris (CDG)
7	4	Dallas (DFW)	7	7	Houston (IAH)	7	7	Frankfurt (FRA)
8	8	Beijing (PEK)	8	8	Paris (CDG)	8	8	Tokyo (NRT)
9	9	Frankfurt (FRA)	9	9	Charlotte (CLT)	9	3	Louisville (SDF)
10	5	Denver (DEN)	10	9	Phoenix (PHX)	10	10	Singapore (SIN)
11	11	Madrid (MAD)	11	10	Philadelphia (PHL)	11		Dubai (DXB)
12	6	Hong Kong (HKG)	12	12	Frankfurt (FRA)	12	4	Miami (MIA)
13	6	New York (JFK)	13	13	London (LHR)	13	5	Los Angeles (LAX)
14	7	Amsterdam (AMS)	14	14	Madrid (MAD)	14	14	Amsterdam (AMS)
15	7	Las Vegas (LAS)	15	11	Detroit (DTW)	15	15	Taipei (TPE)
		90,039,280			978,824			3,695,438
		69,353,876			881,566			3,660,901
		67,056,379			656,310			2,602,916
		66,754,829			622,506			2,423,717
		60,874,681			619,503			2,339,831
		59,497,539			578,949			2,280,050
		57,093,187			576,062			2,111,031
		55,937,289			559,816			2,100,448
		53,467,450			536,253			1,974,276
		51,245,334			502,499			1,883,894
		50,824,435			492,038			1,824,992
		47,857,746			485,783			1,806,770
		47,807,816			478,518			1,629,525
		47,430,019			469,740			1,602,585
		43,208,724			462,520			1,493,120

Source: *ACI Traffic Data 2008*, Airports Council International (July 2009).
 Prepared by Ricardo & Associates, Inc., July 2009.

Table II-2
Top 20 Total O&D Airports - FY 2008

Rank	Airport	Total O&D Passengers ^{1/}
1	McCarran International	32,566,910
2	Los Angeles International	31,309,500
3	Orlando International	29,490,270
4	Chicago O'Hare International	28,521,330
5	Hartsfield-Jackson Atlanta International	26,454,610
6	Denver International	24,006,910
7	Phoenix Sky Harbor International	23,353,490
8	Dallas/Ft Worth International	21,686,250
9	Seattle-Tacoma International	20,994,170
10	La Guardia	20,604,290
11	General Edward Lawrence Logan International	20,327,770
12	Newark Liberty International	19,410,300
13	San Francisco International	19,199,310
14	John F Kennedy International	18,314,980
15	Fort Lauderdale/Hollywood International	18,112,750
16	Philadelphia International	17,280,300
17	San Diego International	16,694,790
18	Baltimore International	16,141,210
19	Tampa International	15,978,050
20	Detroit Metropolitan Wayne County	15,824,460

Note:

1/ Excludes foreign flag O&D passengers, of which there were approximately 15 million at the Airport in FY 2008.

Source: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

Los Angeles World Airports
Los Angeles International Airport

Table II-3

Historical Domestic O&D Passengers - Calendar Year

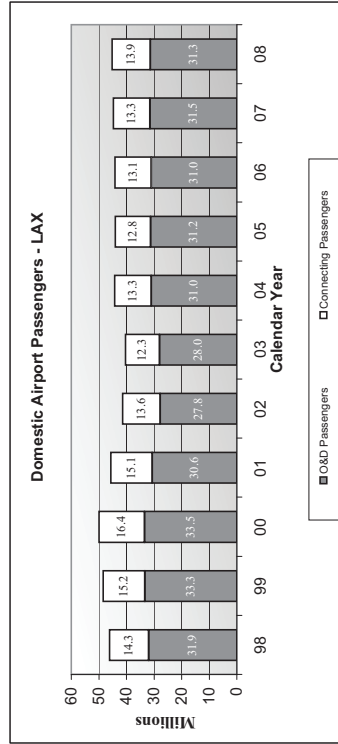
Calendar Year	LAX Domestic O&D Passengers	LAX Annual O&D % Change	U.S. Domestic O&D Passengers	U.S. Annual % Change	LAX Share of U.S. O&D Passengers	LAX Domestic Explained and Deplaned Passengers	LAX O&D Percentage	LAX Domestic Connecting Passengers	LAX Connecting Percentage
1998	31,871,480	-	798,797,500	-	4.0%	46,127,876	69.1%	14,256,396	30.9%
1999	33,273,400	4.4%	831,774,400	4.1%	4.0%	48,464,655	68.7%	15,191,255	31.3%
2000	33,451,650	0.5%	864,668,800	4.0%	3.9%	49,887,433	67.1%	16,435,783	32.9%
2001	30,601,960	(8.5%)	806,362,990	(6.7%)	3.8%	45,656,025	67.0%	15,054,065	33.0%
2002	27,785,620	(9.2%)	782,752,630	(2.9%)	3.5%	41,379,168	67.1%	13,593,548	32.9%
2003	28,012,880	0.8%	797,484,400	1.9%	3.5%	40,358,935	69.4%	12,346,055	30.6%
2004	30,955,430	10.5%	869,737,660	9.1%	3.6%	44,220,019	70.0%	13,264,589	30.0%
2005	31,200,070	0.8%	917,049,520	5.4%	3.4%	44,003,135	70.9%	12,803,065	29.1%
2006	31,031,850	(0.5%)	923,152,440	0.7%	3.4%	44,129,974	70.3%	13,098,124	29.7%
2007	31,453,800	1.4%	951,736,780	3.1%	3.3%	44,732,810	70.3%	13,279,010	29.7%
2008	31,309,500	(0.5%)	947,952,570	(0.4%)	3.3%	45,190,615	69.3%	13,881,115	30.7%

Compounded

Annual Growth Rate

1998 - 2001	(1.3%)	0.3%	(0.3%)
2001 - 2002	(9.2%)	(2.9%)	(9.4%)
2002 - 2008	2.0%	3.2%	1.5%
1998 - 2008	(0.2%)	1.7%	(0.2%)

A-53



Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.
Prepared by: Ricordo & Associates, Inc., June 2009.

4.9. Thereafter, domestic O&D passengers at the Airport increased at a CAGR of 2.0 through CY 2008 (reaching 31.3 million in CY 2008), compared to 3.2 percent growth nationwide. As also shown, the Airport’s share of U.S. domestic O&D passengers decreased between CY 1998 and CY 2008, reflecting the lower CAGR experienced at the Airport compared to the nation during this period.

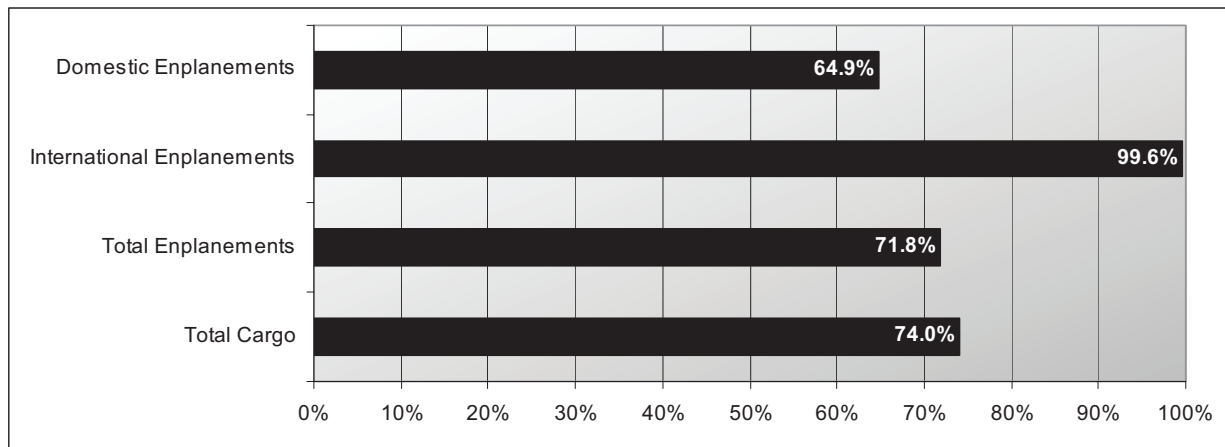
Table II-3 also presents the Airport’s percentage of domestic O&D passengers to total domestic passengers. As shown, this percentage decreased moderately between CY 1998 and CY 2000 and has since stabilized at approximately 70 percent. The remaining 30 percent of domestic passengers represents connecting passenger traffic.³ Although no airline dominates or provides hubbing activity, the level of connecting passenger traffic is influenced by (1) the Airport’s role as a major gateway to numerous international markets, (2) the geographical location of the Airport in relation to numerous markets along the West Coast corridor, (3) the significant number of nonstop flights to and from domestic markets, and (4) the alliances among airlines serving the Airport.

2.3 Regional Demand

The demographic and economic characteristics of the Air Trade Area create a strong local demand for air transportation. This demand is predominantly served through the Airport, particularly for international travel and nonstop travel to major medium- and long-haul markets (e.g., New York, Chicago, Honolulu, and Washington, D.C.), as well as travel within the West Coast corridor. **Exhibit II-2** shows the dominance of the Airport relative to the four commercial service airports within the Air Trade Area.⁴ The other four commercial service airports primarily serve O&D travel to short- and medium-haul markets, including the West Coast corridor.⁵

Exhibit II-2

LAX Share of Air Trade Area Activity - CY 2008



Sources: City of Los Angeles, Department of Airports (LAX and LA/ONT); Individual airports (BUR, LGB, SNA), June 2009.
Prepared by: Ricondo & Associates, Inc., June 2009.

³ When international enplanements are included, approximately 75 percent of total enplanements at the Airport are O&D passengers.

⁴ Based on individual airport data.

⁵ In late August 2001, jetBlue initiated two daily nonstop flights between JFK and LGB, its second-designated hub airport, resulting in significant increases in passenger activity at LGB between CY 2001 and CY 2003.

In addition to the Airport, the other four airports in the Air Trade Area include BUR, SNA, LGB, and LA/ONT. A brief discussion of these four airports is provided below:

- As shown previously on the map labeled Exhibit I-1, BUR is located 30 miles north of the Airport. As of September 2009, nonstop service was provided to 12 domestic markets with a total of 78 daily domestic flights (compared to the Airport's nonstop service to 83 domestic markets, with an average of 567 daily flights; and nonstop service to 53 international markets, with an average of 118 daily flights in September 2009). Seven of BUR's 12 markets were short-haul markets (0 to 600 miles) served with a total of 64 daily flights. Service was provided by seven airlines, including the low-cost carriers jetBlue (four daily flights) and Southwest (50 daily flights).
- SNA is located 40 miles southeast of the Airport. As of September 2009, nonstop service was provided to 17 domestic markets with a total of 129 daily flights. Service was provided by 14 airlines, including the low-cost carriers Frontier (four daily flights) and Southwest (43 daily flights). There is a legal limit of 10.3 million annual passengers (MAP) currently in place at SNA. See Section 2.6.4.2 for more details regarding passenger caps at SNA.
- LGB is located 25 miles southeast of the Airport. As of September 2009, nonstop service was provided to 15 domestic markets with a total of 41 daily flights. Service was provided by five airlines, including the low-cost carrier jetBlue (28 daily flights). A stipulated settlement agreement entered into by the City of Long Beach and the airlines permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB, with such activity levels permitted to be exceeded as long as flights operate at or below annual noise budgets for each class of operator. See Section 2.6.4.2 for more details regarding passenger flight operations at LGB.
- LA/ONT, which is also owned by the City and operated by the Department, is located 50 miles east of the Airport. As of September 2009, nonstop service was provided to 18 domestic markets with a total of 79 daily flights, as well as one flight to Guadalajara, Mexico. Service was provided by 13 airlines, including the low-cost carrier Southwest (41 daily flights), which provided over half of the total daily departures.

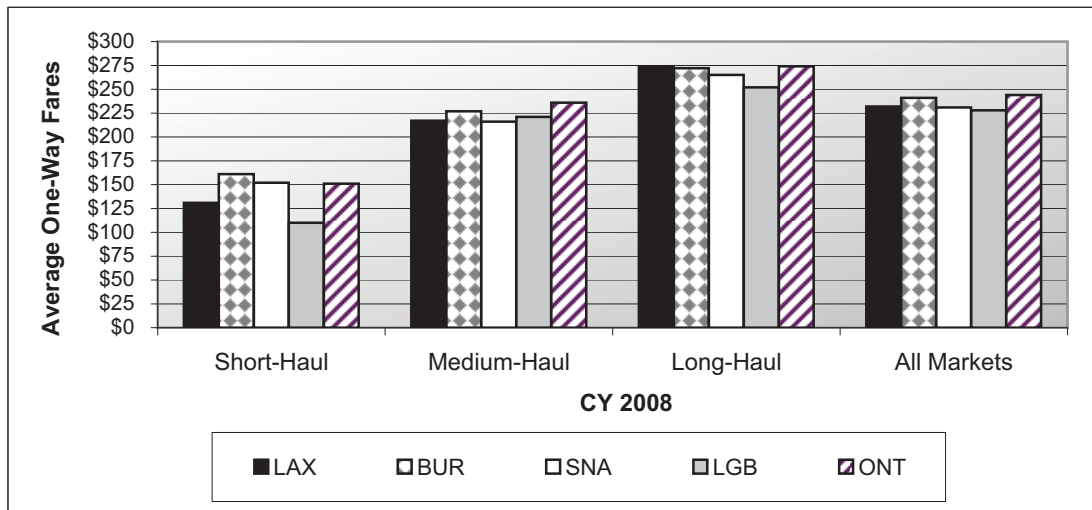
Table II-4 presents average one-way fares for all five commercial service airports in the Air Trade Area for CY 2008. When comparing all markets and various stage lengths, average one-way fares at the Airport are competitive with fares at the other four commercial service airports.

Table II-5 presents historical shares of total enplanements for the five commercial service airports serving the Air Trade Area between CY 1998 and CY 2008. As shown, the Airport's share was relatively stable between CY 1998 and CY 2001, but decreased to 73.3 percent in CY 2002 and then declined further to approximately 70 percent between CY 2003 and CY 2008 due to (1) United's elimination of its Shuttle service; (2) jetBlue's initiation of nonstop service between LGB, its second-designated hub airport, and JFK in late August 2001; and (3) an increase to SNA's passenger cap from 8.4 MAP to 10.3 MAP in December 2002. As a result, LGB's share of domestic enplanements increased from 0.7 percent in CY 2001 to 3.5 percent in CY 2008; and SNA's share increased from 9.1 percent to 10.8 percent during this same period. **Exhibit II-3** below illustrates the CY 2008 shares of total enplanements for the five commercial service airports serving the Air Trade Area.

Table II-4

Average One-Way Fares for Airports in the Air Trade Area - CY 2008

Airport	Short-Haul Markets ^{1/}	Medium-Haul Markets ^{1/}	Long-Haul Markets ^{1/}	All Markets
Los Angeles (LAX)	\$131	\$217	\$273	\$232
Bob Hope (BUR)	\$161	\$227	\$272	\$241
John Wayne (SNA)	\$152	\$216	\$265	\$231
Long Beach (LGB)	\$110	\$221	\$252	\$228
LA/Ontario (LA/ONT)	\$151	\$236	\$274	\$244



Note:

- 1/ (SH) Short Haul = 1 to 600 miles
- (MH) Medium Haul = 601 to 1,800 miles
- (LH) Long Haul = over 1,800 miles

Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

Los Angeles World Airports
Los Angeles International Airport

Table II-5
Regional Airport Shares of Total Enplanements - Calendar Year

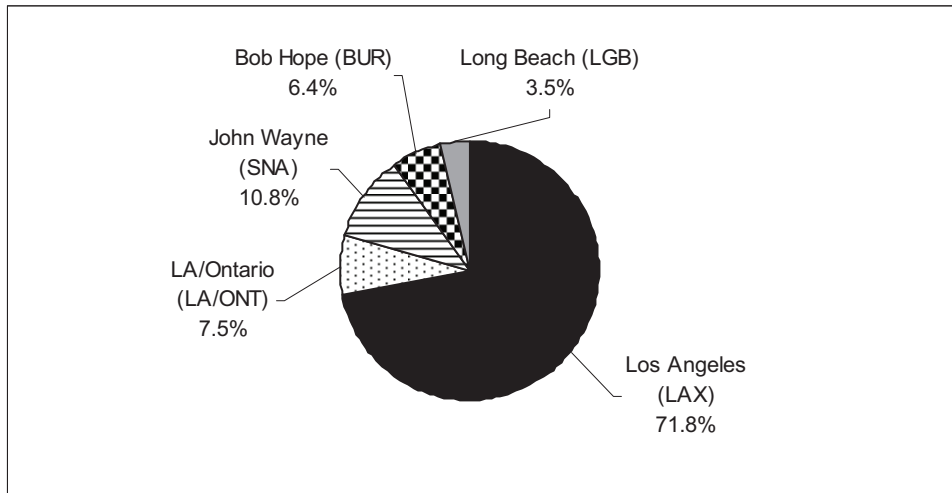
Calendar Year	Airport (LAX)		LA/Ontario (ONT)		John Wayne (SNA)		Bob Hope (BUR)		Long Beach (LGB) ^{1/}		Total Enplanements
	Enplanements	Percentage of Total	Enplanements	Percentage of Total	Enplanements	Percentage of Total	Enplanements	Percentage of Total	Enplanements	Percentage of Total	
1998	30,826,859	76.2%	3,212,487	7.9%	3,715,780	9.2%	2,362,692	5.8%	323,357	0.8%	40,441,175
1999	32,298,944	76.7%	3,268,661	7.8%	3,738,519	8.9%	2,358,724	5.6%	434,601	1.0%	42,099,449
2000	33,836,077	77.3%	3,360,634	7.7%	3,894,993	8.9%	2,367,835	5.4%	312,713	0.7%	43,772,252
2001	31,007,930	76.4%	3,354,350	8.3%	3,672,827	9.1%	2,248,654	5.5%	287,245	0.7%	40,571,006
2002	28,181,481	73.3%	3,259,866	8.5%	3,957,565	10.3%	2,312,611	6.0%	731,279	1.9%	38,442,802
2003	27,544,606	70.8%	3,285,577	8.4%	4,274,960	11.0%	2,369,729	6.1%	1,445,547	3.7%	38,920,419
2004	30,210,609	71.0%	3,473,284	8.2%	4,902,263	11.5%	2,464,441	5.8%	1,470,620	3.5%	42,521,217
2005	30,587,592	70.6%	3,611,978	8.3%	4,821,459	11.1%	2,759,984	6.4%	1,523,812	3.5%	43,304,825
2006	28,575,611	69.8%	3,342,627	8.2%	4,814,108	11.8%	2,843,281	6.9%	1,385,260	3.4%	40,960,887
2007	30,980,025	70.4%	3,607,184	8.2%	4,989,018	11.3%	2,960,294	6.7%	1,458,128	3.3%	43,994,649
2008	29,930,985	71.8%	3,112,112	7.5%	4,492,626	10.8%	2,664,875	6.4%	1,457,209	3.5%	41,657,807
Compounded Annual Growth Rate											
1998 - 2001	0.2%		1.5%		(0.4%)		(1.6%)		(3.9%)		4.0%
2001 - 2002	(9.1%)		(2.8%)		7.8%		2.8%		154.6%		(5.2%)
2002 - 2008	1.0%		(0.8%)		2.1%		2.4%		12.2%		1.3%
1998 - 2008	(0.3%)		(0.3%)		1.9%		1.2%		16.2%		0.3%

Note:
1/ In late August 2001, JetBlue initiated two daily nonstop flights between John F. Kennedy International Airport and Long Beach Airport, its second-designated hub airport, resulting in significant increases in passenger activity between 2001 and 2003.

Sources: Airports Council International (1998 - 2008); Individual airport websites 2008.
Prepared by: Ricondo & Associates, Inc., June 2009.

Exhibit II-3

Air Trade Area Airport Shares of Total Enplanements – CY 2008



Sources: City of Los Angeles, Department of Airports (LAX and ONT); Individual airports (BUR, LGB, SNA), June 2009.
Prepared by: Ricondo & Associates, Inc., June 2009.

2.4 Airlines Serving the Airport

As of August 2009, scheduled passenger service at the Airport was provided by 22 U.S. flag air carriers, scheduled and nonscheduled service by 43 foreign flag carriers, and nonscheduled service by seven charter airlines. In addition, 17 all-cargo carriers provided scheduled cargo service. Sixteen of the nation's 18 major passenger airlines (airlines defined by the U.S. Department of Transportation as having annual operating revenues of over \$1.0 billion) provide scheduled service at the Airport. These airlines include AirTran, Alaska, American, American Eagle, Continental, Delta, ExpressJet, Frontier, Hawaiian, jetBlue, Mesa, Northwest, SkyWest, Southwest, United, and US Airways.⁶ A complete list of airlines serving the Airport as of August 2009 is provided in **Table II-6**.

Table II-7 lists scheduled U.S. flag air carriers at the Airport since FY 1999. As shown, the Airport has had the benefit of a large and relatively stable air carrier base during the years shown, which has helped promote competitive pricing and scheduling diversity in its major domestic markets. In addition, 15 of the 22 U.S. flag airlines currently serving the Airport have operated there for each of the years shown, including 12 of the 18 major U.S. passenger airlines. Activity by those U.S. flag carriers providing a significant level of service is discussed below:⁷

- American, with a 15.1 percent share of FY 2009 total Airport enplanements, provides nonstop service to 18 domestic markets with a total of 519 weekly flights; as well as a total of 39 weekly flights to the international markets of London, Los Cabos, San Salvador, Tokyo, and Toronto. American Eagle, with a 1.4 percent share and serving as a code-sharing partner with American, provides nonstop service to six domestic markets with a total of 299 weekly flights.

⁶ Major U.S. passenger airlines currently not serving the Airport include Atlantic Southeast and Comair.

⁷ All of the domestic nonstop service discussed below is as of the week ending September 18, 2009.

Table II-6

Airlines Serving the Airport ^{1/}

Scheduled U.S. Carriers (22)	Foreign Flag Carriers (43)	Nonscheduled Carriers (7)	All-Cargo Carriers (17)
AirTran	Aeroflot	Clay Lacy Aviation	Aerotransporte De Carga Union
Alaska	AeroMexico	Miami Air	Aerotransportes Mas De Carga
Allegiant Air	Air Berlin	North American	Air Transport International
American	Air Canada	Pace	Ameriflight
American Eagle	Air Canada Jazz	Skybird	Astar
Continental	Air China	USA Jet	Cargolux
Delta	Air France	World Airways	China Cargo
ExpressJet	Air India		DHL/Airborne
Frontier	Air Jamaica		FedEx
Hawaiian	Air New Zealand		Florida West
Horizon	Air Pacific		Kalitta Air
JetBlue	Air Tahiti Nui		Nippon Cargo
Mesa	Alitalia		Polar Air
Midwest	All Nippon		Shanghai Airlines Cargo
Northwest	Asiana		Singapore Airlines Cargo
SkyWest	Avianca		United Parcel Service
Southwest	British Airways		Yangtze River Express
Spirit	Cathay Pacific		
Sun Country	China		
United	China Eastern		
US Airways	China Southern		
Virgin America	Copa		
	EI AI		
	Emirates		
	Eva Airways		
	Japan		
	KLM Royal Dutch		
	Korean		
	LACSA		
	Lan		
	Lan Peru		
	Lufthansa		
	Malaysian		
	Mexicana		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	TACA		
	Thai Airways		
	Virgin Atlantic Airways		
	Virgin Blue		
	Westjet		

Note:

^{1/} As of August 2009.

Source: City of Los Angeles, Department of Airports, August 2009.

Prepared by: Ricondo & Associates, Inc., September 2009.

Table II-7

Scheduled U.S. Flag Air Carrier Base - LAX

Air Carrier	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 ^{1/}
Alaska	•	•	•	•	•	•	•	•	•	•	•	•
American	•	•	•	•	•	•	•	•	•	•	•	•
American Eagle	•	•	•	•	•	•	•	•	•	•	•	•
Continental	•	•	•	•	•	•	•	•	•	•	•	•
Delta ^{2/}	•	•	•	•	•	•	•	•	•	•	•	•
Frontier	•	•	•	•	•	•	•	•	•	•	•	•
Hawaiian	•	•	•	•	•	•	•	•	•	•	•	•
Horizon	•	•	•	•	•	•	•	•	•	•	•	•
Midwest	•	•	•	•	•	•	•	•	•	•	•	•
Northwest ^{2/}	•	•	•	•	•	•	•	•	•	•	•	•
SkyWest	•	•	•	•	•	•	•	•	•	•	•	•
Southwest	•	•	•	•	•	•	•	•	•	•	•	•
Spirit	•	•	•	•	•	•	•	•	•	•	•	•
United	•	•	•	•	•	•	•	•	•	•	•	•
US Airways	•	•	•	•	•	•	•	•	•	•	•	•
Sun Country		•	•	•	•	•	•	•	•	•	•	•
Mesa				•	•	•	•	•	•	•	•	•
AirTran							•	•	•	•	•	•
ExpressJet							•	•	•	•	•	•
Virgin America										•	•	•
jetBlue											•	•
Allegiant												•
ATA ^{3/}	•	•	•	•	•	•	•	•	•	•		
MAXJet											•	
Republic										•	•	
Atlantic Southeast							•	•	•			
Air Wisconsin	•	•	•	•	•	•	•	•				
Independence Air							•	•				
Freedom Air					•	•						
Vanguard			•	•	•							
US Airways Express	•	•										
Number of Airlines	18	19	19	20	21	20	23	23	22	23	21	22

Notes:

1/ As of August 2009.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

3/ Filed for bankruptcy protection in April 2008 and ceased operations systemwide.

Sources: Official Airline Guide, July 2009

Prepared by: Ricondo & Associates, Inc., August 2009.

- United, with a 13.7 percent share provides nonstop service to 18 domestic markets with a total of 489 weekly flights; as well as a total of 30 weekly flights to the international markets of London, Los Cabos, Sydney, and Tokyo (See **Table II-8**). SkyWest, with a 4.6 percent share and operating as United Express, provides nonstop service to 29 domestic markets with a total of 742 weekly flights and provides 21 weekly flights to Vancouver, B.C.
- Southwest, with a 12.6 percent share, provides nonstop service to 18 domestic markets with a total of 757 weekly flights.
- Delta, with a 7.6 percent share, provides nonstop service to 11 domestic markets with a total of 218 weekly flights and a total of 11 weekly flights to the international markets of Cancun, Guatemala City, and Sydney.
- US Airways, with a 3.7 percent share, provides nonstop service to four domestic markets with a total of 135 weekly flights.
- Continental, with a 3.9 percent share, provides nonstop service to four domestic markets with a total of 129 weekly flights.

Table II-9 lists the foreign flag air carriers at the Airport since FY 1999. A large and growing foreign flag air carrier base developed during the years shown. In addition, 35 of the 46 foreign flag carriers serving the Airport have operated there for each of the years shown. Activity by those carriers providing a significant level of service is discussed below:⁸

- Mexicana, with a 7.8 percent share of international Airport enplanements in FY 2009, provides nonstop service to Cancun, Guadalajara, Leon/Guanajuato, Los Cabos, Mexico City, Morelia, Puerto Vallarta, and Zacatecas with a total of 90 weekly flights.
- Air Canada, with a 5.5 percent share, provides nonstop service to Calgary, Montreal, Toronto, and Vancouver with a total of 88 weekly flights.
- AeroMexico, with a 2.7 percent share, provides nonstop service to Guadalajara, Leon, and Mexico City with a total of 36 weekly flights.
- Qantas, with a 5.5 percent share, provides nonstop service to Auckland, Brisbane, Melbourne, and Sydney with a total of 33 weekly flights.

2.5 Historical Airport Activity

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

2.5.1 Historical Passenger Activity

Table II-10 presents historical data on total enplanements (domestic and international activity combined) at the Airport and the nation between FY 1999 and FY 2009; and **Exhibit II-4** reflects historical domestic and international enplanements for FY 1995 to FY 2009. Factors impacting historical domestic and international activity are discussed in this section.

⁸ All of the international nonstop service discussed below is as of the week ending September 18, 2009.

Table II-8
Scheduled Nonstop Activity for U.S. Flag & Foreign Flag Carriers - LAX^{1/}

U.S. Flag Air Carriers					Foreign Flag Air Carriers		
Airline	Domestic Markets Served	Weekly Domestic Flights	International Markets Served	Weekly International Flights	Airline	Markets Served	Weekly Flights
Southwest	18	757			Mexicana	Cancun, Guadalajara, Leon/Guanajuato, Los Cabos, Mexico City, Morelia, Puerto Vallarta, Zacatecas	90
SkyWest	29	742	Vancouver	21	Air Canada	Calgary, Montreal, Toronto, Vancouver	88
American	18	519	London, Los Cabos, San Salvador, Tokyo, Toronto	39	AeroMexico	Guadalajara, Leon, Mexico City	36
United	18	489	London, Los Cabos, Sydney, Tokyo	30	Qantas	Auckland, Brisbane, Melbourne, Sydney	33
American Eagle	6	299			Korean	Sao Paulo, Seoul, Tokyo	30
Delta ^{2/}	11	218	Cancun, Guatemala City, Sydney	11	Air France	Paris, Papeete	23
US Airways	4	135			Air New Zealand	Apia, Auckland, London, Rarotonga	21
Virgin America	5	135			British Airways	London	21
Northwest ^{2/}	7	134	Tokyo	7	Lufthansa German	Frankfurt, Munich	21
Continental	4	129			Volaris	Guadalajara, Mexico City	21
Alaska	4	119	Cancun, Guadalajara, Ixtapa, Loreto, Los Cabos, Manzanillo, Mazatlan, Mexico City, Puerto Vallarta, Vancouver	64	Eva Airways	Taipei	18
Horizon	9	94	La Paz, Loreto	7	LACSA	Guatemala City, San Jose, San Salvador	18
AirTran	3	44			Air Tahiti Nui	Papeete, Paris	15
Frontier	1	41			Asiana	Seoul	14
Allegiant	12	25			Cathay Pacific	Hong Kong	14
jetBlue	2	23			Virgin Atlantic	London	14
Mesa	2	20			WestJet	Calgary, Edmonton	14
Spirit	2	14			China	Taipei	13
Republic	2	14			Singapore	Tokyo, Singapore	12
Hawaiian	1	12			Vaustralia	Brisbane, Sydney	10
Sun Country	1	7			AeroMexico Connect	Hermosillo	7
					Air China	Beijing	7
					All Nippon	Tokyo	7
					China Eastern	Shanghai	7
					Copa	Panama City	7
					Emirates	Dubai	7
					Japan	Tokyo	7
					KLM Royal Dutch	Amsterdam	7
					Lan	Lima	7
					TACA	San Salvador	7
					Air Canada Jazz	Edmonton	6
					Swissair	Zurich	6
					Aeroflot	Moscow	5
					Thai Airways	Bangkok	5
					Air Pacific	Nadi	4
					Avianca	Bogota	4
					El Al Israel	Tel Aviv	4
					Lan Peru	Lima	4
					China Southern	Guangzhou	3
					LTU International	Dusseldorf	3
					Malaysia	Taipei	3
					Vietnam	Taipei	1
Total		3,970		179			644

Notes:

1/ Nonstop service as of September 12-18, 2009.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

Sources: Official Airline Guide (Week of September 12-18, 2009).

Prepared by: Ricondo & Associates, Inc., September 2009.

Table II-9

Scheduled Foreign Flag Air Carrier Base - LAX

Air Carrier	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010 ^{1/}
Aeroflot	•	•	•	•	•	•	•	•	•	•	•	•
AeroMexico	•	•	•	•	•	•	•	•	•	•	•	•
Air Canada	•	•	•	•	•	•	•	•	•	•	•	•
Air China	•	•	•	•	•	•	•	•	•	•	•	•
Air France	•	•	•	•	•	•	•	•	•	•	•	•
Air Jamaica	•	•	•	•	•	•	•	•	•	•	•	•
Air New Zealand	•	•	•	•	•	•	•	•	•	•	•	•
Air Pacific	•	•	•	•	•	•	•	•	•	•	•	•
Air Tahiti Nui	•	•	•	•	•	•	•	•	•	•	•	•
All Nippon	•	•	•	•	•	•	•	•	•	•	•	•
Asiana	•	•	•	•	•	•	•	•	•	•	•	•
Avianca	•	•	•	•	•	•	•	•	•	•	•	•
British Airways	•	•	•	•	•	•	•	•	•	•	•	•
Cathay Pacific	•	•	•	•	•	•	•	•	•	•	•	•
China	•	•	•	•	•	•	•	•	•	•	•	•
China Eastern	•	•	•	•	•	•	•	•	•	•	•	•
China Southern	•	•	•	•	•	•	•	•	•	•	•	•
Mexicana	•	•	•	•	•	•	•	•	•	•	•	•
EI Al Israel	•	•	•	•	•	•	•	•	•	•	•	•
Eva Airways	•	•	•	•	•	•	•	•	•	•	•	•
Japan	•	•	•	•	•	•	•	•	•	•	•	•
KLM Royal Dutch	•	•	•	•	•	•	•	•	•	•	•	•
Korean	•	•	•	•	•	•	•	•	•	•	•	•
LACSA	•	•	•	•	•	•	•	•	•	•	•	•
Lan	•	•	•	•	•	•	•	•	•	•	•	•
Air Berlin ^{2/}	•	•	•	•	•	•	•	•	•	•	•	•
Lufthansa German	•	•	•	•	•	•	•	•	•	•	•	•
Malaysia	•	•	•	•	•	•	•	•	•	•	•	•
Philippine	•	•	•	•	•	•	•	•	•	•	•	•
Qantas	•	•	•	•	•	•	•	•	•	•	•	•
Singapore	•	•	•	•	•	•	•	•	•	•	•	•
Taca	•	•	•	•	•	•	•	•	•	•	•	•
Thai Airways	•	•	•	•	•	•	•	•	•	•	•	•
Virgin Atlantic	•	•	•	•	•	•	•	•	•	•	•	•
Copa		•	•	•	•	•	•	•	•	•	•	•
Swissair				•	•	•	•	•	•	•	•	•
Air India						•	•	•	•	•	•	•
WestJet							•	•	•	•	•	•
Lan Peru							•	•	•	•	•	•
Air Canada Jazz								•	•	•	•	•
Alitalia	•	•	•	•						•	•	•
Emirates											•	•
Virgin Blue											•	•
Aer Lingus ^{3/}	•	•	•	•	•	•	•	•	•	•	•	☒
AeroLitoral ^{3/}				•	•	•	•	•	•	•	•	☒
Martinair Holland ^{3/}	•	•	•	•	•						•	☒
Aero California	•	•	•	•	•	•	•	•				
Varig Brazilian	•	•	•	•	•	•	•	•				
Harmony						•	•					
Canada 3000	•	•	•	•								
Number of Airlines	40	41	41	43	41	42	44	44	42	43	46	43

Notes:

1/ As of August 2009.

2/ Air Belin merged with LTU International in May 2009.

3/ Operated in FY 2010. As of August 2009 operations have been discontinued.

Sources: Official Airline Guide, August 2009.

Prepared by: Ricondo & Associates, Inc., September 2009.

Los Angeles World Airports
Los Angeles International Airport

Table II-10

Historical Enplanements - LAX

Fiscal Year	Domestic Activity			International Activity			Total Activity		
	Airport Enplanements ^{1/}	Airport Annual % Change	U.S. Enplanements ^{2/}	U.S. Annual % Change	Airport Share of U.S. Enplanements	Airport Enplanements ^{1/}	Airport Annual % Change	Airport Enplanements ^{1/}	Annual % Change
1999	23,736,102	-	610,900,000	-	3.9%	7,749,359	-	31,485,461	-
2000	24,880,727	4.8%	641,200,000	5.0%	3.9%	8,350,995	7.8%	33,231,722	5.5%
2001	24,960,755	0.3%	625,800,000	(2.4%)	4.0%	8,879,214	6.3%	33,839,969	1.8%
2002	20,783,817	(16.7%)	575,100,000	(8.1%)	3.6%	7,347,844	(17.2%)	28,131,661	(16.9%)
2003	20,441,104	(1.6%)	587,800,000	2.2%	3.5%	7,269,224	(1.1%)	27,710,328	(1.5%)
2004	21,241,860	3.9%	628,500,000	6.9%	3.4%	7,837,987	7.8%	29,079,847	4.9%
2005	22,143,442	4.2%	669,500,000	6.5%	3.3%	8,404,809	7.2%	30,548,251	5.0%
2006	22,030,697	(0.5%)	668,400,000	(0.2%)	3.3%	8,624,449	2.6%	30,655,146	0.3%
2007	22,374,333	1.6%	690,100,000	3.2%	3.2%	8,429,137	(2.3%)	30,803,470	0.5%
2008	22,427,379	0.2%	679,600,000 ^{3/}	(1.5%)	3.3%	8,714,960	3.4%	31,142,339	1.1%
2009	20,662,550	(7.9%)	626,500,000 ^{3/}	(7.8%)	3.3%	7,666,428	(12.0%)	28,328,978	(9.0%)

Compounded

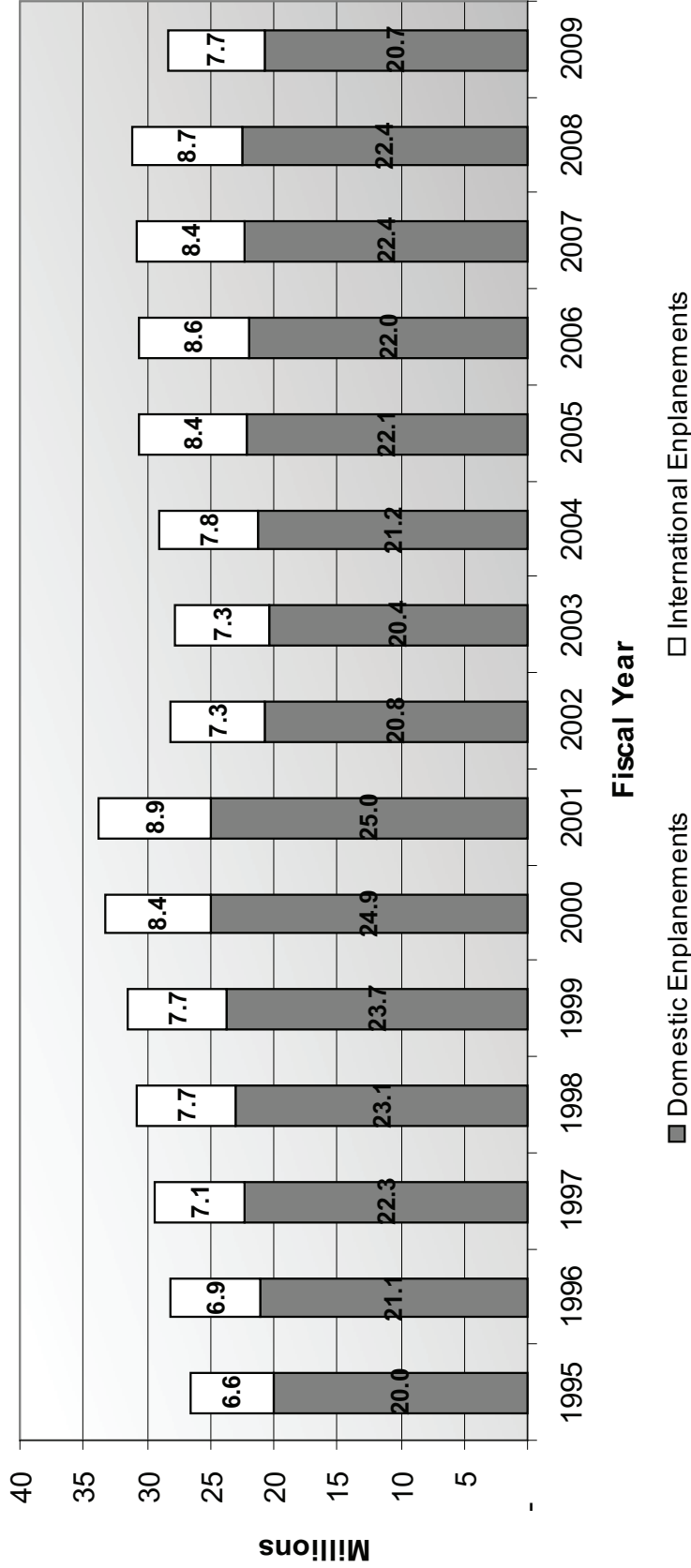
Annual Growth Rate

1999 - 2001	2.5%	1.2%
2001 - 2002	(16.7%)	(8.1%)
2002 - 2008	1.3%	2.8%
2008 - 2009	(7.9%)	(7.8%)
1999 - 2009	(1.4%)	0.3%

Notes:

- 1/ Twelve months ending June 30.
- 2/ Twelve months ending September 30.
- 3/ Estimated by the FAA.

Sources: City of Los Angeles, Department of Airports (Airport activity); FAA (U.S. activity), June 2009.
Prepared by Ricondo & Associates, Inc., June 2009.



Source: City of Los Angeles, Department of Airports, August 2009.
 Prepared by: Ricondo & Associates, Inc., August 2009.

Exhibit II-4

Historical Domestic & International Enplanements - LAX

As shown in **Table II-11**, Southwest nearly tripled its daily nonstop flights at the Airport between FY 1991 and FY 2001, increasing its activity from 41 to 115 daily flights during this period. Southwest's passenger activity increased accordingly, from approximately 1.0 million enplanements in FY 1991 to approximately 3.9 million in FY 2001, a CAGR of 15.0 percent. Its share of domestic enplanements during this same period increased from 4.1 percent to 15.5 percent. Other airlines began matching fares with Southwest in certain markets during the mid to late-1990s, including Shuttle by United (see discussion below), stimulating domestic passenger traffic at the Airport. As also shown in Table II-11, nonstop service by Southwest generally remained at FY 2001 levels through FY 2009.

Domestic enplanements at the Airport increased at a CAGR of 0.2 percent between FY 2003 and FY 2009, a rate of growth that was well below the 1.1 percent growth experienced nationwide. Factors contributing to the Airport's relatively flat growth during this period include the relative maturity of the service market (which contributed to lower growth rates overall) and the significant decrease in scheduled domestic departing seats. In addition, cutbacks in service systemwide by ATA contributed to a 0.5 percent decrease in domestic enplanements in FY 2006.

Table II-12 presents scheduled domestic departing seats by selected airlines (which accounted for a combined 73 percent of annual scheduled domestic departing seats in FY 2009), as well as the total for the Airport between FY 1999 and FY 2009. As shown, scheduled domestic departing seats decreased at a compounded annual rate of 8.5 percent between FY 2000 and FY 2003. This decrease in seat capacity reflected decisions by the airlines to increase load factors systemwide and enhance revenue performance during difficult economic times for the industry. This decrease in capacity was especially pronounced for United and Delta (mainline and affiliates), airlines with high shares of domestic enplanements at the Airport. Their scheduled domestic departing seats decreased at a compounded annual rate of 14.0 percent and 8.1 percent, respectively, between FY 2000 and FY 2003. In recent years, total scheduled domestic departing seats remained at FY 2003 levels through FY 2008, contributing to the relatively flat growth in domestic enplanements at the Airport during this period. With the cutbacks in airline service nationwide, total scheduled domestic departing seats decreased 9.3 percent in FY 2009 from FY 2008 levels, coinciding with the 7.9 percent decrease in domestic enplanements at the Airport during this same period.

United's decrease in domestic departing seats at the Airport was primarily due to the elimination of Shuttle by United service following the events of September 11, 2001. This service operated as a low-fare subsidiary along the highly competitive West Coast corridor between FY 1995 and early FY 2002 (October 2001) using Boeing-737-300 and Boeing 737-500 aircraft. It competed directly with Southwest on routes to several West Coast corridor markets (including Oakland, Portland, San Jose, and Sacramento) and to additional markets outside the West Coast corridor such as Las Vegas, Phoenix, Reno, Salt Lake City, and Tucson. Other markets served by Shuttle by United in the West Coast corridor included San Diego, Seattle, and San Francisco, its primary market. This frequent, low-fare service artificially stimulated the demand for air travel along the West Coast corridor, resulting in strong growth in passenger activity at the Airport during the mid- to late-1990s and early 2000s. As shown in **Exhibit II-5**, Shuttle by United accounted for approximately 33 percent of United's total scheduled domestic departing seats at the Airport between FY 1995 and FY 2001. Following its elimination, Shuttle by United's markets were served by United with significantly fewer frequencies, primarily by regional jets. United mainline focused primarily on serving its major domestic hubs (e.g., Chicago, Denver, and New York/Newark).

Table II-11

Nonstop Service by Southwest - LAX

	Daily Nonstop Flights (Fiscal-Year-End)																			
	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
Albuquerque	5	6	6	6	6	6	6	6	6	6	6	6	6	6	5	4	4	4	4	
El Paso	7	7	7	6	6	6	6	6	6	6	5	4	4	4	3	3	3	3	3	
Phoenix	20	24	26	25	22	22	23	21	21	21	19	16	13	13	13	13	13	13	10	
Oakland	9	10	16	18	24	24	24	24	23	24	23	20	21	21	21	21	21	20	15	
Las Vegas	8	13	13	13	19	19	18	17	17	17	16	14	14	14	14	14	14	14	13	
San Jose				12	12	13	14	13	13	14	13	13	13	13	13	13	13	14	11	
Reno					3	3	3	3	3	3	3	3	3	3	3	3	3	3	3	
Sacramento					6	6	7	7	7	8	8	8	9	9	9	10	10	10	8	
Salt Lake City					4	4	4	4	4	4	4	4	4	4	4	4	4	5	4	
Tucson					4	4	4	4	5	5	5	5	5	5	5	5	6	6	5	
San Antonio					1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	
Kansas City					2	3	3	4	4	5	5	5	5	5	4	4	4	4	3	
Nashville					2	2	2	3	3	3	3	3	3	3	3	3	3	3	3	
Austin								1	1	1	1	1	1	1	1	1	1	1	2	
New Orleans									1	1	1	1	1	1	1	0	0	0	0	
Indianapolis									1	1	1	1	1	1	1	0	0	0	0	
Chicago Midway											3	3	3	3	5	7	7	7	6	
Houston Hobby											1	1	1	1	4	4	4	4	4	
Baltimore												2	2	2	2	2	2	0	0	
St. Louis														1	1	1	1	1	0	
Philadelphia															2	2	2	0	0	
San Francisco																		8	11	
Denver																			6	
Total	41	55	68	81	107	108	114	112	114	119	115	110	110	111	115	115	116	121	113	

Source: Official Airline Guide, June 2009.
Prepared by: Ricondo & Associates, Inc., June 2009.

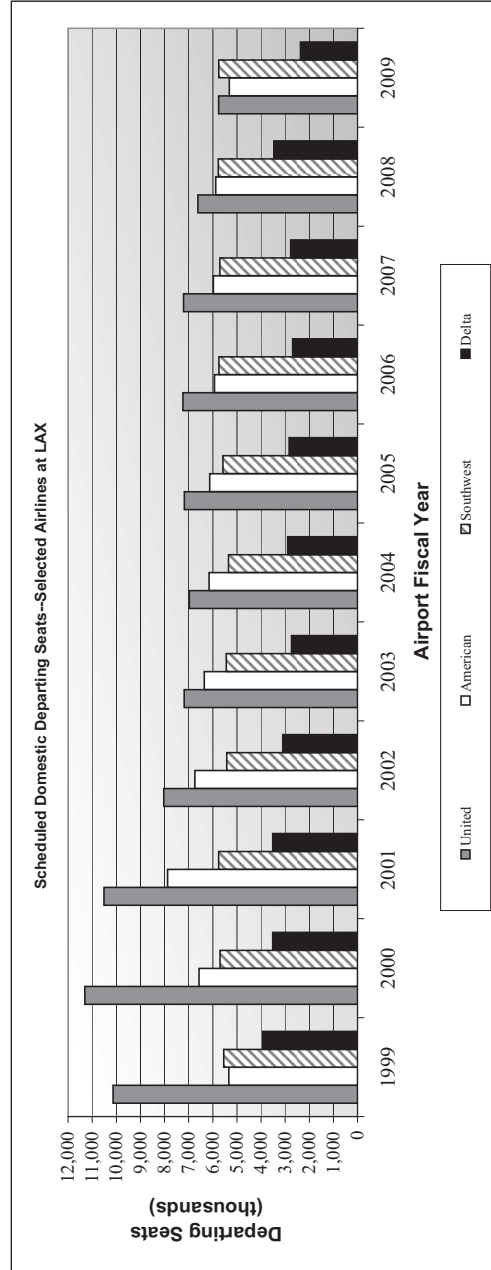
Table II-12

Scheduled Domestic Departing Seats (LAX) by Selected Airlines and Airport Total (Thousands)

Fiscal Year	Scheduled Domestic Departing Seats							Airport Total	Annual % Change
	United	American	Southwest	Delta	Southwest	Delta	Airport Total		
1999	10,134	5,334	5,549	3,926	-	3,926	35,053	-	
2000	11,306	6,572	5,702	3,517	2.8%	3,517	37,267	6.3%	
2001	10,513	7,876	5,757	3,516	19.8%	3,516	37,910	1.7%	
2002	8,030	6,746	5,424	3,102	(23.6%)	3,102	31,460	(17.0%)	
2003	7,185	6,355	5,441	2,734	(10.5%)	2,734	28,505	(9.4%)	
2004	6,973	6,157	5,350	2,894	(3.0%)	2,894	28,434	(0.3%)	
2005	7,182	6,129	5,582	2,839	(3.0%)	2,839	28,874	1.5%	
2006	7,237	5,931	5,745	2,690	0.8%	2,690	28,369	(1.7%)	
2007	7,216	5,978	5,709	2,771	(0.3%)	2,771	28,882	1.8%	
2008	6,620	5,879	5,774	3,468	(8.3%)	3,468	29,043	0.6%	
2009	5,759	5,318	5,750	2,367	(13.0%)	2,367	26,353	(9.3%)	

Compounded Annual Growth Rate

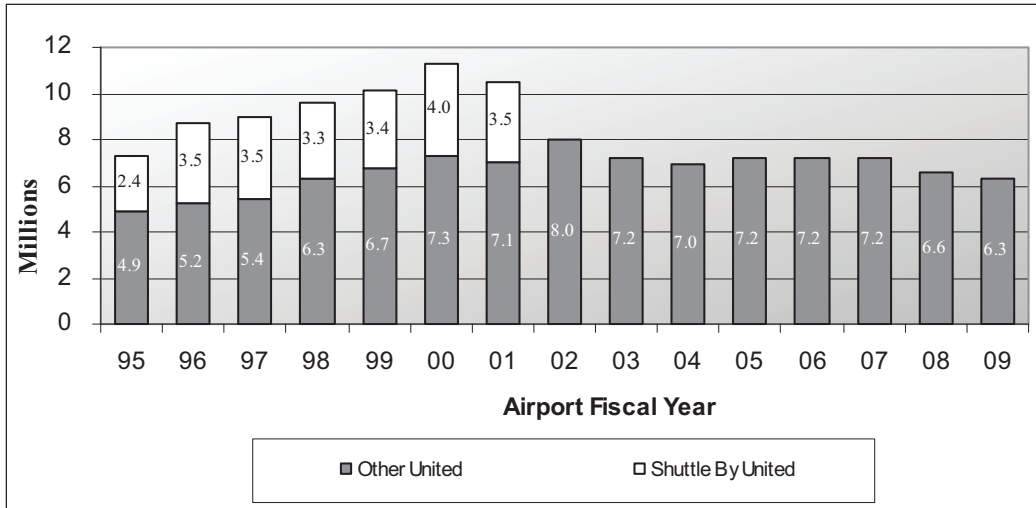
1999 - 2001	1.9%	21.5%	1.9%	(5.4%)	4.0%
2001 - 2002	(23.6%)	(14.3%)	(5.8%)	(11.8%)	(17.0%)
2002 - 2008	(3.2%)	(2.3%)	1.0%	1.9%	(1.3%)
2008 - 2009	(13.0%)	(9.5%)	(0.4%)	(31.7%)	(9.3%)
1999 - 2009	(5.5%)	(0.0%)	0.4%	(4.9%)	(2.8%)



Source: Official Airline Guide, August 2009.
Prepared by: Ricordo & Associates, Inc., August 2009.

Exhibit II-5

Shuttle by United Share of United Domestic Departing Seats



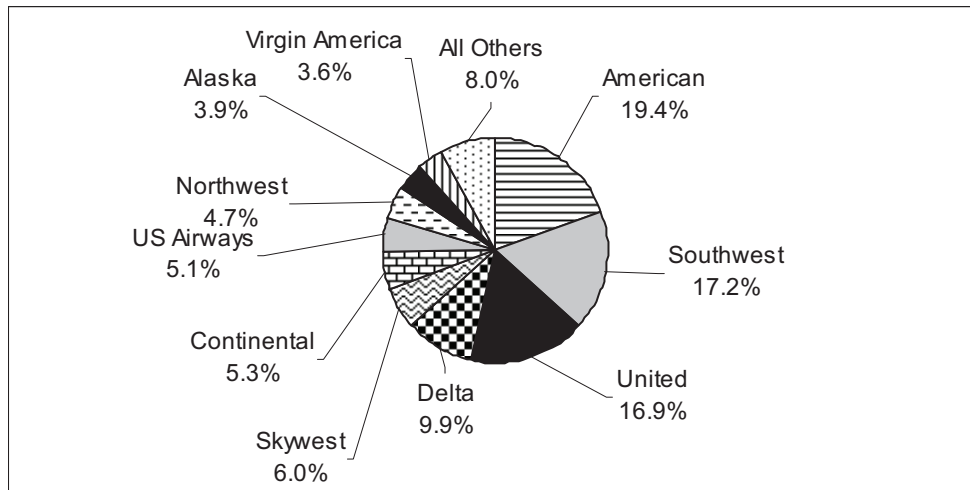
Source: Official Airline Guide, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

Table II-13 presents domestic enplanements by airline between FY 2005 and FY 2009. As shown, four airlines (American, United, Southwest, and Delta) accounted for between 63.4 percent and 67.2 percent of domestic enplanements at the Airport during this period, with six other airlines accounting for an additional 24.9 to 28.6 percent. No major shifts in market share among the carriers occurred during the years depicted. **Exhibit II-6** presents this information for FY 2009.

Exhibit II-6

Domestic Enplanements by Airline (LAX) – FY 2009



Source: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc.

Table II-13

Historical Domestic Enplanements by Airline - LAX ^{1/}

Airline	FY 2005			FY 2006			FY 2007			FY 2008			FY 2009		
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	
1 American	4,219,928	19.1%	4,345,425	19.7%	4,369,207	19.5%	4,307,613	19.2%	4,009,530	19.4%					
2 Southwest	3,763,817	17.0%	3,930,014	17.8%	3,817,855	17.1%	3,851,867	17.2%	3,556,203	17.2%					
3 United	4,422,338	20.0%	4,333,904	19.7%	4,347,812	19.4%	3,856,659	17.2%	3,489,467	16.9%					
4 Delta ^{2/}	2,267,127	10.2%	2,191,476	9.9%	2,193,630	9.8%	2,192,846	9.8%	2,046,092	9.9%					
5 Skywest	1,277,811	5.8%	1,317,516	6.0%	1,405,331	6.3%	1,336,688	6.0%	1,234,324	6.0%					
6 Continental	970,121	4.4%	1,085,628	4.9%	1,170,936	5.2%	1,143,870	5.1%	1,104,103	5.3%					
7 US Airways ^{3/}	1,424,894	6.4%	1,258,953	5.7%	1,233,073	5.5%	1,106,982	4.9%	1,060,095	5.1%					
8 Northwest ^{2/}	988,702	4.5%	996,474	4.5%	995,295	4.4%	998,391	4.5%	967,132	4.7%					
9 Alaska	870,079	3.9%	825,034	3.7%	843,616	3.8%	782,663	3.5%	809,289	3.9%					
10 Virgin America	-	0.0%	-	0.0%	-	0.0%	343,589	1.5%	733,879	3.6%					
11 American Eagle	512,923	2.3%	502,148	2.3%	509,076	2.3%	485,023	2.2%	406,422	2.0%					
12 Horizon	128,627	0.6%	202,763	0.9%	252,551	1.1%	372,094	1.7%	300,703	1.5%					
13 AirTran	152,400	0.7%	179,265	0.8%	202,376	0.9%	240,455	1.1%	240,493	1.2%					
14 Frontier	240,639	1.1%	215,757	1.0%	304,274	1.4%	255,525	1.1%	212,323	1.0%					
15 Hawaiian	269,460	1.2%	237,162	1.1%	225,572	1.0%	226,323	1.0%	195,558	0.9%					
16 Spirit	75,697	0.3%	45,757	0.2%	70,544	0.3%	100,603	0.4%	73,567	0.4%					
17 Qantas	31,067	0.1%	39,668	0.2%	52,243	0.2%	61,873	0.3%	63,004	0.3%					
18 ExpressJet	1,688	0.0%	2,101	0.0%	13,185	0.1%	442,273	2.0%	50,662	0.2%					
19 Midwest	52,737	0.2%	97,586	0.4%	115,517	0.5%	134,362	0.6%	39,785	0.2%					
20 MN Airlines	39,733	0.2%	43,287	0.2%	40,425	0.2%	53,843	0.2%	33,700	0.2%					
Other	433,654	2.0%	180,779	0.8%	211,815	0.9%	133,837	0.6%	36,219	0.2%					
Airport Total ^{4/}	22,143,442	100.0%	22,030,697	100.0%	22,374,333	100.0%	22,427,379	100.0%	20,662,550	100.0%					

Notes:

- 1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.
- 2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.
- 3/ On September 27, 2005, US Airways completed its merger with America West. The FAA granted US Airways a single operating certificate on September 26, 2007.
- 4/ Totals may not add due to individual rounding.

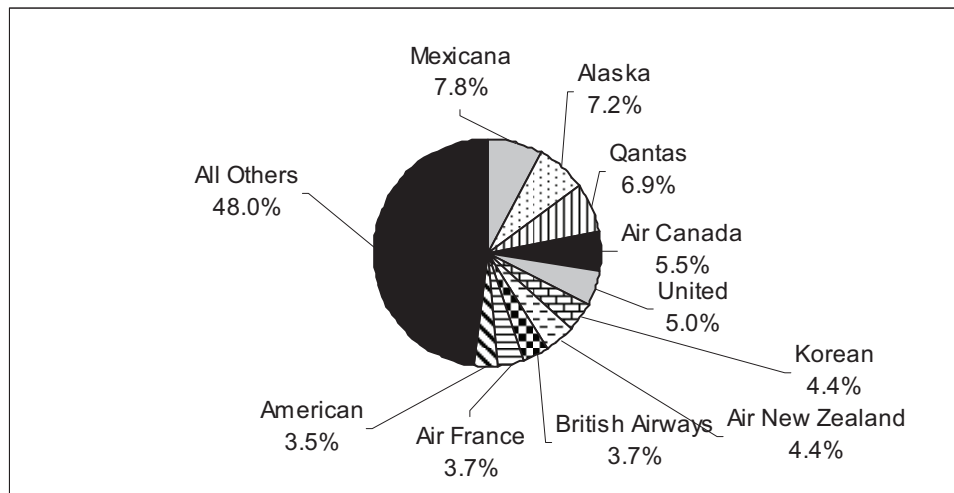
Sources: City of Los Angeles, Department of Airports, June 2009.
Prepared by: Ricondo & Associates, Inc., June 2009.

Table II-10 presents historical data on international enplanements at the Airport and the nation between FY 1999 and FY 2009. As shown, international passenger activity at the Airport increased from 7.7 million enplanements in FY 1999 to 8.9 million in FY 2001, a CAGR of 7.0 percent during this period. Due to the effects of September 11, 2001 and a downturn in the international economy, particularly in Asia, international enplanements at the Airport decreased from 8.9 million in FY 2001 to 7.3 million in FY 2003 (a compounded annual decrease of 9.5 percent during this period). Thereafter, international passenger activity began to recover, with enplanements increasing at a CAGR of 3.7 percent between FY 2003 and FY 2008, reaching 8.7 million. In FY 2009, due to the global economic environment and capacity reductions by U.S. and foreign flag carriers on international routes, international passenger enplanements decreased by 12.0 percent from FY 2008.

Table II-14 presents international enplanements by airline between FY 2005 and FY 2009. International enplanements are spread over a number of airlines, with no airline dominating. Mexicana enplaned the most international passengers at the Airport in FY 2009 with a 7.8 percent share, providing nonstop service to eight cities in Mexico. Alaska, providing nonstop service to nine cities in Mexico and one city in Canada, had the second highest share of international enplanements at the Airport in FY 2009 with 7.2 percent of the traffic. As also shown, the top 20 airlines in FY 2009 accounted for between 72.3 and 77.8 percent of international activity during the years depicted. **Exhibit II-7** presents this information for FY 2009.

Exhibit II-7

International Enplanements by Airline (LAX) – FY 2009



Source: City of Los Angeles, Department of Airports, June 2009.
Prepared by: Ricondo & Associates, Inc., June 2009.

Table II-15 presents total enplanements by airline at the Airport between FY 2005 and FY 2009. Four airlines (United, American, Southwest, and Delta) accounted for slightly more than half of total enplanements at the Airport from FY 2005 through FY 2007. In FY 2008, the share of these four airlines decreased to 48.7 percent of total enplanements and 48.9 percent in FY 2009. For the most part, each airline's market share of total enplanements at the Airport remained steady between FY 2005 and FY 2009.

Table II-14

Historical International Enplanements by Airline - LAX ^{1/}

Airline	FY 2005			FY 2006			FY 2007			FY 2008			FY 2009		
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	
1 Mexicana	618,550	7.4%	712,492	8.3%	572,616	6.8%	636,272	7.3%	596,599	7.3%	596,599	7.8%	596,599	7.8%	
2 Alaska	566,505	6.7%	634,635	7.4%	636,063	7.5%	627,303	7.2%	550,757	7.2%	550,757	7.2%	550,757	7.2%	
3 Qantas	538,885	6.4%	555,133	6.4%	567,899	6.7%	552,338	6.3%	527,956	6.3%	527,956	6.9%	527,956	6.9%	
4 Air Canada	449,757	5.4%	487,446	5.7%	508,083	6.0%	477,779	5.5%	424,024	5.5%	424,024	5.5%	424,024	5.5%	
5 United	436,265	5.2%	491,252	5.7%	478,622	5.7%	503,410	5.8%	382,496	5.8%	382,496	5.0%	382,496	5.0%	
6 Korean	344,808	4.1%	356,190	4.1%	338,740	4.0%	335,803	3.9%	334,256	3.9%	334,256	4.4%	334,256	4.4%	
7 Air New Zealand	441,266	5.3%	433,551	5.0%	381,194	4.5%	386,452	4.4%	334,028	4.4%	334,028	4.4%	334,028	4.4%	
8 British Airways	254,371	3.0%	289,601	3.4%	274,435	3.3%	296,390	3.4%	284,737	3.4%	284,737	3.7%	284,737	3.7%	
9 Air France	253,446	3.0%	250,465	2.9%	273,314	3.2%	280,763	3.2%	281,619	3.2%	281,619	3.7%	281,619	3.7%	
10 American	272,185	3.2%	297,428	3.4%	310,698	3.7%	303,604	3.5%	267,948	3.5%	267,948	3.5%	267,948	3.5%	
11 Cathay Pacific	215,110	2.6%	301,119	3.5%	312,261	3.7%	326,263	3.7%	244,372	3.7%	244,372	3.2%	244,372	3.2%	
12 Lufthansa German	259,300	3.1%	241,768	2.8%	247,882	2.9%	266,492	3.1%	242,930	3.1%	242,930	3.2%	242,930	3.2%	
13 Eva Airways	204,483	2.4%	227,505	2.6%	256,952	3.0%	255,263	2.9%	232,477	2.9%	232,477	3.0%	232,477	3.0%	
14 China	220,505	2.6%	230,174	2.7%	235,672	2.8%	222,747	2.6%	209,862	2.6%	209,862	2.7%	209,862	2.7%	
15 AeroMexico	227,778	2.7%	232,589	2.7%	229,085	2.7%	241,626	2.8%	208,536	2.7%	208,536	2.7%	208,536	2.7%	
16 Air Tahiti Nui	198,491	2.4%	196,057	2.3%	193,798	2.3%	210,280	2.4%	187,397	2.4%	187,397	2.4%	187,397	2.4%	
17 Asiana Airlines	-	0.0%	-	0.0%	-	0.0%	-	0.0%	179,999	0.0%	179,999	2.3%	179,999	2.3%	
18 Virgin Atlantic	193,580	2.3%	187,358	2.2%	195,061	2.3%	184,303	2.1%	176,229	2.1%	176,229	2.3%	176,229	2.3%	
19 Philippine	153,442	1.8%	153,085	1.8%	159,533	1.9%	169,170	1.9%	156,944	1.9%	156,944	2.0%	156,944	2.0%	
20 Singapore	230,389	2.7%	240,380	2.8%	248,402	2.9%	226,210	2.6%	139,938	2.6%	139,938	1.8%	139,938	1.8%	
Other	2,325,693	27.7%	2,106,221	24.4%	2,008,827	23.8%	2,212,492	25.4%	1,703,324	25.4%	1,703,324	22.2%	1,703,324	22.2%	
Airport Total ^{2/}	8,404,809	100.0%	8,624,449	100.0%	8,429,137	100.0%	8,714,960	100.0%	7,666,428	100.0%	7,666,428	100.0%	7,666,428	100.0%	

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

Los Angeles World Airports
Los Angeles International Airport

Table II-15

Historical Total Enplanements by Airline - LAX ^{1/}

Airline	FY 2005			FY 2006			FY 2007			FY 2008			FY 2009		
	Enplanements	Share		Enplanements	Share		Enplanements	Share		Enplanements	Share		Enplanements	Share	
1 American	4,492,113	14.7%		4,642,853	15.1%		4,679,905	15.2%		4,611,217	14.8%		4,277,478	15.1%	
2 United	4,858,603	15.9%		4,825,156	15.7%		4,826,434	15.7%		4,360,069	14.0%		3,871,963	13.7%	
3 Southwest	3,763,817	12.3%		3,930,014	12.8%		3,817,855	12.4%		3,851,867	12.4%		3,556,203	12.6%	
4 Delta ^{2/}	2,329,863	7.6%		2,230,835	7.3%		2,312,650	7.5%		2,358,251	7.6%		2,145,884	7.6%	
5 Alaska	1,436,584	4.7%		1,459,669	4.8%		1,479,679	4.8%		1,409,966	4.5%		1,360,046	4.8%	
6 Skywest	1,277,811	4.2%		1,317,516	4.3%		1,425,685	4.6%		1,383,225	4.4%		1,289,602	4.6%	
7 Continental	970,303	3.2%		1,085,628	3.5%		1,170,936	3.8%		1,143,870	3.7%		1,104,162	3.9%	
8 Northwest ^{2/}	1,103,405	3.6%		1,118,732	3.6%		1,129,526	3.7%		1,133,442	3.6%		1,091,261	3.9%	
9 US Airways ^{3/}	1,506,080	4.9%		1,287,043	4.2%		1,238,267	4.0%		1,110,117	3.6%		1,060,803	3.7%	
10 Virgin America	-	0.0%		-	0.0%		-	0.0%		343,589	1.1%		733,879	2.6%	
11 Mexicana	618,550	2.0%		712,492	2.3%		572,616	1.9%		636,272	2.0%		596,599	2.1%	
12 Qantas	569,952	1.9%		594,801	1.9%		620,142	2.0%		614,211	2.0%		590,960	2.1%	
13 Air Canada	449,757	1.5%		487,446	1.6%		508,083	1.6%		477,779	1.5%		424,024	1.5%	
14 American Eagle	512,923	1.7%		502,148	1.6%		509,076	1.7%		485,023	1.6%		406,422	1.4%	
15 Korean	344,808	1.1%		356,190	1.2%		338,740	1.1%		335,803	1.1%		334,256	1.2%	
16 Air New Zealand	441,285	1.4%		433,578	1.4%		381,369	1.2%		386,452	1.2%		334,028	1.2%	
17 Horizon	128,627	0.4%		202,763	0.7%		252,551	0.8%		373,233	1.2%		316,753	1.1%	
18 British Airways	254,371	0.8%		289,601	0.9%		274,435	0.9%		296,390	1.0%		284,737	1.0%	
19 Air France	253,446	0.8%		250,465	0.8%		273,314	0.9%		280,763	0.9%		281,619	1.0%	
20 Cathay Pacific	215,110	0.7%		301,119	1.0%		312,261	1.0%		326,263	1.0%		244,372	0.9%	
Other	5,020,843	16.4%		4,627,097	15.1%		4,679,946	15.2%		5,224,537	16.8%		4,023,927	14.2%	
Airport Total ^{4/}	30,548,251	100.0%		30,655,146	100.0%		30,803,470	100.0%		31,142,339	100.0%		28,328,978	100.0%	

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ In October 2008, Delta and Northwest's merger was approved by the U. S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

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

4/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.

Prepared by: Ricondo & Associates, Inc., June 2009.

2.5.2 Air Service Markets

An important airport characteristic is the distribution of its O&D markets, which is a function of air travel demands and available services and facilities. This is particularly true for the Airport, as it serves primarily O&D passengers. **Table II-16** presents historical data on the Airport's top 50 domestic O&D markets for FY 2001 and FY 2008, the latest fiscal year for which such data are currently available. As shown, many markets along the West Coast corridor occupy the highest ranks during both years depicted. Notwithstanding this strong regional demand, the Airport's markets in FY 2001 and FY 2008 had an average stage length (i.e., passenger trip distance) of 1,429 and 1,624 miles, respectively, compared to 812 and 875 miles nationwide. Historically, the Airport's average stage length has significantly exceeded the nation's, reflecting strong local demand for service to long-haul markets such as New York, Honolulu, Washington, D.C., Atlanta, and Boston.

Nonstop scheduled domestic air service available from the Airport is presented in **Table II-17**. As shown, 83 domestic cities are served with a total of 3,970 weekly nonstop flights. In FY 2008, 46 of the Airport's top 50 domestic O&D markets were served with nonstop flights on a weekly basis. New York/Newark, the Airport's largest domestic O&D market, was provided 243 weekly nonstop flights. Other domestic markets with significant weekly nonstop service include San Francisco (281), San Diego (234), and Las Vegas (210). **Exhibit II-8** graphically illustrates the Airport's nonstop domestic markets, as of the week ending September 18, 2009.

Table II-18 presents historical data on the Airport's top 50 international O&D markets for FY 2008, the latest fiscal year for which such data are currently available. As shown, numerous international markets are represented including cities in Mexico, Central and South America, the Caribbean, Europe, Asia, and the Pacific. Based on these data, approximately 91 percent of international traffic at the Airport was O&D traffic in FY 2008, indicating that approximately 9 percent of all international passengers arriving at the Airport are connecting to other flights. Nonstop scheduled international air service available from the Airport is presented in **Table II-19**. As shown, 53 international cities are served with a total of 823 weekly nonstop flights. Each of the Airport's top 15 international O&D markets in FY 2008 are served with nonstop service, as well as 42 of the Airport's top 50 international O&D markets. London, the largest international O&D market for the Airport in FY 2008, is served by 56 weekly nonstop flights. Other international markets with significant nonstop service from the Airport include Vancouver (77 weekly nonstop flights), Guadalajara (60), Mexico City (60), Tokyo (49), and Taipei (35). **Exhibit II-9** graphically illustrates the Airport's nonstop international markets, as of the week ending September 18, 2009.

2.5.3 Historical Aircraft Operations

Table II-20 presents historical operations at the Airport by major user groups between FY 1999 and FY 2009. After increasing through FY 2001, aircraft operations declined through FY 2003 primarily due to the continued effects of September 11, 2001, an economic slowdown, and the subsequent reduction of activity by passenger and all-cargo carriers at the Airport. Between FY 2004 and FY 2008, total operations increased at a CAGR of 1.7 percent, reaching 679,781 operations in FY 2008. By comparison, the FAA estimates that total aircraft operations nationwide decreased at a 1.9 percent compounded rate during these years. Due to the cutbacks in passenger airline capacities and the economic environment, total operations at the Airport decreased 17.3 percent in FY 2009.

Table II-16

Primary Domestic O&D Passenger Markets - LAX

FY 2001				FY 2008 ^{1/}				
Rank	Market	Trip Length ^{2/}	Total O&D Passengers	Rank	Market	Nonstop Service ^{3/}	Trip Length ^{2/}	Total O&D Passengers
1	New York/Newark	LH	2,955,470	1	New York/Newark	•	LH	2,860,230
2	Las Vegas	SH	1,885,740	2	San Francisco	•	SH	1,591,020
3	Oakland	SH	1,614,230	3	Chicago	•	MH	1,431,730
4	Chicago	MH	1,513,950	4	Las Vegas	•	SH	1,193,530
5	Phoenix	SH	1,191,010	5	Honolulu	•	LH	1,153,740
6	San Francisco	SH	1,177,940	6	Oakland	•	SH	1,009,790
7	San Jose	SH	1,153,630	7	Seattle	•	MH	1,008,980
8	Honolulu	LH	1,126,990	8	Washington	•	LH	998,060
9	Seattle	MH	1,062,260	9	Denver	•	MH	887,600
10	Sacramento	SH	823,290	10	Atlanta	•	LH	807,110
11	Washington	LH	822,680	11	Phoenix	•	SH	785,630
12	Denver	MH	796,030	12	Dallas	•	MH	769,540
13	Salt Lake City	SH	719,500	13	San Jose	•	SH	752,490
14	Boston	LH	712,690	14	Houston	•	MH	729,060
15	Dallas	MH	645,510	15	Boston	•	LH	693,610
16	Atlanta	LH	642,360	16	Sacramento	•	SH	620,190
17	Portland	MH	596,440	17	Minneapolis	•	MH	593,320
18	Baltimore	LH	586,020	18	Philadelphia	•	LH	582,280
19	Houston	MH	571,100	19	Detroit	•	LH	579,860
20	Philadelphia	LH	529,160	20	Salt Lake City	•	SH	533,310
21	Detroit	LH	527,040	21	Orlando	•	LH	525,620
22	Orlando	LH	507,980	22	Portland, OR	•	MH	521,150
23	Minneapolis	MH	498,240	23	Kahului	•	LH	499,030
24	Kahului	LH	442,860	24	Miami	•	LH	403,170
25	Tucson	SH	425,030	25	Fort Lauderdale	•	LH	387,790
26	Reno	SH	383,410	26	St Louis	•	MH	334,280
27	Miami	LH	367,540	27	Tucson	•	SH	331,660
28	Kansas City	MH	311,990	28	Baltimore	•	LH	331,280
29	New Orleans	MH	311,560	29	Kansas City	•	MH	328,650
30	Albuquerque	MH	304,480	30	Austin	•	MH	281,940
31	St Louis	MH	290,770	31	Reno	•	SH	261,010
32	Fort Lauderdale	LH	259,070	32	Albuquerque	•	MH	250,170
33	Tampa	LH	259,040	33	Indianapolis	•	LH	246,240
34	Indianapolis	LH	248,990	34	Cleveland	•	LH	238,290
35	Cleveland	LH	244,120	35	Nashville	•	MH	236,560
36	Nashville	MH	212,470	36	Charlotte	•	LH	228,790
37	Austin	MH	207,110	37	Tampa	•	LH	223,560
38	Hartford	LH	191,120	38	New Orleans	•	MH	222,610
39	Columbus	LH	189,230	39	Lihue	•	LH	204,840
40	Milwaukee	MH	183,730	40	San Antonio	•	MH	187,170
41	Raleigh	LH	181,810	41	Milwaukee	•	MH	185,330
42	Kona	LH	177,740	42	Pittsburgh	•	LH	179,600
43	San Antonio	MH	172,970	43	Kona	•	LH	172,350
44	Pittsburgh	LH	168,990	44	Hartford	•	LH	156,060
45	Providence	LH	168,550	45	Memphis	•	MH	147,790
46	El Paso	MH	154,850	46	Raleigh	•	LH	145,660
47	Charlotte	LH	154,230	47	Spokane	•	MH	126,810
48	San Diego	SH	149,160	48	Columbus	•	LH	118,560
49	Cincinnati	LH	141,680	49	Boise	•	MH	117,790
50	Lihue	LH	135,310	50	El Paso	•	MH	111,580
	Others		4,310,740		Others			4,023,080
	Total		33,407,810		Total			31,309,500

Average

Airport ^{4/} 1,429 miles
United States 812 miles

Average

Airport ^{4/} 1,624 miles
United States 875 miles

Notes:

1/ Most current data available from the U.S. Department of Transportation.

2/ (SH) Short Haul = 1 to 600 miles
(MH) Medium Haul = 601 to 1,800 miles
(LH) Long Haul = over 1,800 miles

3/ As of May 14, 2009.

4/ Average calculated for all of the Airport's O&D markets.

Sources: US DOT Origin & Destination Survey of Airline Passenger Traffic, June 2009.
Prepared by Ricondo & Associates, Inc., June 2009.

Table II-17

Nonstop Domestic Markets - LAX

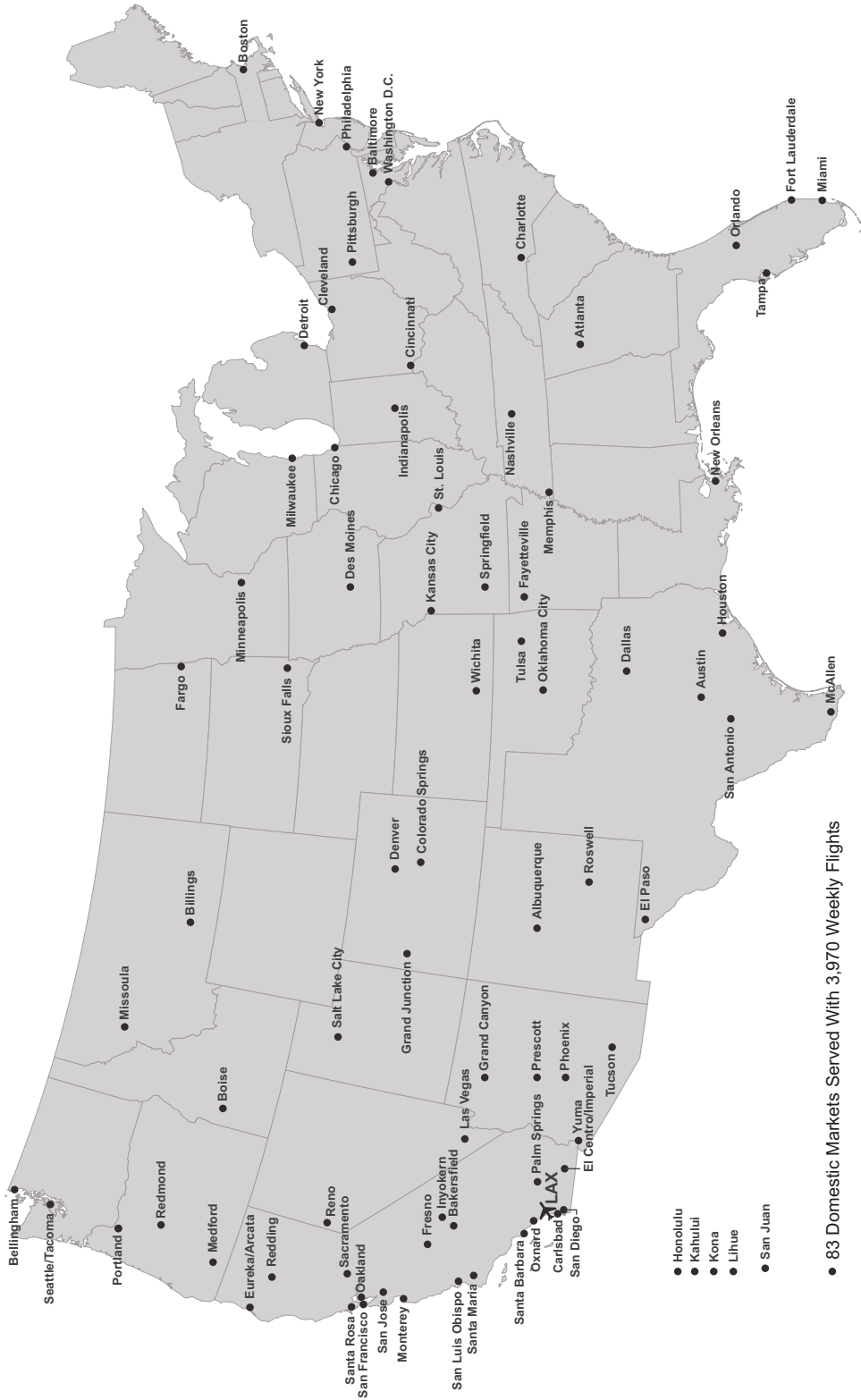
	Market	Weekly Nonstop Flights	Number of Airlines	Airline
1	San Francisco	281	5	Alaska (7), American (42), Southwest (78), United (116), Virgin America (38)
2	New York City ^{1/}	243	6	American (7-EWR, 62-JFK), Continental (40-EWR), Delta (46-JFK), jetBlue (13-JFK), United (41-JFK), Virgin America (34-JFK)
3	San Diego	234	2	American Eagle (125), SkyWest (109)
4	Las Vegas	210	6	American (21), Mesa (6), Northwest (21), Southwest (87), United (40), US Airways (35)
5	Chicago ^{2/}	179	3	American (63-ORD), United (76-ORD), Southwest (40-MDW)
6t	Denver	154	4	American (14), Frontier (41), Southwest (39), United (60)
6t	Phoenix	154	4	Mesa (14), SkyWest (29), Southwest (72), US Airways (39)
8	San Jose	133	3	American Eagle (41), SkyWest (21), Southwest (71)
9	Seattle	128	4	Alaska (72), SkyWest (28), United (1), Virgin America (22)
10	Dallas	118	1	American (104), SkyWest (14)
11	Oakland	104	1	Southwest
12	Santa Barbara	99	2	American Eagle (52), SkyWest (47)
13	Atlanta	97	2	Air Tran (27), Delta (70)
14	Salt Lake City	95	4	Delta (33), SkyWest (23-Delta), SkyWest (14-United), Southwest (25)
15	Washington, DC ^{4/}	94	4	Alaska (7-DCA), American (21-IAD), United (48-IAD), Virgin America (18-IAD)
16	Houston ^{3/}	91	2	Continental (64-IAH), Southwest (27-HOU)
17	Fresno	88	2	American Eagle (49), SkyWest (39)
18	Honolulu	85	6	American (26), Continental (7), Delta (12), Hawaiian (12), Northwest (7), United (21)
19	Sacramento	84	2	SkyWest (27), Southwest (57)
20	Boston	69	4	American (27), jetBlue (10), United (14), Virgin America (18)
21	Tucson	63	2	Sky West (31), Southwest (32)
22	Portland, OR	60	2	Alaska (33), SkyWest (27)
23	Monterey	55	2	American Eagle (28), SkyWest (27)
24	Minneapolis	47	2	Northwest (40), Sun Country (7)
25	Detroit	46	2	Northwest (39), Spirit (7)
26	Albuquerque	44	2	SkyWest (17), Southwest (27)
27t	Carlsbad	42	1	SkyWest
27t	Miami	42	1	American
27t	Philadelphia	42	2	United (7), US Airways (35)
27t	Reno	42	3	Horizon (20), SkyWest (3), Southwest (19)
31	Palm Springs	41	1	SkyWest
32	Kahului	35	3	American (13), Delta (7), United (15)
33	San Antonio	33	2	SkyWest (13), Southwest (20)
34	Austin	32	2	American (20), Southwest (12)
35t	Orlando	28	3	American (7), Delta (14), United (7)
35t	St. Louis	28	1	American
37t	Boise	27	2	Horizon (14), SkyWest (13)
37t	Kansas City	27	2	Republic (7), Southwest (20)
37t	San Luis Obispo	27	1	SkyWest
40t	Charlotte	26	1	US Airways
40t	Santa Maria	26	1	SkyWest
42t	Nashville	21	2	American (7), Southwest (14)
42t	Yuma	21	1	SkyWest
44t	Bakersfield	20	1	SkyWest
44t	El Paso	20	1	Southwest
44t	Lihue	20	3	American (7), Delta (5), United (8)
44t	Oxnard	20	1	SkyWest
48t	Baltimore	19	2	AirTran (5), United (14)
48t	Inyokern	19	1	SkyWest
48t	Milwaukee	19	2	AirTran (12), Northwest (7)
51t	Cincinnati	18	1	Delta
51t	Cleveland	18	1	Continental
51t	Colorado Springs	18	1	SkyWest
51t	Memphis	18	1	Northwest
55	Kona	17	3	American (6), Delta (4), United (7)
56	Medford	16	2	Allegiant (2), Horizon (14)
57	Santa Rosa	13	1	Horizon
58	New Orleans	12	2	Delta (5), United (7)
59	Fort Lauderdale	11	2	Delta (4), Sprint (7)
60t	El Centro/Imperial	7	1	SkyWest
60t	Eureka/Arcata	7	1	Horizon
60t	Pittsburgh	7	1	US Airways
60t	Prescott	7	1	Horizon
60t	Redmond	7	1	Horizon
65t	Grand Canyon	6	1	Horizon
65t	Oklahoma City	6	1	SkyWest
65t	Redding	6	1	Horizon
65t	Tulsa	6	1	SkyWest
69	Tampa	5	1	Northwest
70t	Indianapolis	4	1	Northwest
70t	Roswell	4	1	American Eagle
72	Bellingham	3	1	Allegiant
73t	Billings	2	1	Allegiant
73t	Des Moines	2	1	Allegiant
73t	Fargo	2	1	Allegiant
73t	Fayetteville	2	1	Allegiant
73t	Grand Junction	2	1	Allegiant
73t	McAllen	2	1	Allegiant
73t	Missoula	2	1	Allegiant
73t	San Juan	2	1	American
73t	Springfield, MO	2	1	Allegiant
73t	Sioux Falls	2	1	Allegiant
73t	Wichita	2	1	Allegiant
	Total Weekly Departures	3,970		

Notes:

- 1/ Individual flights to Kennedy, LaGuardia, and Newark.
- 2/ Individual flights to Chicago O'Hare and Chicago Midway.
- 3/ Includes flights to Houston G. Bush International and Houston Hobby.
- 4/ Includes flights to Washington Reagan International and Washington Dulles International.

Sources: Official Airline Guide (Week of September 12-18, 2009).

Prepared by: Ricondo & Associates, Inc., September 2009.



• 83 Domestic Markets Served With 3,970 Weekly Flights

Source: Official Airline Guide, Inc., September 12 – September 18, 2009.
 Prepared by: Ricondo & Associates, Inc., September 2009.

Exhibit II-8

Nonstop Domestic Markets

Table II-18

Primary International O&D Passenger Markets - LAX

FY 2008 ^{1/}

Rank	City	Country	Nonstop Service ^{2/}	Total O&D Passengers ^{3/}
1	London	United Kingdom	•	1,319,199
2	Taipei	Taiwan	•	808,611
3	Seoul	South Korea	•	800,030
4	Mexico City	Mexico	•	787,101
5	Tokyo	Japan	•	688,024
6	Guadalajara	Mexico	•	646,750
7	Vancouver	Canada	•	601,988
8	Hong Kong	Hong Kong-China	•	581,336
9	Paris	France	•	564,076
10	Toronto	Canada	•	493,077
11	Auckland	New Zealand	•	424,903
12	Frankfurt	Germany	•	369,328
13	San Salvador	El Salvador	•	338,887
14	San Jose Del Cabo	Mexico	•	320,357
15	Papeete	French Polynesia	•	304,873
16	Manila	Philippines	•	295,013
17	Calgary	Canada	•	272,886
18	Cancun	Mexico	•	271,851
19	Guatemala City	Guatemala	•	264,867
20	Sydney	Australia	•	255,152
21	Amsterdam	Netherlands	•	236,661
22	Puerto Vallarta	Mexico	•	213,187
23	Singapore	Singapore	•	200,666
24	Beijing	China	•	191,914
25	San Jose	Costa Rica	•	174,766
26	Munich	Germany	•	174,413
27	Shanghai	China	•	165,859
28	Montreal	Canada	•	159,394
29	Zurich	Switzerland	•	151,549
30	Lima	Peru	•	146,609
31	Tel Aviv	Israel	•	137,148
32	Bangkok	Thailand	•	136,471
33	Nadi	Fiji Islands	•	136,054
34	Dublin	Ireland	•	109,795
35	Leon-Guanajuato	Mexico	•	105,251
36	Guangzhou	China	•	96,071
37	Santiago	Chile	•	95,129
38	Kuala Lumpur	Malaysia	•	91,726
39	Melbourne	Australia	•	88,932
40	Rome	Italy	•	88,554
41	Panama City	Panama Republic	•	85,568
42	Brisbane	Australia	•	84,630
43	Moscow	Russia (European)	•	83,758
44	Mazatlan	Mexico	•	76,138
45	Montego Bay	Jamaica	•	67,729
46	Edmonton	Canada	•	67,105
47	Koeln/Bonn Airport	Germany	•	63,799
48	Bogota	Colombia	•	55,525
49	Sao Paulo	Brazil	•	53,738
50	Monterrey	Mexico	•	49,438
	Others			1,841,211
	Total			15,837,097

Notes:

- 1/ Most current data available from the U.S. Department of Transportation.
- 2/ As of week ending May 16, 2009.
- 3/ Results for FY 2008 combine U.S. Carrier Origin & Destination data plus Gateway to Gateway Data for passengers using foreign flag carriers as their LAX gateway to/from International gateways.

Sources: US DOT *Origin & Destination Survey of Airline Passenger Traffic, International*

US DOT T-100(f) Onflight Market Data for Foreign Carriers, June 2009

Prepared by: Ricondo & Associates, Inc., June 2009.

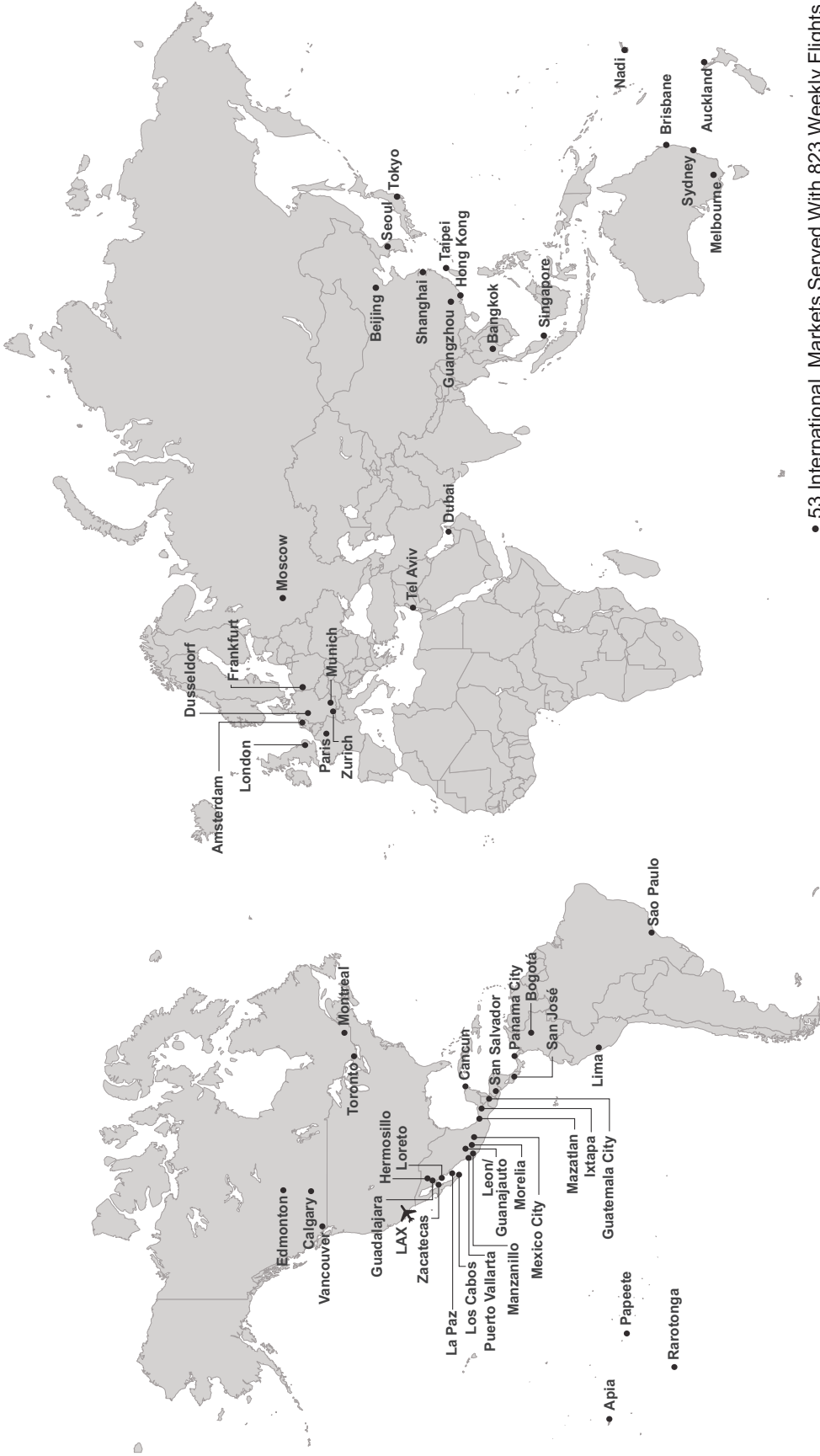
Table II-19

Nonstop International Markets - LAX

Market	Weekly Nonstop Flights	Number of Airlines	Airline
1 Vancouver, British Columbia	77	3	Air Canada (28), Alaska Airlines (28), SkyWest (21)
2t Guadalajara, Mexico	60	4	AeroMexico (13), Alaska (4), Mexicana (29), Volaris (14)
2t Mexico City, Mexico	60	5	AeroMexico (19), Alaska (4), Mexicana (29), United (1), Volaris (7)
4 London, England	56	5	Air New Zealand (7), American (7), British Airways (21), United (7), Virgin Atlantic (14)
5 Tokyo, Japan	49	7	All Nippon (7), American (7), Japan (7), Korea (7), Northwest (7), Singapore (7), United (7)
6 Taipei, Taiwan	35	4	China (13), Eva Airways (18), Malaysia (3), Vietnam (1)
7t Seoul, Korea	34	2	Asiana (14), Korean Air (20)
7t Sydney, Australia	34	3	Delta (6), Qantas (14), United (7), Vaustralia (7)
7t Toronto, Ontario	34	2	Air Canada (27), American (7)
10 Los Cabos, Mexico	30	4	Alaska (7), American (11), Mexicana (5), United (7)
11 Calgary, Alberta	28	2	Air Canada (21), WestJet (7)
12 Paris, France	25	2	Air France (20), Air Tahiti Nui (5)
13 San Salvador, El Salvador	21	3	American (7), LACSA (7), TACA (7)
14 Auckland, New Zealand	17	2	Air New Zealand (12), Qantas (5)
15 Puerto Vallarta, Mexico	15	2	Alaska (7), Mexicana (7), United (1)
16t Frankfurt, Germany	14	1	Lufthansa German
16t Hong Kong, China	14	1	Cathay Pacific
18t Edmonton, Alberta	13	2	Air Canada Jazz (6), WestJet (7)
18t Papeete, French Polynesia	13	2	Air France (3), Air Tahiti Nui (10)
20 Montreal, Quebec	12	1	Air Canada
21t Cancun, Mexico	11	3	Alaska (5), Delta (1), Mexicana (5)
21t Guatemala City, Guatemala	11	2	Delta (4), LACSA (7)
21t Lima, Peru	11	2	Lan (7), Lan Peru (4)
24 Brisbane, Australia	10	2	Qantas (7), Vaustralia (3)
25 Leon/Guanajuato, Mexico	9	2	AeroMexico (4), Mexicana (5)
26t Amsterdam, Netherlands	7	1	KLM-Royal Dutch
26t Beijing, China	7	1	Air China
26t Dubai, United Arab Emirates	7	1	Emirates
26t Hermosillo, Mexico	7	1	AeroMexico Connect
26t Melbourne, Australia	7	1	Qantas
26t Munich, Germany	7	1	Lufthansa German
26t Panama City, Panama	7	1	Copa
26t Shanghai, China	7	1	China Eastern
34t Morelia, Mexico	6	1	Mexicana
34t Zurich, Switzerland	6	1	Swiss International
36t Bangkok, China	5	1	Thai Airways
36t La Paz, Mexico	5	1	Horizon
36t Moscow, Russia	5	1	Aeroflot
36t Singapore, Changi	5	1	Singapore
40t Bogota, Colombia	4	1	Avianca
40t Loreto, Mexico	4	2	Alaska (2), Horizon (2)
40t Mazatlan, Mexico	4	1	Alaska
40t Nadi, Fiji	4	1	Air Pacific
40t San Jose, Costa Rica	4	1	LASCA
40t Tel Aviv, Israel	4	1	El Al Israel
40t Zacatecas, Mexico	4	1	Mexicana
47t Dusseldorf, German	3	1	LTU International
47t Guangzhou, China	3	1	China Southern
47t Sao Paulo, Brazil	3	1	Korean Air
50 Ixtapa	2	1	Alaska
51t Apia, Samoa	1	1	Air New Zealand
51t Manzanillo, Mexico	1	1	Alaska
51t Rarotongo, So. Pacific	1	1	Air New Zealand
Total Weekly Flights	823		

Sources: Official Airline Guide (Week of September 12-18, 2009).

Prepared by Ricondo & Associates, Inc., September 2009.



• 53 International Markets Served With 823 Weekly Flights

Source: Official Airline Guide, Inc., September 12 – September 18, 2009.
 Prepared by: Ricondo & Associates, Inc., September 2009.

Exhibit II-9

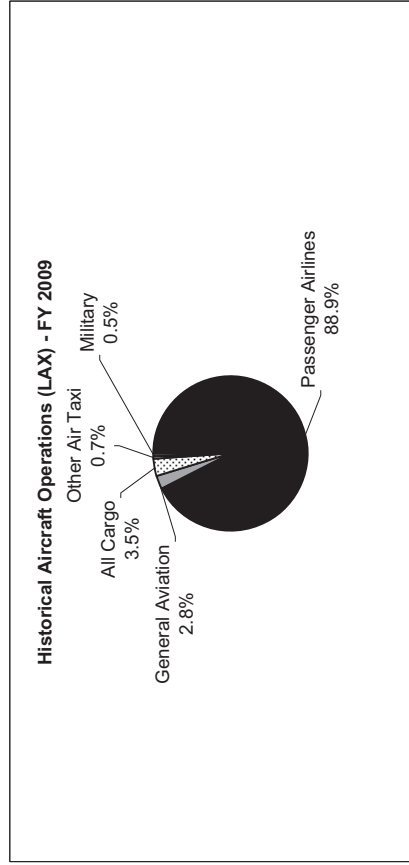
Nonstop International Markets

Table II-20

Historical Aircraft Operations - LAX

Fiscal Year	U.S. Carriers	Foreign Flag Carriers	Airline Total	General Aviation	All Cargo	Other Air Taxi	Military	Total
1999	624,110	70,376	694,486	18,430	33,918	13,330	2,664	762,828
2000	633,404	74,516	707,920	18,292	36,756	16,388	2,552	781,908
2001	647,792	78,744	726,536	17,787	36,110	13,728	1,968	796,129
2002	528,750	66,650	595,400	15,188	31,694	12,818	2,315	657,415
2003	506,940	71,834	578,774	16,379	25,834	18,208	2,239	641,434
2004	496,712	74,376	571,088	14,709	25,344	22,740	2,806	636,687
2005	506,418	80,808	587,226	14,040	27,100	22,605	2,852	653,823
2006	498,930	81,476	580,406	16,116	26,272	25,582	2,488	650,864
2007	510,210	74,918	585,128	15,624	25,232	35,037	2,488	663,509
2008	526,662	80,706	607,368	18,239	22,530	28,886	2,758	679,781
2009	447,370	73,044	520,414	15,758	19,414	3,842	2,561	561,989

Compounded Annual Growth Rate	1999 - 2001	2001 - 2002	2002 - 2008	2008 - 2009	1999 - 2009
	1.9% (18.4%)	5.8% (15.4%)	2.3% (18.0%)	3.2% (15.1%)	2.2% (14.1%)
	(0.1%)	3.2% (9.5%)	0.3% (14.3%)	(5.5%) (13.8%)	(17.4%) (17.3%)
	(15.1%)	0.4% (3.3%)	(2.8%)	(5.4%)	(3.0%)



Sources: City of Los Angeles, Department of Airports, June 2009.
Prepared by: Ricondo & Associates, Inc., August 2009.

Passenger airline activity at the Airport increased at a CAGR of 2.3 percent between FY 1999 and FY 2001, from 694,486 operations to 726,536 operations during this period. After increasing through FY 2001, passenger airline activity at the Airport steadily decreased through FY 2004. AirTran's initiation of service at the Airport, as well as expanded service by American and Mexicana, fueled an increase in activity in FY 2005. Passenger airline operations increased at a CAGR of 1.6 percent between FY 2004 and FY 2008, reaching 607,368 operations in FY 2008. By comparison, the FAA estimates that combined air carrier and air taxi/commuter operations nationwide decreased at a CAGR of 0.4 percent between FY 2004 and FY 2008. As discussed above, cutbacks in passenger airline capacities and the economic environment resulted in a decrease in passenger airline activity from 607,368 operations in FY 2008 to 520,414 operations in FY 2009, a 14.3 percent decrease during this period.

General aviation activity at the Airport was relatively stable between FY 1999 and FY 2009. This activity accounted for only 2.4 percent of total operations at the Airport during this time. The majority of general aviation activity in the Air Trade Area is accommodated at Van Nuys Airport (VNY), ranked as the busiest general aviation airport in the world by averaging approximately 400,000 operations annually.

Activity by all-cargo carriers at the Airport increased from 33,918 operations in FY 1999 to 36,110 in FY 2001, a CAGR of 3.2 percent during this period. Activity by all-cargo carriers at the Airport then decreased from 36,110 operations in FY 2001 to 25,344 in FY 2004, a compounded annual decrease of 11.1 percent during this period. Thereafter, activity by this user group was relatively stable between FY 2004 and FY 2007, with a low of 25,232 in FY 2007 to a high of 27,100 in FY 2005. All-cargo activity at the Airport decreased from 25,232 operations in FY 2007 to 22,530 in FY 2008 and then to 19,414 in FY 2009. High fuel prices and a weak economy lead to the reduction in all-cargo operations from FY 2008 to FY 2009. During this period all-cargo operations decreased 13.6 percent. Between FY 2004 and FY 2009 all-cargo operations have decreased at a CAGR of 2.9 percent.

In recent years (FY 2004 to FY 2008), activity by other air taxi operators (i.e., for-hire charters, fixed base operators, etc.) averaged approximately 27,000 operations per year between FY 2004 and FY 2008. Due to the inherent volatility in this type activity, the economic environment, and high fuel prices, other air taxi activity at the Airport decreased to a low of 3,842 operations in FY 2009.

Military activity at the Airport was relatively stable between FY 1999 and FY 2009, averaging approximately 2,500 operations per year during this period.

2.5.4 Historical Landed Weight

Table II-21 presents landed weight for passenger airlines and all-cargo carriers at the Airport between FY 1999 and FY 2009. As shown, landed weight for passenger airlines increased from 52,113,537 thousand pounds in FY 1999 to 56,668,681 thousand pounds in FY 2001, a CAGR of 4.3 percent during this period. After decreasing to 47,275,807 thousand pounds in FY 2004, landed weight for passenger airlines at the Airport remained relatively stable through FY 2008, averaging 47,355,059 thousand pounds between FY 2004 and FY 2008. Decreases in capacity resulted in landed weight for passenger airlines at the Airport decreasing from 47,722,011 thousand pounds in FY 2008 to 42,963,705 thousand pounds in FY 2009, a 10.0 percent decrease during this period. As also shown, landed weight for all-cargo carriers at the Airport increased from 5,744,879 thousand pounds in FY 1999 to 6,181,982 thousand pounds in FY 2001, a CAGR of 3.7 percent during this

Table II-21
Historical Landed Weight (thousand pounds) - LAX

Fiscal Year	Domestic		Regionals/ Commuters	International		Total		All Cargo	Airport Total
	Majors/Nationals	U.S. Flag Carriers		Foreign Flag Carriers	Passenger Airlines				
Historical									
1999	33,529,789	3,305,432	2,443,970	12,834,346	52,113,537	5,744,879	57,858,416		
2000	35,617,724	3,543,958	2,439,000	13,334,014	54,934,696	6,339,188	61,273,884		
2001	36,444,924	3,838,119	2,471,002	13,914,636	56,668,681	6,181,982	62,850,663		
2002	29,662,754	3,644,358	2,403,093	11,927,996	47,638,201	5,841,024	53,479,225		
2003	28,821,535	2,352,102	2,664,517	13,633,282	47,471,436	4,325,572	51,797,008		
2004	28,456,279	2,256,763	2,567,616	13,995,149	47,275,807	4,290,136	51,565,943		
2005	27,569,570	2,570,214	2,682,342	14,708,859	47,530,985	4,696,906	52,227,891		
2006	26,497,228	2,634,517	2,719,157	15,074,170	46,925,072	4,878,126	51,803,198		
2007	26,677,762	2,843,496	2,954,684	14,845,477	47,321,419	4,964,390	52,285,809		
2008	26,130,346	2,732,947	3,639,478	15,219,240	47,722,011	4,376,934	52,098,945		
2009	24,387,381	2,121,612	2,704,501	13,750,211	42,963,705	3,735,442	46,699,147		
Compounded									
Annual Growth Rate									
1999 - 2001	4.3%	7.8%	0.6%	4.1%	4.3%	3.7%	4.2%		
2001 - 2002	(18.6%)	(5.0%)	(2.7%)	(14.3%)	(15.9%)	(5.5%)	(14.9%)		
2002 - 2008	(2.1%)	(4.7%)	7.2%	4.1%	0.0%	(4.7%)	(0.4%)		
2008 - 2009	(6.7%)	(22.4%)	(25.7%)	(9.7%)	(10.0%)	(14.7%)	(10.4%)		
1999 - 2009	(3.1%)	(4.3%)	1.0%	0.7%	(1.9%)	(4.2%)	(2.1%)		

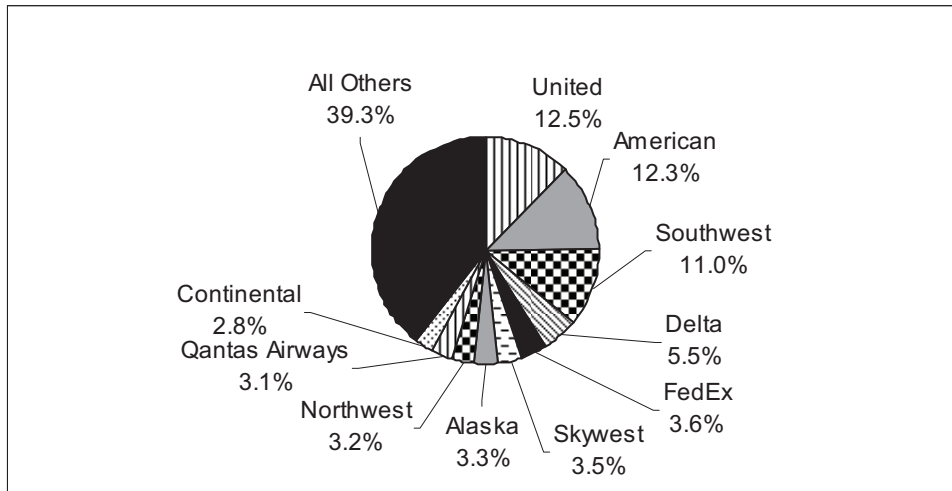
Sources: City of Los Angeles, Department of Airports, June 2009.
Prepared by: Ricondo & Associates, Inc., August 2009.

period. After decreasing to 4,290,136 thousand pounds in FY 2004, all-cargo landed weight steadily increased to 4,965,020 thousand pounds by FY 2007. All-cargo landed weight at the Airport decreased to 4,376,934 thousand pounds in FY 2008 and then to 3,735,442 thousand pounds in FY 2009. From FY 2002 to FY 2009, all-cargo landed weight decreased at a CAGR of 6.2 percent.

Table II-22 presents the share of landed weight by passenger airlines and all-cargo carriers at the Airport between FY 2005 and FY 2009. As shown, four airlines (United, American, Southwest, and Delta) accounted for 40.1 percent to 42.0 percent of total landed weight at the Airport during this period. Four other airlines accounted for an additional 13.1 percent to 13.6 percent of landed weight between FY 2005 and FY 2009. FedEx accounted for the highest share of landed weight among all-cargo carriers at the Airport during each of the years shown, averaging approximately 1,837,500 thousand pounds of landed weight between FY 2005 and FY 2009. **Exhibit II-10** below presents airline shares of landed weight at the Airport for FY 2009.

Exhibit II-10

Landed Weight by Airline (LAX) – FY 2009



Source: City of Los Angeles, Department of Airports, June 2009
Prepared by: Ricondo & Associates, Inc., June 2009.

2.5.5 Historical Cargo Activity

As discussed earlier, the Airport ranked 13th worldwide and 5th nationwide in total cargo handled with approximately 1.6 million enplaned and deplaned tons in CY 2008.⁹ **Table II-23** presents historical enplaned and deplaned cargo handled at the Airport between FY 1999 and FY 2009. As shown, total cargo increased from 2,085,776 tons in FY 1999 to 2,145,062 tons in FY 2001, a CAGR of 1.4 percent during this period. As a result of the events of September 11, 2001 and an economic slowdown, total cargo decreased 12.2 percent in FY 2002. Thereafter, it steadily increased from 1,882,391 tons in FY 2002 to 2,136,373 tons in FY 2005, a CAGR of 4.3 percent during this period.

⁹ *ACI Traffic 2008*, Airports Council International (dated July 28, 2009).

Los Angeles World Airports
Los Angeles International Airport

Table II-22

Historical Landed Weight by Airline (000 pounds) - LAX ^{1/}

Airline	FY 2005			FY 2006			FY 2007			FY 2008			FY 2009		
	Landed Weight	Share		Landed Weight	Share		Landed Weight	Share		Landed Weight	Share		Landed Weight	Share	
1 United	7,255,290	13.9%		7,261,268	14.0%		7,144,632	13.7%		6,558,553	12.6%		5,765,733	12.5%	
2 American	6,530,522	12.5%		6,224,562	12.0%		6,342,564	12.1%		6,203,061	11.9%		5,667,801	12.3%	
3 Southwest	4,880,226	9.3%		5,004,196	9.7%		4,982,430	9.5%		5,092,746	9.8%		5,068,050	11.0%	
4 Delta ^{2/}	3,277,142	6.3%		2,990,123	5.8%		3,116,374	6.0%		3,033,961	5.8%		2,549,234	5.5%	
5 FedEx	1,956,507	3.7%		1,936,856	3.7%		1,876,769	3.6%		1,775,030	3.4%		1,642,089	3.6%	
6 Skywest	1,579,730	3.0%		1,641,276	3.2%		1,752,097	3.4%		1,787,682	3.4%		1,634,395	3.5%	
7 Alaska	1,747,446	3.3%		1,714,678	3.3%		1,830,572	3.5%		1,684,252	3.2%		1,530,621	3.3%	
8 Northwest ^{2/}	1,644,806	3.1%		1,700,969	3.3%		1,652,306	3.2%		1,572,800	3.0%		1,458,649	3.2%	
9 Qantas Airways	1,338,635	2.6%		1,409,692	2.7%		1,435,397	2.7%		1,442,048	2.8%		1,434,230	3.1%	
10 Continental	1,292,606	2.5%		1,329,656	2.6%		1,421,707	2.7%		1,387,393	2.7%		1,286,565	2.8%	
11 US Airways	1,797,267	3.4%		1,552,496	3.0%		1,480,577	2.8%		1,315,542	2.5%		1,231,410	2.7%	
12 Korean	1,166,751	2.2%		1,147,742	2.2%		1,117,802	2.1%		1,138,390	2.2%		1,138,866	2.5%	
13 Virgin America	-	-		-	-		-	-		520,530	1.0%		923,066	2.0%	
14 Mexicana	871,919	1.7%		955,836	1.8%		842,123	1.6%		844,061	1.6%		807,107	1.7%	
15 Cathay Pacific Airways	693,234	1.3%		909,054	1.8%		926,376	1.8%		930,340	1.8%		747,759	1.6%	
16 Eva Airways	749,455	1.4%		793,100	1.5%		776,928	1.5%		769,663	1.5%		666,451	1.4%	
17 China	685,498	1.3%		719,650	1.4%		728,974	1.4%		738,316	1.4%		650,588	1.4%	
18 British Airways	515,340	1.0%		594,090	1.1%		594,090	1.1%		679,770	1.3%		634,410	1.4%	
19 Air New Zealand	860,046	1.6%		851,797	1.6%		732,190	1.4%		740,537	1.4%		628,380	1.4%	
20 Asiana	451,044	0.9%		371,940	0.7%		383,990	0.7%		570,672	1.1%		620,966	1.3%	
Other	12,934,427	24.8%		12,694,217	24.5%		13,147,911	25.1%		13,313,598	25.6%		10,112,777	21.9%	
Airport Total ^{3/}	52,227,891	100.0%		51,803,198	100.0%		52,285,809	100.0%		52,098,945	100.0%		46,199,147	100.0%	

Notes:

1/ For those airlines that were party to a merger or acquisition, only the surviving entity is presented in this table. However, the combined activity for the airlines that are now a part of the surviving airline is included in the information presented. Airlines are ranked by FY 2009 activity in descending order.

2/ In October 2008, Delta and Northwest's merger was approved by the U.S. Department of Justice. The merged carriers are expected to transition to a single operating certificate by the end of 2009.

3/ Totals may not add due to individual rounding.

Sources: City of Los Angeles, Department of Airports, June 2009.
Prepared by: Ricondo & Associates, Inc., June 2009.

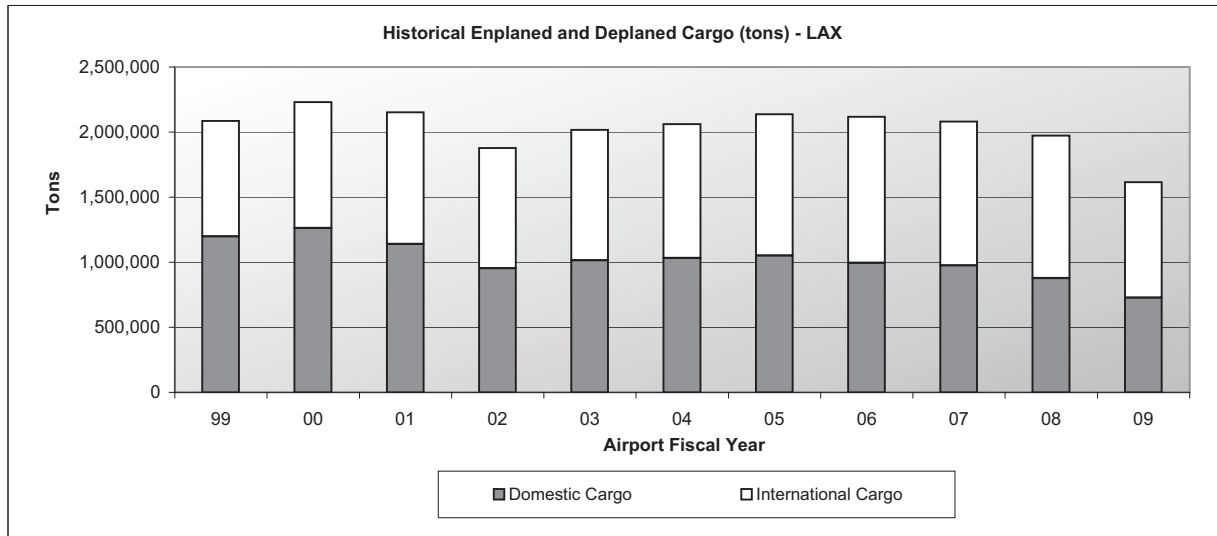
Table II-23

Historical Enplaned and Deplaned Cargo (tons) - LAX

Fiscal Year	Domestic Cargo	Annual % Change	International Cargo	Annual % Change	Total Cargo	Annual % Change
1999	1,197,765	-	888,012	-	2,085,776	-
2000	1,263,279	5.5%	965,904	8.8%	2,229,183	6.9%
2001	1,112,803	(11.9%)	1,032,259	6.9%	2,145,062	(3.8%)
2002	953,264	(14.3%)	929,127	(10.0%)	1,882,391	(12.2%)
2003	1,015,712	6.6%	1,001,045	7.7%	2,016,757	7.1%
2004	1,032,947	1.7%	1,028,893	2.8%	2,061,840	2.2%
2005	1,051,046	1.8%	1,085,327	5.5%	2,136,373	3.6%
2006	994,637	(5.4%)	1,122,527	3.4%	2,117,164	(0.9%)
2007	975,734	(1.9%)	1,105,899	(1.5%)	2,081,633	(1.7%)
2008	877,455	(10.1%)	1,095,273	(1.0%)	1,972,728	(5.2%)
2009	728,705	(17.0%)	886,609	(19.1%)	1,615,315	(18.1%)

Compounded
Annual Growth Rate

1999 - 2001	(3.6%)	7.8%	1.4%
2001 - 2002	(14.3%)	(10.0%)	(12.2%)
2002 - 2008	(3.9%)	1.0%	(1.4%)
2008 - 2009	(17.0%)	(19.1%)	(18.1%)
1999 - 2009	(4.8%)	(0.0%)	(2.5%)



Sources: City of Los Angeles, Department of Airports, June 2009.
Prepared by: Ricondo & Associates, Inc., August 2009.

As also presented in Table II-23, cargo volumes at LAX decreased slightly in FY 2006 (a 0.9 percent decrease year-over-year) and in FY 2007 (a 1.7 percent decrease year-over-year). Cargo volumes at the Airport continued to decline in FY 2008 and in FY 2009, with an additional 5.2 percent decrease from FY 2007 and an 18.1 percent decrease from FY 2008. Similar to the passenger airlines, the air cargo industry has been impacted in recent years by the global economy, increasing fuel costs, continued declines in the value of the U.S. dollar, uncertainties in the Middle East, and new security regulations. The worldwide gross domestic product remains the primary driver for air cargo industry growth. As a leading economic indicator, air cargo traffic growth has slowed, or even decreased in certain markets (including LAX) in recent years, both from the increased prices of jet fuel since 2006 (particularly since late 2007), and the more recent U.S. economic recession.

2.6 Factors Affecting Aviation Demand and the Airline Industry

This section discusses qualitative factors that could influence future aviation activity at the Airport. While data and/or information related to these factors have not specifically been incorporated into the projections of Airport activity discussed in Section 2.7 (e.g., jet fuel prices), these factors were indirectly considered and analyzed in developing the projections.

2.6.1 National Economy

Air travel demand is directly correlated to consumer income and business profits. As consumer income and business profits increase, so does demand for air travel. In 2008, the combination of declines in construction activity, losses in housing-related securities, rising oil prices and a falling stock market eventually tipped the economy into recession. The nation's non-seasonally adjusted unemployment rate rose from 5.4 percent in January 2008 to 7.1 percent in December 2008. In the first half of 2009, the nation's unemployment rate continued to increase and by August 2009, the nation's unemployment rate was at 9.7 percent. U.S. GDP remained positive or slightly negative for the first three quarters of 2008, before entering a sharp decline of 5.4 percent in the fourth quarter of 2008. Consumer and business spending began to decline sharply in the third quarter of 2008 and mounting stress in financial markets reached a breaking point in September 2008, triggering a decline in stock market wealth that further reduced consumer and business spending. This sharp decline continued into the first quarter of 2009 as the nation's GDP decreased for the third straight quarter at a rate of 6.4 percent. On July 31, 2009 the U.S. Department of Commerce's Bureau of Economic Analysis reported the GDP for the second quarter of 2009 decreased by a smaller rate of 1.0 percent when compared to the first quarter of 2009.

In February 2009, the federal government passed a \$787 billion package of tax cuts and new federal spending aimed at stimulating private sector economic activity. Despite a 6.4 percent decline in GDP in the first quarter of 2009, the latest forecasts from the Congressional Budget Office (CBO) project a return to slow economic growth nationwide by the fourth quarter of 2009.¹⁰

2.6.2 State of the Airline Industry

In 2008 and through the first half of 2009, the combination of record high fuel prices, weakening economic conditions, and a weak dollar have resulted in the worst financial environment for U.S. network and low-cost carriers since the September 11th terrorist attacks. Many of the domestic network competitors announced significant capacity reductions, increases in fuel surcharges, fares

¹⁰ Source: Congressional Budget Office, *Economic Projections*, available online at: <http://www.cbo.gov/budget/econproj.shtml>, last accessed, May 20, 2009.

and fees, and other measures to address the challenges. In the aftermath of September 11th, the industry saw a material adverse shift in the demand for air travel. The result was five years of reported industry operating losses, totaling more than \$28 billion dollars (excluding extraordinary charges and gains). Whereas the capacity reductions in the beginning of the century were the direct results of terror threats targeting the traveling public, the industry reductions started in late 2008 through the first half of 2009 were primarily driven by significant increases in fuel costs over a span of two and a half years, a weak dollar exacerbating the impact of increased fuel costs for U.S. carriers, and the contraction of the U.S. economy.

Following the restructuring years after September 11th, the industry finally gained ground in 2007 with virtually every U.S. carrier posting profits. In 2007, the major airlines had managed to restrain capacity in a growing economy. High fuel prices challenged margins, crowded out cost-saving initiatives, and a slowing U.S. economy weakened demand, even with restrained capacity growth.

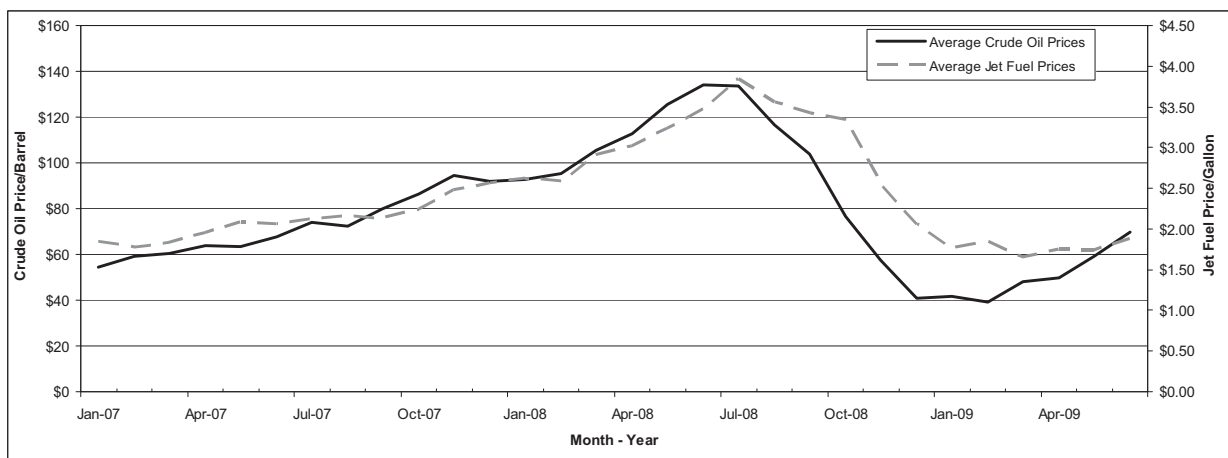
2.6.3 Cost of Aviation Fuel

The price of fuel is the most significant force affecting the airline industry today. The average price of jet fuel was \$0.82 per gallon in 2000 compared to \$3.07 in 2008, an increase of 275 percent. According to the Air Transport Association (ATA), every one-cent increase in the price per gallon increases annual airline operating expenses by approximately \$190 million to \$200 million.

Also according to the ATA, U.S. airline fuel expense increased from \$16.4 billion in 2000 to \$57.8 billion in 2008, a CAGR of 16.7 percent during this period. The most significant annual increase in U.S. fuel expense during this period occurred in 2008, when fuel expenses increased from \$41.9 billion in 2007 to \$57.8 billion in 2008, a 37.9 percent increase. On July 11, 2008, oil prices rose to a new record of \$147 per barrel following concerns over Iranian missile testing. During the remaining months of 2008 oil prices declined from their July peak and closed out the year at an average of approximately \$40 per barrel (December 2008). Exhibit II-11 shows the monthly averages of jet fuel and crude oil prices from January 2007 through June 2009. On July 31, 2009, the NYMEX crude future oil price per barrel closed near the \$71 per barrel range.

Exhibit II-11

Historical Monthly Averages of Jet Fuel and Crude Oil Prices



Source: Air Transport Association (ATA), August 2009.
Prepared by: Ricondo & Associates, Inc., August 2009.

In 1999, jet fuel accounted for nearly 10 percent of an airline's operating expenses and historically, fuel expense was the second highest operating expense for an airline behind labor. More recently, jet fuel has surpassed labor as an airlines' highest operating expense, according to the ATA. In 2008, fuel comprised approximately 30.6 percent of an airline's total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airlines' highest operating expense representing 25.8 percent of total operating expenses while fuel was at 21.3 percent. Despite the recent drops in jet fuel prices, the airlines still intend to follow through on plans to curtail capacity in the weak economy. According to *usatoday.com*, scheduled domestic capacity is still down 12.0 percent in September 2009 compared to the same month in 2007.¹¹

2.6.4 Airline Seat Capacity Reductions

Domestic airline seat capacity in the first half of CY 2009 compared to the same period in 2008 decreased 9.1 percent nationwide, based on the top domestic carriers.¹² Total domestic seats for these carriers decreased by 40.9 million seats from approximately 452.0 million in the first half of 2008 to 411.1 million in 2009. The legacy and other major carriers' domestic seat capacity has decreased by 9.4 percent. Low cost carriers have reduced domestic seat capacity during the first half of 2009 compared to the same period in 2008 by 5.3 percent.

2.6.5 Airport Security

With enactment of the Aviation and Transportation Security Act (ATSA) in November 2001, the Transportation Security Administration (TSA) was created and established different and improved security processes and procedures. The ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. The act also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. The federal government controls aviation industry security requirement, which can significantly impact the economics of the industry. Security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand.

2.6.6 Threat of Terrorism

As has been the case since September 11th, the recurrence of terrorism incidents against either domestic or world aviation during the projection period remains a risk to achieving the activity projections contained herein. Any terrorist incident aimed at aviation would have an immediate and significant adverse impact on the demand for aviation services.

¹¹ Source: <http://www.usatoday.com/travel/flights/airline-capacity-map.htm>. The data reflect what airlines had reported to Official Airline Guide (OAG) regarding their September schedules as of July 7, 2009.

¹² The following carriers and their affiliates were used in this analysis: AirTran, Alaska, Aloha, American, ATA, Continental, Delta, ExpressJet, Frontier, Hawaiian, jetBlue, Midwest, Northwest, Southwest, Spirit, United, US Airways, and Virgin America. These 18 carriers represent 98.4 percent of total domestic seats in the first half of 2009.

2.6.7 Other Factors Affecting the Airport

2.6.7.1 Stipulated Settlement

In December 2004, the Board of Airport Commissioners and the City Council of the City of Los Angeles adopted a comprehensive development program for the Airport, by way of adopting a LAX Master Plan (also known as Alternative D), the City's general plan for the Airport known as the LAX Plan, and the LAX Specific Plan. The LAX Specific Plan is the implementing ordinance that establishes zoning and land use regulations and procedures for the processing of future specific projects and activities anticipated under the LAX Master Plan. The LAX Specific Plan calls for a Specific Plan Amendment Study (SPAS) to comprehensively address security, traffic, aviation activity and corresponding environmental analysis for, among other things, certain capital projects.

On February 17, 2006, a Stipulated Settlement (Settlement) was reached in connection with litigation commenced by the Cities of El Segundo, Inglewood, and Culver City, the County of Los Angeles, and the Alliance for a Regional Solution to Airport Congestion against the Department, the City of Los Angeles, the City Council, the Mayor, and the Board of Airport Commissioners, challenging their approval of the LAX Master Plan. The Settlement sets forth in greater detail the requirements of SPAS, as called for by the LAX Specific Plan. The Settlement also provides that the Department may operate no more than 163 gates at the Airport. Additionally, the Department will discontinue passenger operations at 10 narrow body-equivalent gates at the rate of two gates per year starting in 2010. By December 31, 2015, the total number of gates at the Airport shall be reduced to no more than 153 gates. These reductions will be achieved through the build out of improved contact passenger gate facilities and the elimination of remote gate facilities as approved in the FAA's Record of Decision issued in connection with the LAX Master Plan. The requirement to reduce gates will remain in effect until December 31, 2020. If the Airport does not reach the 75 MAP activity level (the Airport had approximately 56.7 MAP in FY 2009) or the LAX Master Plan is substantially revised pursuant to the SPAS process such that the total number of gates at LAX is reduced to 153 gates or less, then no reduction in gates is necessary.

The projections of Airport activity reflected in this report through FY 2016 are consistent with and/or fall within the requirements and limitations of the Settlement.

2.6.7.2 Constraints at Other Area Airports

In addition to the factors affecting the airline industry and the Settlement discussed above, certain constraints at other airports in the Air Trade Area may have an effect on enplanements at the Airport. Some of these constraints are discussed below.

Beginning in 1968, Orange County, the owner and operator of SNA, became the defendant in numerous civil damage actions where individuals residing to the south of SNA claimed damage and injury to their persons and property, alleged to be caused by the noise and other environmental effects of aircraft operations at SNA. To end the litigation, both parties reached the Airport Settlement Agreement of 1985 (SNA Agreement). The SNA Agreement limited virtually every aspect of operations at SNA, including a passenger limit of 8.4 MAP, caps on daily flights and aircraft types, limits on terminal size and public parking spaces, number of loading bridges, and hours of operation. In 2002, the limit on passengers was increased to 10.3 MAP effective January 1, 2003 and to 10.8 MAP in 2011 until December 31, 2015.

In an effort to resolve protracted litigation, the City of Long Beach and the airlines entered into a stipulated settlement agreement in 1995. Under the settlement, the Long Beach City Council adopted the current Airport Noise Compatibility Ordinance (Ordinance). One component of the Ordinance permits air carriers to operate 41 flights per day and commuter carriers to operate 25 flights per day at LGB. These operational levels equate to a capacity of approximately 4.2 MAP (LGB reached approximately 2.9 MAP in CY 2008). These operational activity levels may be increased so long as flights operate at or below annual noise budgets for each class of operator.

In February 2005, the City of Burbank and the Burbank-Glendale-Pasadena Airport Authority (Authority), the owner and operator of BUR, entered into an Airport Development Agreement (BUR Agreement). The BUR Agreement outlines development guidelines for BUR over the next 10 years, including (1) the City of Burbank will not change its zoning for BUR so that the Authority may meet its facility needs consistent with that zoning for a period of seven years; (2) the Authority will not build a new passenger terminal for 10 years and will not enlarge the current terminal during the term of the BUR Agreement; and (3) the City of Burbank and the Authority will jointly develop a strategy for addressing the desire for nighttime airport noise relief consistent with federal laws and procedures.

2.7 Projections of Airport Activity

Projections of aviation demand at the Airport (discussed in Sections 2.7.1, 2.7.2, and 2.7.3 below) were developed after analyzing several different projection methodologies. **Table II-24** describes the various projection methodologies analyzed for both the Near-Term (FY 2010) and the Longer-Term (FY 2011 to FY 2016). Table II-24 also compares the projected enplanement growth rates under each methodology and indicates which specific methodologies were ultimately used in the final projection of enplanements for purposes of this report and the financial tables accompanying Chapter 4.

The specific projections of Airport activity ultimately used for purposes of this report (as reflected below in Sections 2.7.1, 2.7.2, and 2.7.3) and the financial tables accompanying Chapter 4 are based on (1) the incorporation of specific methodologies described herein and on Table II-24 and (2) a number of specific assumptions that are further based on national aviation trends, regional economic conditions, and the professional judgment of R&A. Specific assumptions regarding projected Airport enplanements, operations, and landed weight are described below in Sections 2.7.1, 2.7.2, and 2.7.3. In addition, general assumptions that were incorporated in the projections of Airport activity through FY 2016 include:

- The underlying economic conditions of the Air Trade Area are anticipated to drive future demand for O&D air travel at the Airport. Economic conditions in the Air Trade Area and for the nation are expected to improve in calendar year 2010 resulting in positive growth for Airport activity in FY 2011. Economic conditions are expected to fluctuate during the projection period, including the fluctuations in fuel prices (among other things), and will cause year-to-year traffic variations. However, a long-term increase in Airport and nationwide traffic is expected to occur during the projection period.
- The Airport will continue to provide nonstop service to a high percentage of its primary O&D markets. The composition of its air carrier base will also continue to foster competitive pricing and scheduling diversity. O&D passengers will continue to account for a high percentage of enplanements at the Airport, for both domestic and international activity.

Table II-24

Enplanement Projection Methodologies Analyzed and Incorporated

NEAR-TERM PROJECTION (FY 2010):

Methodology	Description	Projected FY 2010 Enplanement Growth Rate	Status
1. Scheduled Departing Seats (OAG) Approach	Based on OAG schedules of departing seats and relationship with enplaned passengers (e.g., aircraft load factors).	(1.6%) Total (1.0%) Domestic (3.1%) International	This method was used as the final projection for FY 2010 enplanements

LONGER-TERM PROJECTION (FY 2011-FY 2016):

Methodology	Description	CAGR for FY 2009 - FY 2016 Enplanements	Status
1. Market Share Approach	Judgments of LAX share of total U.S. enplanements applied to FAA projections of U.S. enplanements (American Airlines, Southwest Airlines, United Airlines, and combined other airlines were analyzed individually)	+1.7% Total +1.5% Domestic +2.1% International	This method was used as the final projection for FY 2011 to FY 2016 enplanements
2. Regression Modeling Approach Using Socioeconomic Variables (including population, income, per capital income, and employment)	Coefficients produced by regressions are applied to projections of each of these socioeconomic variables to estimate long-term growth.	Range from +1.1% to +1.4% Total	Used as comparison benchmark
3. Trend Analysis	Relies on historical time series data to predict the future	+1.3% Total	Used as comparison benchmark

Source: Ricondo & Associates, Inc., September 2009.

Prepared by: Ricondo & Associates, Inc., September 2009.

- Activity at the Airport will continue to be served over a broad base of airlines, with no one or two airlines dominating in market shares of activity during the projection period.
- The demand for air service in the Air Trade Area will continue to be predominantly served through the Airport, particularly for international air traffic and nonstop travel to major medium- and long-haul markets (e.g., New York, Chicago, Honolulu, and Washington, D.C.), as well as the high demand for travel in the West Coast corridor.
- The Airport will continue to accommodate the majority of the air passenger demand generated in the Air Trade Area. Capacity and/or legal constraints will continue to limit expansion at LGB and SNA. Regional redistribution of passenger demand from the Airport will most likely occur at the under-utilized LA/ONT (which is located in an area with growing population and number of businesses) and, to a certain extent, at BUR.
- It is assumed that air traffic at the Airport will not rebound immediately to prior levels after the economy recovers because of the absence of significant price cuts that have occurred following past downturns. Following previous economic downturns (e.g. the recessions in 1991 and 2001), the carriers helped to recover and stimulate passenger demand by reducing their fares sharply. The industry's response to the current economic downturn, however, has been to better match supply (seats) and demand (passengers) by only modestly cutting fares and dramatically reducing capacity.
- International traffic growth at the Airport will experience a larger decline in FY 2010 relative to domestic traffic, but following FY 2010 will outpace domestic traffic growth consistent with historical trends.
- Airline consolidation/mergers (including Delta/Northwest) or bankruptcies that may occur during the projection period are not likely to negatively impact passenger activity levels at the Airport due to its high percentage of O&D passengers.
- New airline alliances, should they develop, will be restricted to code sharing and joint frequent flyer programs, and should not reduce airline competition at the Airport.
- Volatile fuel prices and the U.S. recession in the short term will likely have an adverse impact on airline profitability, as well as hamper the recovery plans and cost-cutting efforts of certain airlines. These factors may cause changes in air service at the Airport; however, the passenger demand for its major O&D markets will continue to be served during the projection period.
- The Airport is located in a seismically active region of the State of California. During the past 150 years, the Los Angeles region has experienced several major and minor earthquakes. Although an earthquake(s) may occur during the projection period, it will not be of a magnitude to disrupt service at the Airport.¹³
- For these analyses, and similar to the assumptions underlying the FAA's nationwide projections, it is assumed that no major security or terrorist incidents will occur during the projection period that negatively impact aviation demand.

¹³ On January 17, 1994, the Los Angeles region experienced an earthquake that measured 6.7 on the Richter Scale. There was no disruption of service at the Airport from this event.

For these projections, it is generally assumed that the lowest levels of aviation activity at the Airport during the projection period will occur in FY 2010. In FY 2011, it is assumed that Airport aviation activity will increase over FY 2010 levels, although at a relatively lower level of growth. The growth rates are projected to increase somewhat in FY 2012 with growth rates stabilizing through the end of the projection period.

It is important to note that the projections of aviation activity discussed below in Sections 2.7.1, 2.7.2, and 2.7.3 are intended for financial feasibility purposes, and reflect a conservative, yet reasonably realistic view of future activity levels at the Airport. As presented in the following sections, the activity projections provided herein for the Airport are more conservative when compared to the nationwide projections prepared by the FAA in April 2009. The FAA's annual forecasts for the nation are prepared for federal budgeting and planning purposes and, therefore, can result in higher activity projections than those prepared by Feasibility Consultants for studies such as this report.

Many of the factors influencing aviation demand cannot necessarily or readily be quantified, and any projection is subject to uncertainties. As a result, neither the projections of Airport activity reflected in this report nor the projection process should be viewed as precise. Actual future Airport activity levels may differ substantially from projections presented herein because of unforeseen events.

2.7.1 Projected Enplanements

Table II-25 presents historical and projected enplanements at the Airport. Specific assumptions and points regarding projected enplanements for the Near-Term (FY 2010) and the Longer-Term (FY 2011 to FY 2016) are discussed below.

2.7.1.1 Projected Near-Term Enplanements—FY 2010

For projecting Near-Term enplanements at the Airport, a “scheduled departing seats” methodology was utilized. In this approach, airline schedule information provided from Official Airline Guide, Inc. data was analyzed, as well as service announcements, and industry information regarding further reductions in seating capacity for calendar year 2009, to project future Airport activity for FY 2010.

Based on discussions with Official Airline Guide, Inc., scheduled airline seat data can be considered reliable from three to six months in the future. The quality of scheduled data represented for future months farther out than six months tends to be understated, as airlines are still in the planning/design process for intermediate and future schedules. During this timeframe, airlines are still determining where to fly, frequencies, flight times, aircraft assignments, and routes. As a result, R&A limited the scheduled departing seat analysis to the first half of FY 2010 in comparison to a similar period in FY 2009. Individual analyses for domestic service were conducted for American, Southwest, United, other major/national airlines, and regionals/commuters; and individual analyses for international service were conducted for U.S. airlines and foreign flag carriers. This bottom-up approach resulted in the projections of Near-Term enplanements, as discussed below.

Based on scheduled departing seats for the first half of FY 2010 compared to a similar period in FY 2009, domestic passenger activity at the Airport is expected to decrease by 1.0 percent in FY 2010 from FY 2009 levels, from 20.7 million enplanements in FY 2009 to 20.5 million in FY 2010. However, recovery in domestic passenger activity at the Airport is expected during the latter part of

Los Angeles World Airports
Los Angeles International Airport

Table II-25
Enplanement Projections - LAX

Fiscal Year	Domestic Majors/Nationals	Regionals/Commuters	Total Domestic	International U.S. Flag Carriers	International Foreign Flag Carriers	Total International	Airport Total	Annual % Change
Historical								
1999	22,162,103	1,573,999	23,736,102	1,634,775	6,114,584	7,749,359	31,485,461	-
2000	23,370,480	1,510,247	24,880,727	1,705,862	6,645,133	8,350,995	33,231,722	5.5%
2001	23,421,360	1,539,395	24,960,755	1,801,060	7,078,154	8,879,214	33,839,969	1.8%
2002	19,202,331	1,581,486	20,783,817	1,369,295	5,978,549	7,347,844	28,131,661	(16.9%)
2003	18,567,188	1,873,916	20,441,104	1,332,111	5,937,113	7,269,224	27,710,328	(1.5%)
2004	19,254,785	1,987,075	21,241,860	1,423,386	6,414,601	7,837,987	29,079,847	4.9%
2005	20,169,841	1,973,601	22,143,442	1,604,210	6,800,599	8,404,809	30,548,251	5.0%
2006	19,986,545	2,044,152	22,030,697	1,657,549	6,966,900	8,624,449	30,655,146	0.3%
2007	20,131,051	2,243,282	22,374,333	1,765,060	6,664,077	8,429,137	30,803,470	0.5%
2008	19,791,301	2,636,078	22,427,379	1,902,462	6,812,498	8,714,960	31,142,339	1.1%
2009	18,669,996	1,992,554	20,662,550	1,503,705	6,162,723	7,666,428	28,328,978	(9.0%)
Projected								
2010	18,582,600	1,871,000	20,453,600	1,440,500	5,990,200	7,430,700	27,884,300	(1.6%)
2011	18,797,700	1,924,400	20,722,100	1,503,500	6,184,000	7,687,500	28,409,600	1.9%
2012	19,172,100	1,983,700	21,155,800	1,575,800	6,411,900	7,987,700	29,143,500	2.6%
2013	19,487,700	2,048,300	21,536,000	1,650,000	6,617,800	8,267,800	29,803,800	2.3%
2014	19,947,000	2,097,300	22,044,300	1,726,000	6,750,500	8,476,500	30,520,800	2.4%
2015	20,339,600	2,135,900	22,475,500	1,803,900	6,857,700	8,661,600	31,137,100	2.0%
2016	20,762,100	2,169,900	22,932,000	1,883,600	6,959,500	8,843,100	31,775,100	2.0%
Compounded Annual Growth Rate								
1999 - 2001	2.8%	(1.1%)	2.5%	5.0%	7.6%	7.0%	3.7%	
2001 - 2002	0.2%	1.9%	0.3%	5.6%	6.5%	6.3%	1.8%	
2002 - 2008	0.5%	8.9%	1.3%	5.6%	2.2%	2.9%	1.7%	
2008 - 2009	(5.7%)	(24.4%)	(7.9%)	(21.0%)	(9.5%)	(12.0%)	(9.0%)	
2009 - 2010	(0.5%)	(6.1%)	(1.0%)	(4.2%)	(2.8%)	(3.1%)	(1.6%)	
2010 - 2016	1.9%	2.5%	1.9%	4.6%	2.5%	2.9%	2.2%	
2009 - 2016	1.5%	1.2%	1.5%	3.3%	1.8%	2.1%	1.7%	

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., September 2009.
Prepared by: Ricondo & Associates, Inc., September 2009.

FY 2010 as economic conditions in the Air Trade Area and nationwide are expected to improve. As discussed below in Section 2.7.1.2, this recovery starting in the latter part of FY 2010 is expected to lead to positive growth in domestic passengers for FY 2011, with positive growth in the remaining years of the projection period as well.

During FY 2008, certain legacy carriers at the Airport focused more on growth and expansion in the (then) more profitable international markets; however, the severity of the economic recession worldwide resulted in a decrease in demand such that carriers were forced to reduce capacity in these markets, resulting in decreased international passenger activity in FY 2009 from FY 2008 levels (a 12.0 percent decrease during this period). International passenger activity at the Airport is expected to further decrease by 3.1 percent in FY 2010 from FY 2009 levels, from 7.7 million enplanements in FY 2009 to 7.4 million in FY 2010. Similar to domestic activity, however, recovery in international passenger activity is expected at the Airport during the latter part of FY 2010, which leads to positive growth projected for FY 2011 and the remainder of the projection period (as discussed in Section 2.7.1.2).

2.7.1.2 Longer-Term Projected Enplanements—FY 2011 to FY 2016

For projecting Longer-Term enplanements at the Airport, several methodologies were utilized and assessed for reasonableness:

- **Market Share Approach.** In this methodology, judgments are made as to how and to what extent the Airport's rate of growth will differ from that projected for the nation by the FAA. As discussed previously the FAA's forecasts are prepared for federal budgeting and planning purposes and as a result, are not as conservative as forecasts typically prepared for bond financial feasibility studies or for financial planning purposes. On a macro scale, the U.S. projection provides a growth base reflecting how industry traffic in general is anticipated to grow in the future. The growth rate used for the Airport can be reflected as an increase or decrease in its future share of the market. For projected domestic activity, this approach was used individually for American, United, and Southwest (airlines with the highest share of domestic enplanements at the Airport in FY 2008), as well as collectively for the remaining domestic airlines. A similar approach was used for projecting international activity individually for U.S. airlines and foreign flag carriers.
- **Socioeconomic Regression Approach.** Statistical linear regression modeling is used in this methodology, with local socioeconomic factors as the independent variable and enplanements as the dependent variable. Socioeconomic factors utilized in these analyses included population, income, per capita income, and employment.
- **Trend Analysis.** In this methodology, an equation is developed based on historical time series data that is used to calculate projections of activity. The only variable used in developing projections with trend analysis is time (year).

As shown on Table II-24, the market share approach was the ultimate methodology of choice for developing the Longer-Term projections of enplanements, with the other two approaches used as a comparison benchmark and as a test for reasonableness.

Based on points and assumptions discussed below, and following the expected decrease in passenger activity at the Airport in FY 2010, total enplanements at the Airport are projected to increase from 27.9 million in FY 2010 to 31.8 million in FY 2016, resulting in a CAGR of 2.2 percent during this period.

Longer-Term projections of individual components of total activity at the Airport are discussed below:

- Based on the actual increases in enplanements that occurred nationwide and at the Airport in FY 2004 (4.9 percent increase) and FY 2005 (5.0 percent increase) following the sharp decreases in FY 2002 and FY 2003, it is possible that Airport enplanement growth in FY 2011 could be higher than the 1.9 percent being projected in this report. However, given the severity of the impacts that have occurred in the State of California and the Air Trade Area including lower economic growth, increased unemployment, and a sharp downturn in the housing market, projected passenger enplanements at the Airport are assumed to recover at a lower rate than previously experienced following past U.S. recessions and as recently experienced at the Airport in FY 2004 and FY 2005.
- With the expected shifting of certain air service by the legacy carriers, regional/commuter domestic enplanements are projected to increase at a higher rate than the domestic major/national enplanements (CAGRs of 2.5 percent and 1.9 percent, respectively, between FY 2010 and FY 2016).
- It is expected that certain legacy carriers will re-focus their efforts on expansion and growth in international markets as the economy recovers worldwide. As a result, international enplanements by U.S. flag carriers are projected to increase at a higher rate than international enplanements by foreign flag carriers (CAGRs of 4.6 percent and 2.5 percent, respectively, between FY 2010 and FY 2016).
- Total international passenger activity at the Airport is expected to increase from 7.4 million in FY 2010 to 8.8 million in FY 2016. This results in a CAGR of 2.9 percent for the period FY 2010 to FY 2016.

2.7.2 Projected Operations

Table II-26 presents historical and projected aircraft operations for passenger airlines, general aviation, all-cargo carriers, other air taxi operators, and military. Based on expectations of continued cutbacks in passenger airline capacities (although at a lower rate than in FY 2009), total operations at the Airport are expected to decrease further to 545,700 operations in FY 2010, a 2.9 percent decrease from FY 2009 levels. Following an expected recovery from the slowed nationwide economy in the latter part of FY 2010, total aircraft activity at the Airport is projected to increase from 545,700 operations in FY 2010 to 588,340 operations in FY 2016, a CAGR of 1.3 percent during this period.

Following a 3.2 percent decrease in passenger airline aircraft operations at the Airport in FY 2010 from FY 2009 levels, it is expected that passenger airline operations will increase from 503,620 operations in FY 2010 to 541,900 in 2016, a CAGR of 1.2 percent during this period. In general, the passenger airline projections were developed based on historical relationships among enplanements, load factors, and average seating capacities of aircraft utilized at the Airport. Specifically:

- Average seats for domestic majors/nationals are projected to increase approximately 0.25 to 0.30 seats per year during the projection period, from 156.0 seats in FY 2009 to 158.0 seats in FY 2016, similar to average seat levels following September 11, 2001.

Los Angeles World Airports
Los Angeles International Airport

Table II-26

Operations Projections - LAX

Year	Domestic		Regionalis/		International		International		Total		General		Other		Airport		Annual % Change
	Majors/Nationals	Commuters	U.S. Flag Carriers	Foreign Flag Carriers	Passenger Airlines	Aviation	All Cargo	Air Taxi	Military	Total							
Historical																	
1999	407,454	182,632	34,024	70,376	694,486	18,430	33,918	13,330	2,664	762,828	-						
2000	409,720	186,710	36,974	74,516	707,920	18,292	36,756	16,388	2,552	781,908	2.5%						
2001	423,184	183,842	40,766	78,744	726,536	17,787	36,110	13,728	1,968	796,129	1.8%						
2002	331,630	158,412	38,708	66,650	595,400	15,188	31,694	12,818	2,315	657,415	(17.4%)						
2003	322,238	162,950	21,752	71,834	578,774	16,379	25,834	18,208	2,239	641,434	(2.4%)						
2004	326,042	150,086	20,772	74,376	571,276	14,709	25,344	22,552	2,806	636,687	(0.7%)						
2005	330,038	153,880	26,286	80,808	591,012	14,040	27,100	18,819	2,852	653,823	2.7%						
2006	321,562	154,092	25,580	81,476	582,710	16,116	26,272	23,278	2,488	650,864	(0.5%)						
2007	326,424	159,182	28,372	79,364	593,342	15,624	25,230	26,825	2,488	663,509	1.9%						
2008	317,728	181,244	27,690	80,706	607,368	18,239	22,530	28,886	2,758	679,781	2.5%						
2009	297,848	128,026	21,496	73,044	520,414	15,758	19,414	3,842	2,561	561,989	(17.3%)						
Projected																	
2010	294,800	119,000	20,220	69,600	503,620	15,600	19,890	3,890	2,700	545,700	(2.9%)						
2011	295,000	121,200	20,740	71,400	508,340	15,700	20,500	3,940	2,700	551,180	1.0%						
2012	297,800	123,600	21,360	73,560	516,320	15,800	21,170	3,990	2,700	559,980	1.6%						
2013	299,800	126,400	21,980	75,440	523,620	16,000	21,810	4,040	2,700	568,170	1.5%						
2014	303,800	128,200	22,600	76,460	531,060	16,100	22,360	4,090	2,700	576,310	1.4%						
2015	306,600	129,400	23,220	77,200	536,420	16,300	22,780	4,140	2,700	582,340	1.0%						
2016	310,000	130,200	23,840	77,860	541,900	16,400	23,140	4,200	2,700	588,340	1.0%						
Compounded																	
Annual Growth Rate																	
1999 - 2001	1.9%	0.3%	9.5%	5.8%	2.3%	(1.8%)	3.2%	1.5%	(14.1%)	2.2%							
2001 - 2002	3.3%	(1.5%)	10.3%	5.7%	2.6%	(2.8%)	(1.8%)	(16.2%)	(22.9%)	1.8%							
2002 - 2008	(0.7%)	2.3%	(5.4%)	3.2%	0.3%	3.1%	(5.5%)	14.5%	3.0%	0.6%							
2008 - 2009	(6.3%)	(29.4%)	(22.4%)	(9.5%)	(14.3%)	(13.6%)	(13.8%)	(86.7%)	(7.1%)	(17.3%)							
2009 - 2010	(1.0%)	(7.1%)	(5.9%)	(4.7%)	(3.2%)	(1.0%)	2.5%	1.2%	5.4%	(2.9%)							
2010 - 2016	0.8%	1.5%	2.8%	1.9%	1.2%	0.8%	2.6%	1.3%	0.0%	1.3%							
2009 - 2016	0.6%	0.2%	1.5%	0.9%	0.6%	0.6%	2.5%	1.3%	0.8%	0.7%							

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2009.
Prepared by: Ricondo & Associates, Inc., August 2009.

- Average seats for regionals/commuters are projected to increase approximately 0.50 seats per year, from 45.8 seats in FY 2009 to 49.3 seats in FY 2016. It is expected that a continued shifting from the smaller 50-seat regional jets to the larger 70- to 90-seat regional jets will occur at the Airport to accommodate certain shifting of legacy carrier traffic to these carriers.
- Average seats for international carriers are projected to increase approximately 1.30 to 1.50 seats per year, from 216.8 seats in FY 2009 to 227.0 seats in FY 2016. This relatively high growth in seats is primarily due to the expected initiation of service by new generation aircraft (i.e., A-380 and B-787) at the Airport during the projection period.
- Combined load factors for domestic majors/nationals, regionals/commuters, and international carriers are projected at 78 to 80 percent during the projection period, consistent with load factor assumptions used by the FAA in its nationwide projections.

General aviation activity at the Airport is projected to grow moderately during the remainder of the projection period, reflecting the assumption that growth in this activity will occur primarily at outlying airports within the Air Trade Area due to cost and delay considerations. As a result, general aviation activity at the Airport is projected to decrease slightly in FY 2009 and then increase from 15,600 operations in FY 2010 to 16,400 operations in FY 2016, a CAGR of 0.8 percent during this period. It is expected that the majority of general aviation traffic at the Airport will be corporate/business travel during the projection period.

All-cargo activity at the Airport is expected to increase from 19,890 operations in FY 2010 to 23,140 operations in FY 2016. This increase represents a CAGR of 2.6 percent during this period.

Activity by other air taxi operators is expected to increase moderately from 3,890 operations in FY 2010 to 4,200 operations in FY 2016, a CAGR of 1.3 percent during this period.

Future military activity at the Airport will be influenced by U.S. Department of Defense policy, which largely dictates the level of military activity at an airport. Military activity at the Airport is projected to remain constant at approximately 2,700 operations each year during the projection period, comparable to its five-year average activity level between FY 2005 and FY 2009.

2.7.3 Projected Passenger Airline and All-Cargo Landed Weight

Table II-27 presents historical and projected passenger airline and all-cargo carrier landed weight at the Airport. With continued decreases in passenger airline operations expected in FY 2010, passenger airline landed weight at the Airport is projected to decrease accordingly. Thereafter, passenger airline landed weight is projected to increase from 42,001,388 thousand pounds in FY 2010 to 47,298,271 thousand pounds in FY 2016, a CAGR of 2.0 percent during this period. As also shown, all-cargo landed weight at the Airport is projected to increase from 3,818,428 thousand pounds in FY 2010 to 4,382,312 thousand pounds in FY 2016, a CAGR of 2.3 percent during this period. In general, the increases in landed weight following decreases in the short-term for both groups are expected as a result of anticipated use of larger aircraft and/or increased operations at the Airport during the projection period.

Los Angeles World Airports
Los Angeles International Airport

Table II-27
Landed Weight Projections (thousand pounds) - LAX

Fiscal Year	Domestic Majors/Nationals	Regionals/Commuters	International U.S. Flag Carriers	International Foreign Flag Carriers	Total Passenger/Airlines	All Cargo	Airport Total	Annual % Change
Historical								
1999	33,529,789	2,443,970	3,305,432	12,834,346	52,113,537	5,744,879	57,858,416	-
2000	35,617,724	2,439,000	3,543,958	13,334,014	54,934,696	6,339,188	61,273,884	5.9%
2001	36,444,924	2,471,002	3,838,119	13,914,636	56,668,681	6,181,982	62,850,663	2.6%
2002	29,662,754	2,403,093	3,644,358	11,927,996	47,638,201	5,841,024	53,479,225	(14.9%)
2003	28,821,535	2,664,517	2,352,102	13,633,282	47,471,436	4,325,572	51,797,008	(3.1%)
2004	28,456,279	2,567,616	2,256,763	13,995,149	47,275,807	4,290,136	51,565,943	(0.4%)
2005	27,569,570	2,682,342	2,570,214	14,708,859	47,530,985	4,696,906	52,227,891	1.3%
2006	26,497,228	2,719,157	2,634,517	15,074,170	46,925,072	4,878,126	51,803,198	(0.8%)
2007	26,677,762	2,954,684	2,843,496	14,845,477	47,321,419	4,964,390	52,285,809	0.9%
2008	26,130,346	3,639,478	2,732,947	15,219,240	47,722,011	4,376,934	52,098,945	(0.4%)
2009	24,387,381	2,704,501	2,121,612	13,750,211	42,963,705	3,735,442	46,699,147	(10.4%)
Projected								
2010	24,324,394	2,454,912	1,995,673	13,226,409	42,001,388	3,818,428	45,819,816	(1.9%)
2011	24,472,596	2,533,565	2,046,996	13,696,207	42,749,364	3,926,668	46,676,033	1.9%
2012	24,841,193	2,617,661	2,108,189	14,242,146	43,809,189	4,045,849	47,855,038	2.5%
2013	25,141,514	2,711,656	2,169,382	14,741,101	44,763,653	4,158,729	48,922,381	2.2%
2014	25,618,592	2,785,460	2,230,574	15,077,199	45,711,826	4,253,933	49,965,759	2.1%
2015	25,988,691	2,847,052	2,291,767	15,361,232	46,488,742	4,323,986	50,812,728	1.7%
2016	26,413,067	2,900,391	2,352,960	15,631,852	47,298,271	4,382,312	51,680,583	1.7%
Compounded Annual Growth Rate								
1999 - 2001	4.3%	0.6%	7.8%	4.1%	4.3%	3.7%	4.2%	
2001 - 2002	(18.6%)	(2.7%)	(5.0%)	(14.3%)	(15.9%)	(5.5%)	(14.9%)	
2002 - 2008	(2.1%)	7.2%	(4.7%)	4.1%	0.0%	(4.7%)	(0.4%)	
2008 - 2009	(6.7%)	(25.7%)	(22.4%)	(9.7%)	(10.0%)	(14.7%)	(10.4%)	
2009 - 2010	(0.3%)	(9.2%)	(5.9%)	(3.8%)	(2.2%)	2.2%	(1.9%)	
2010 - 2016	1.4%	2.8%	2.8%	2.8%	2.0%	2.3%	2.0%	
2009 - 2016	1.1%	1.0%	1.5%	1.8%	1.4%	2.3%	1.5%	

Sources: City of Los Angeles, Department of Airports (historical); Ricondo & Associates, Inc., August 2009.
Prepared by: Ricondo & Associates, Inc., August 2009.

III. Airport Facilities and Capital Program

This chapter presents a review of existing Airport facilities, a discussion of the Series 2009 Projects, and a description of other planned capital improvements at the Airport.

3.1 Existing Airport Facilities

The Airport is located approximately 15 miles southwest of downtown Los Angeles and occupies approximately 3,673 acres of land, consisting of the Central Terminal Area (CTA), airfield facilities, air cargo facilities, and ancillary facilities. The Airport is generally bounded on the north by Manchester Avenue, on the east by Aviation Boulevard, on the South by Imperial Highway, and on the west by the Pacific Ocean. Existing facilities at the Airport are described in the following paragraphs and are shown on **Exhibit III-1**.

3.1.1 Airfield Facilities

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

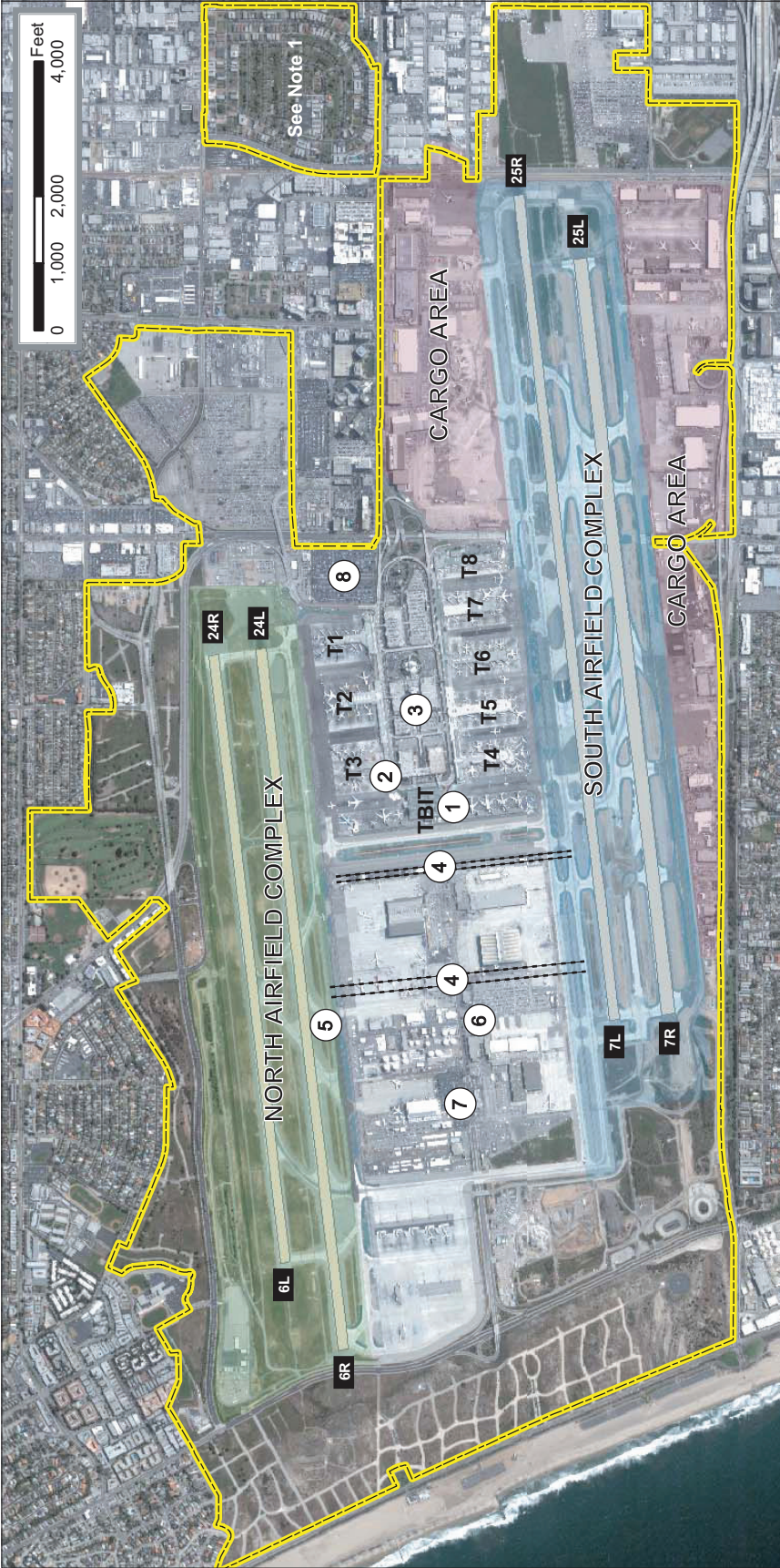
Primary runway use is arrival operations on the outboard runways and departure operations on the inboard runways. Simultaneous approaches to the outboard and inboard runways are conducted only in west flow during Visual Flight Rules (VFR) using visual approach procedures. All four runways are capable of accommodating fully loaded widebody aircraft, such as the Boeing 747 and 787, and the Airbus 340 and 380. Air traffic control procedures and airfield geometry govern where and how Airbus 380 aircraft operate at the Airport.

A taxiway network to facilitate the movement of aircraft between the runways and the CTA and other Airport facilities serves both sets of parallel runways. The north and south airfield complexes are separated by the CTA, aircraft maintenance hangar facilities, the fuel farm, and remote aircraft gates, all of which are located along an east-west spine through the Airport.

Lighting for the entire flight area, including lighting for the four runways and all connecting taxiways, approach lights, and obstruction lights, is provided on a 24-hour basis.

3.1.2 Terminal Facilities

There are nine passenger terminals at the Airport that accommodate domestic and international passenger activity. Although many of the terminals are physically connected and share a common U-shaped, two-level enplaning/deplaning roadway system, they function as independent terminals with separate ticketing, baggage, security checkpoints, and passenger processing systems. The terminals share a common aircraft gate access system, which is comprised of a single taxi lane between terminal piers, requiring considerable airline cooperation to minimize aircraft arrival and departure delays.



- ① Completion of TBIT Improvements
- ② In-Line Baggage Screening System - Terminal 3
- ③ Elevators and Escalators Replacements (Terminals and Parking)
- ④ Crossfield Taxiway Projects (see Note 2)
- ⑤ Airfield Intersection Improvements - Phase 2
- ⑥ Aircraft Rescue and Fire Fighting Station Construction
- ⑦ Airfield Operations Area Perimeter Fence - Phase 3
- ⑧ Acquisition of Park One Property

Note 1: To date, not all parcels in Manchester Square have been acquired by the Department.
 Note 2: The Crossfield Taxiway Projects include the construction of Crossfield Taxiway C-13, Crossfield Taxiway S, and associated projects.
 Source: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).
 Prepared by: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).

Exhibit III-1

Existing Airport Facilities and Series 2009 Projects

The combined area of all nine passenger terminals is approximately 4.4 million square feet. Each of the nine terminals is briefly described below:

- **Terminal 1** is used for domestic operations and comprises approximately 350,000 square feet on three levels. Tenants of this facility include Southwest Airlines and US Airways.
- **Terminal 2** is leased by LAX TWO Corp. and is used by 14 airlines, including Air Canada, Air China, Air France, Air New Zealand, Aviacsa, Avianca, Hawaiian Airlines, KLM, LACSA, Sun Country, TACA, Virgin Atlantic, Volaris, and WestJet, for domestic and international use. The building is comprised of approximately 501,000 square feet on three levels. In addition, there is a mezzanine level with airline clubs and offices.
- **Terminal 3** is a Joint Use Facility and is used by four airlines (Alaska, Horizon, Virgin Australia, and Virgin America) primarily for domestic operations, although international departures do occur. This terminal is comprised of approximately 303,000 square feet and includes two levels and a mezzanine with an airline club and offices.
- **Terminal 4** is leased by American for both domestic and international operations at many of its gates. Other tenants include American Eagle, Midwest Airlines, and Qantas. The terminal is comprised of approximately 575,000 square feet and includes two levels and a mezzanine.
- **Terminal 5** is leased by Delta/Northwest and also used by Aerolitoral and Aeromexico, and includes approximately 505,000 square feet. The terminal includes three levels (departure, ticketing, and arrival) and many of the gates in Terminal 5 are capable of both domestic and international operations.
- **Terminal 6** is a Joint Use Facility used by Continental, United, AirTran, Allegiant Air, Frontier, JetBlue, Copa, and Spirit, mainly for domestic operations, although international operations do occur from time to time. The two levels comprise approximately 428,000 square feet.
- **Terminals 7 and 8** are leased by United for domestic and international operations, and encompass approximately 692,000 square feet, consisting of two pier concourses supported by a single ticketing area and a split baggage claim facility, arranged on three levels with a mezzanine in the satellite.
- **Tom Bradley International Terminal (TBIT)** encompasses approximately 1,008,000 square feet and is the major international terminal serving both foreign flag and U.S. carriers. This terminal is comprised of four levels and is used by approximately 30 airlines providing international service at the Airport.

As discussed below in Section 3.2, as part of the Department's ongoing efforts to facilitate more uniform airline terminal capital rates and charges at the Airport, the Department is engaged in acquiring certain existing terminal improvements that were previously funded by airline tenants through third party debt.

3.1.3 Public Parking Facilities

Approximately 21,000 public parking spaces are available at the Airport, including 10,000 parking spaces in eight parking garages in the CTA and 11,000 spaces in two economy-rate, long term

surface parking lots, including Lot B (111th Street and La Cienega Boulevard) and Lot C (96th Street and Sepulveda Boulevard). Crosswalks on the lower-level roadway and sky bridges provide pedestrian connections between the eight parking garages in the CTA and the terminal buildings.

In July 2009, the Department purchased the 20-acre Park One parking lot property, which is located adjacent to Terminal 1 and includes approximately 2,700 public parking spaces. More information on the acquisition of the Park One property is provided in Section 3.3.

To help reduce vehicle traffic congestion in the CTA, the Airport also provides a 79-space cell phone waiting lot (located on Airport Boulevard near Arbor Vitae Street, approximately five minutes away from the CTA) where motorists meeting arriving passengers can wait for free until passengers call to indicate they are ready to be picked up along the terminal curbside.

Free shuttle service to the terminals is provided 24 hours per day from Lot B and Lot C. Lot C also contains the Los Angeles County Metropolitan Transportation Authority Bus Center, which connects public bus systems with the courtesy shuttle bus service provided by the Airport.

In addition to the public parking spaces discussed above, nearly 3,300 parking spaces are available in various parking lots for Airport employees. Other individual employers at the Airport provide parking spaces for employees in various lots at the Airport.

3.1.4 Rental Car Facilities

Approximately 40 rental car companies operate at the Airport, with vehicle rental sites located off-Airport. Ready/return spaces are included among the various off-Airport sites. Ten rental car companies operating at the Airport provide free shuttle service between the Airport and the rental car companies and are permitted to pick up and drop off their customers directly from the airline terminals. Customers of the other rental car companies use the free LAX Shuttle Bus to reach the Off-Airport Rental Car Terminal (located at Lot C) to meet their rental car courtesy shuttle.

3.1.5 Cargo Facilities

Based on preliminary data obtained from the Airports Council International (ACI) for CY 2008, the Airport ranked 13th worldwide and 5th nationwide in total cargo handled with approximately 1.6 million enplaned and deplaned tons.

The cargo areas at the Airport comprise 2.1 million square feet of building space in 26 buildings on 194 acres of land used for cargo-related purposes; approximately 92 percent of this space is leased. Four million square feet is developed for cargo use in the immediate vicinity of the Airport. The City owns all of the cargo-related property at the Airport although the tenants own some buildings located on the property.

The Airport cargo areas are generally oriented around three primary areas, including the 98-acre “Cargo City” (also known as “Century Cargo Complex”), the 57.4-acre “Imperial Cargo Complex,” and a number of terminals on the south side of the Airport comprising the “South Cargo Area.” Improvements and enhancements by tenants and the Department have been made continually at the Century Cargo Complex, the Airport’s first air cargo area. America, United, Virgin Atlantic, Asiana,

Alaska, British Airways, Southwest, and US Airways utilize this facility. The Imperial Cargo Complex has also undergone extensive development by domestic and international carriers. Major tenants include Lufthansa, Japan Airlines, Korean Air, Federal Express, China Airlines, Delta and Air Canada.

Each Cargo complex at the Airport has a unique landside access system. The primary access for the Airport's cargo areas is provided from three arterial roadways: Century Boulevard, Aviation Boulevard, and Imperial Highway. Parking areas are generally adjacent to each cargo building. To accommodate the truck activity, each cargo building has designated truck docks. Many of these docks are used for storage and other nonloading/unloading activities.

3.1.6 Ancillary Facilities

Ancillary facilities support the aviation-related activities at the Airport. The facilities identified as ancillary are categorized as General Aviation, Ground Service, Federal Aviation Administration, Transportation Security Administration (TSA), Airline Administration and Maintenance, Los Angeles World Airports (the Department), Flight Kitchens, Fuel, and Other Ancillary Facilities.

- **General Aviation.** Two fixed base operators (FBOs), Landmark Aviation and Atlantic Aviation, operate at the Airport, encompassing approximately 14 acres. They provide a full array of services to the general aviation community, such as refueling, light maintenance and pilot lounges.
- **Ground Service.** Several ground service companies operate at the Airport providing a variety of services, employing some 2,400 employees and occupying approximately nine acres.
- **Federal Aviation Administration (FAA).** The FAA occupies the 277-foot Air Traffic Control Tower and handles all flight arrivals and departures as well as ground movement.
- **Transportation Security Administration (TSA).** The TSA occupies the sixth floor of the former control tower.
- **Airline Administration and Maintenance.** These hangars and support facilities are concentrated in six primary airline complexes at the Airport:
 - Delta/United Airlines
 - American Airlines (2)
 - Continental Airlines
 - Federal Express
 - US Airways
- **The Department.** The Department maintains facilities occupying approximately 30 acres at the Airport, consisting of maintenance yard, warehouse, inspection office, administration offices, a telecommunication center and executive offices in the former control tower.
- **Flight Kitchen.** Two catering companies operate flight kitchens at the Airport, including Gate Gourmet and LSG Sky Chefs.
- **Fuel.** Fuel is transported into the Airport's bulk storage fuel farm facility via underground pipelines from several petroleum refineries in the South Bay area. The bulk storage fuel farm at the Airport encompasses approximately 20 acres on the north side of World Way West.

Six petroleum refineries provide fuel to the Airport, and five principal companies store and deliver fuel to aircraft at the Airport for a combined total of over 130 million gallons per month.

- **Other Ancillary Facilities.** Other ancillary and support facilities at the Airport include the U.S. Post Office, Aircraft Rescue and Firefighting, Airport Police Bureau, and the U.S. Coast Guard.

3.2 Summary of Capital Planning

Capital planning at the Airport operates within a series of adopted, comprehensive land use plans and procedures, namely a LAX Master Plan, a LAX Plan and a LAX Specific Plan. Please refer to the “CAPITAL IMPROVEMENT PLANNING” section of front portion of the Official Statement for the Series 2009 Bonds for a more detailed discussion. The Department approaches the development of its Capital Improvement Program (CIP) with a strategic focus on delivering facilities that will support the Airport’s position as a premier international gateway airport and maintain a reasonable cost structure for the airlines operating at the Airport. On a formal basis, Department Management reviews and assesses the program annually, and continuously on a less formal basis, in light of many factors, including but not limited to: improved information regarding the condition and/or requirements of new and existing facilities; improved cost estimates for contemplated projects; new opportunities for investment or acquisition that arise from time to time; current and forecast traffic levels, and; changes within the industry that may influence the cost of the program. Department Management’s analysis of these factors and other information may result in changes to timing or scope of contemplated projects and the addition or removal of projects from the program.

The development of the CIP will also impact the way the Department operates and structures its airline charges at the Airport in the future. Due to the nature of past agreements at the Airport, the cost of some capital investment in some terminals has been borne by airlines while the cost of some capital investment in others has been borne by the Department. The Department has decided to pursue the implementation of a uniform airport-wide capital charge to airlines for capital costs associated with terminal facilities. To affect this change, the Department is actively engaged in identifying those leases related to improvements previously funded by airline tenants which can be terminated on terms favorable to the Airport. For example, in March 2009, the Department closed a transaction with United Airlines for the repurchase of Terminal 6 Gates and FIS improvements (among other things) at the cost of approximately \$35 million. As discussed in Section 3.4 of this report, the Department has identified financial capacity for the purpose of entering into other such transactions in the future.

As discussed further in Chapter 4 of this report, specific funding source decisions are driven by the CIP and are made on the basis of project specific considerations and market factors and are made within the context of the Department’s strategic objectives for managing the Airport’s long term capital structure. The current CIP does not include the approximately \$850 million of project costs funded with proceeds of the Series 2008 Bonds. The two projects listed under the South Airfield Improvement Program were completed on time and under budget. The TBIT Interior Improvements projects that were partially funded by the 2008 Bonds are on schedule with an expected completion date of February 2010.

The Series 2009 Projects and the Other Incorporated Projects discussed in Sections 3.3 and 3.4 below include certain projects that were not elements of the Department’s overall capital program at the

time the Series 2008 Bonds were issued. The projects under consideration to be included in the CIP for FY 2010-2016 are expected to cost approximately \$5.6 billion and do not include the approximately \$850 million of projects that are totally or partially completed. The addition of these projects reflects the Department's progress in refining its facilities planning process and prioritizing of capital investment needs as well as recent strategic opportunities that have been presented to the Department for acquiring previously unavailable facilities. These projects include terminal improvements (Elevators and Escalators Replacements and the Terminal Improvements Program); airfield improvements (Pavement Management Program); acquisitions (Park One Property and the Acquisition of Existing Terminal Improvements); and other improvements (West Maintenance Facility Pad and Infrastructure).

For purposes of this report, the Airport's overall capital program is organized into the following three categories:

- **The Series 2009 Projects.** Includes capital projects to be funded, in part, with Series 2009 Bond proceeds. The capital and operating costs, and any estimated revenue impacts, associated with the Series 2009 Projects **have been included** in the financial analysis incorporated in this report and the financial tables accompanying this report (see Chapter 4).
- **Other Incorporated Projects.** Includes capital projects other than the Series 2009 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in this report, and are expected by the Department to be completed during the projection period (through FY 2016). These projects are referred to in the report as the Other Incorporated Projects. The capital and operating costs, and any estimated revenue impacts, associated with the Other Incorporated Projects **have been included** in the financial analysis incorporated in this report and the financial tables accompanying this report (see Chapter 4). As described in Chapter 4, debt associated with the Other Incorporated Projects is incorporated in the analysis using assumptions that reflect the Department's strategic approach to managing its long-term funding plan.
- **Future Projects.** Includes other potential future projects at the Airport that the Department may consider (referred to as Future Projects) that are not reflected in this report or in the accompanying tables because the scope, timing, cost, and approval of these projects are uncertain. Future Projects can generally be categorized into terminal, airfield, access, ground transportation, infrastructure, or other projects. Potential Future Projects include a range of facility improvements, enhancements and additions that seek to preserve and reinvest in existing infrastructure and to develop the incremental airfield, terminal and ground side capacity needed to meet long-term growth projections. The Department will only undertake Future Projects when demand warrants, necessary environmental reviews have been completed, necessary approvals have been obtained, and associated project costs can be supported by a reasonable level of Airport user fees or other discrete funding sources such as grants, PFCs, CFCs, Department funds or third party funds.

3.3 The Series 2009 Projects

The Series 2009 Projects are Airport projects that will be funded in part with the proceeds of the Series 2009 Bonds and include terminal projects, airfield and apron projects, parking projects, and the refunding of the Subordinate Subseries 2002 C1 Bonds.

Exhibit III-1 highlights the location of key elements of the Series 2009 Projects. **Table III-1** presents gross costs for the Series 2009 Projects (and the Other Incorporated Projects discussed below in Section 3.4).

The Series 2009 Projects are estimated to cost approximately \$1.0 billion including design, engineering, construction, escalation for inflation (as appropriate), and contingency amounts. Certain expenditures associated with the Series 2009 Projects have already been made by the Department. Sources of funding for the Series 2009 Projects are described in Section 4.7 of this report. The financial impacts of both the Series 2009 Projects and the Other Incorporated Projects are incorporated in this report and the accompanying financial tables in Chapter 4.

The Series 2009 Projects are described in detail in the following subsections.

3.3.1 Terminal Projects

As shown on Table III-1, estimated costs for terminal projects total approximately \$430.4 million. Terminal projects to be funded in part with the proceeds of the Series 2009 Bonds are described in the following paragraphs.

- **Completion of TBIT Improvements.** This project refers to the completion of interior improvements to the terminal that began in February 2007 and were funded in part by proceeds of the Series 2008 Bonds. The project includes the renovation of interior public spaces including the departure ticketing lobby; departure and arrival concourses; Federal Inspection Services area; bus hold room; meeter-greeter area; in-transit lounge; inbound and outbound baggage system (including in-line baggage screening system); IT, electrical, HVAC, and paging system upgrades; upgrade of existing elevators, escalators, and moving walkways; and construction of a new north New Large Aircraft (NLA) gate.

Estimated project cost: \$200.0 million ♦ Estimated completion date: February 2010

- **In-Line Baggage Screening System – Terminal 3.** This project will construct an in-line baggage screening system in Terminal 3 pursuant to TSA requirements. The project includes replacement of the existing airline baggage handling spaces, construction of new baggage screening rooms, replacement of the outbound baggage conveyor systems, and installation/integration of TSA-provided Explosive Detection System (EDS) machines. Also included are Explosive Trace Detection (ETD) workstations, On-screen Resolution (OSR) Control Room and closed-circuit television (CCTV) systems.

Estimated project cost: \$140.0 million ♦ Estimated completion date: January 2010

- **Elevators and Escalators Replacements (Terminals) – Phases 1 & 2.** There are a total of 87 elevators, 116 escalators, and 29 moving walkways inside the Airport's terminals. Many of the systems have exceeded their 25-year operational life span. This project includes the rehabilitation and replacement of deteriorated equipment and systems to meet current standards and to improve people flow with energy-saving sustainable technology. Phases 1 & 2 of this project will focus on the most critical areas and equipment consisting of 64 elevator/escalator systems throughout the Airport. The project is part of the overall elevators

Table III-1

Summary of the Series 2009 Projects and Other Incorporated Projects -- Estimated Costs

	Estimated Project Costs^{1/}
The Series 2009 Projects	
<u>Terminal Projects</u>	
Completion of TBIT Improvements	\$ 200,000,000
In-Line Baggage Screening System - Terminal 3	140,000,000
Elevators and Escalators Replacements (Terminal) - Phases 1&2	90,400,000
	\$ 430,400,000
<u>Airfield and Apron Projects</u>	
Crossfield Taxiway Projects ^{2/}	\$ 341,389,000
Airfield Intersection Improvements Phase 2	41,049,000
Airfield Operations Area Perimeter Fence (World Way West) Phase 3	17,162,000
Aircraft Rescue and Fire Fighting Station Construction	13,550,000
	\$ 413,150,000
<u>Parking Projects</u>	
Acquisition of Park One Property	\$ 125,000,000
Elevators and Escalators Replacements (Parking) - Phases 1&2	22,600,000
	\$ 147,600,000
<u>Refunding</u>	
Refunding - Subordinate Subseries 2002 C1	\$ 37,400,000
	\$ 37,400,000
Total Series 2009 Projects	\$ 1,028,550,000
Other Incorporated Projects^{3/}	
<u>Terminal Projects</u>	
Bradley West Core	\$ 881,454,000
Bradley West Concourses	713,121,000
Terminal Improvements Program ^{4/}	614,971,000
Central Utility Plant	467,968,000
Acquisition of Existing Terminal Improvements	261,405,000
Elevators and Escalators Replacements (Terminal) - Phases 3&4	125,600,000
Program Reserve--Terminal Development and Improvements	125,000,000
	\$ 3,189,519,000
<u>Airfield and Apron Projects</u>	
Noise Mitigation and Soundproofing	\$ 431,000,000
Bradley West Aprons	188,304,000
West Maintenance Facility Pad and Infrastructure	193,570,000
Pavement Management Program	175,000,000
Bradley West Taxilane T and Associated Projects	97,909,000
Airfield Safety Improvements	51,765,000
Other Airfield and Apron Projects ^{5/}	43,350,000
	\$ 1,180,898,000
<u>Infrastructure and Other Projects</u>	
Elevators and Escalators Replacements (Parking) - Phase 3&4	\$ 31,400,000
IT Infrastructure Construction	28,365,000
Seismic Retrofit of CTA Pedestrian and Vehicular Bridges	21,112,000
Other Projects ^{6/}	82,944,000
	\$ 163,821,000
<u>Cash Defeasance of Certain Bonds</u>	
Cash Defeasance - Subordinate Series 2003 A	\$ 23,700,000
Cash Defeasance - Subordinate Subseries 2002 C2	20,000,000
	\$ 43,700,000
Total Other Incorporated Projects	\$ 4,577,938,000
Total Series 2009 Projects and Other Incorporated Projects	\$ 5,606,488,000

Notes:

1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.

2/ Includes construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects.

3/ The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the financial tables included in Chapter 4 of this report (with the impacts reflected in the Projection Period).

4/ Includes in-line bag screening systems for terminals other than TBIT and T3; passenger boarding bridge replacements; utility improvements (including sewer, electrical, etc.); bag claim devices replacement; preconditioned air unit installation; and other terminal infrastructure improvements.

5/ Includes Airport Operations Center Facility; runway status light system; Enhanced Access Control Monitoring System (ACAMS); GSE quick charging stations; and security airfield access posts upgrade.

6/ Includes closed circuit television system enhancement and expansion; wired and wireless improvements; Central Terminal Area expansion joint repair (roadway and parking); air freight roof renovation; Theme Building restoration; and other improvements.

Source: City of Los Angeles, Department of Airports (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

and escalators replacement project, but is broken out into terminal and parking components for purposes of this feasibility report (see Section 3.3.3 for a description of the parking component of Phases 1 & 2 of this project).

Estimated project cost: \$90.4 million ♦ Estimated completion date: June 2011

3.3.2 Airfield and Apron Projects

As shown on Table III-1, estimated costs for airfield and apron projects total \$413.2 million. Airfield and apron projects to be funded in part with the proceeds of the Series 2009 Bonds are described in the following paragraphs.

- **Crossfield Taxiway Projects.** These projects include construction of Crossfield Taxiway C13, Crossfield Taxilane S, and associated projects, as well as associated airfield pavement.

The purpose of the Crossfield Taxiway C13 project is to construct a 3,437-foot-long by 100-foot-wide taxiway connection between Taxiway E on the north airfield complex and Taxiway B on the south airfield complex so that existing Taxiway Q can be decommissioned to provide space for future TBIT terminal improvements. The project includes demolishing existing structures, removing existing deteriorated concrete and asphalt pavement, constructing a new Remain Overnight (RON) area, installing airfield signage and lighting systems and airfield pavement markings, and improving storm drains. The project also involves realigning the existing World Way West road and constructing two bridges over the road; one for aircraft and the other for vehicular traffic.

Crossfield Taxiway S consists of the construction of a 3,487-foot long taxilane plus a connector taxiway to connect Taxiway B on the south and Taxiway D on the north. Taxilane S will be constructed as part of a 400-foot wide concrete strip which will be the first part of the future dual taxilane/taxiway system between a future midfield satellite concourse and TBIT.

Also included in the Crossfield Taxiway Projects is construction of associated airfield pavement.

Estimated project cost: \$341.4 million ♦ Estimated completion date: July 2012

- **Airfield Intersection Improvements – Phase 2.** This project will improve various airfield intersections and modify service road locations to provide safe taxiing routes for current large aircraft and future NLA. This phase includes the widening of five intersections throughout the north and south airfield complex at the Airport, specifically in the vicinity of Taxiways E and C and Runways 24L and 25R. The project includes intersection pavement and shoulder reconstruction, as well as reconstruction and relocation of all affected taxiway lighting and signage, demolition of existing electrical vaults, and construction of a new electrical vault.

Estimated project cost: \$41.0 million ♦ Completion date: September 2009

- **Airfield Operations Area Perimeter Fence Replacement (World Way West) – Phase 3.** This project is a continuation of the Airport Security Enhancement Program and will enhance approximately 4.4 miles of airfield operations area (AOA) perimeter fence along World Way West from Taxiway AA to Los Angeles Fire Station/Post #5. The project also includes crash gates, each of which consists of a heavy duty electric motor, sliding rail, gate, and heavy gauge latch posts.

Estimated project cost: \$17.2 million ♦ Estimated completion date: February 2010

- **Aircraft Rescue and Fire Fighting (ARFF) Station Construction.** In conjunction with the crossfield taxiway project, a new ARFF station is proposed to be constructed as a replacement for the existing Fire Station No. 80 located on the airfield adjacent to Taxiway S. The proposed ARFF station would provide approximately 27,895 square feet of administrative office area and station living quarters within a 2-story structure, six bays for emergency vehicles, along with a service bay, storage area for various emergency response equipment, and briefing and training rooms.

Estimated project cost: \$13.6 million ♦ Estimated completion date: September 2010

3.3.3 Parking Projects

As shown on Table III-1, estimated costs for parking projects total \$147.6 million. Parking projects to be funded in part with the proceeds of the Series 2009 Bonds are described in the following paragraphs.

- **Acquisition of Park One Property.** In July 2009, the Department purchased the 20-acre Park One parking lot adjacent to Terminal 1 from AMB Properties, who had owned the land since 2002. Before it was converted into a parking lot in the early 1990s, the property was home to Garrett AiResearch, a military contractor that crafted aerospace products. Park ‘N Fly currently holds the operating lease, which is set to expire at the end of 2012.

Estimated project cost: \$125.0 million ♦ Completion date: July 2009 (completed)

- **Elevators and Escalators Replacements (Parking) – Phases 1 & 2.** This project includes the rehabilitation and replacement of the 29 elevators in the Airport’s parking structures. The project is part of the overall elevators and escalators replacement project, but is broken out into terminal and parking components for purposes of this feasibility report (see Section 3.3.1 for a description of the terminal component of Phases 1 & 2 of this project).

Estimated project cost: \$22.6 million ♦ Estimated completion date: June 2011

3.3.4 Refunding of Subordinate Subseries 2002 C1 Bonds

The Department expects to refund outstanding Subordinate Subseries 2002 C1 Bonds.

Estimated project cost: \$37.4 million ♦ Estimated completion date: Upon Issuance of the Series 2009 Bonds

3.4 Other Incorporated Projects

As described in Section 3.2, Other Incorporated Projects include projects expected by the Department to be completed during the projection period (through FY 2016), and that are generally defined in terms of timing and cost, have been internally reviewed for financial feasibility, and are

moving through the applicable approval level environmental review and approval processes and being discussed with relevant tenants. As shown on Table III-1, preliminary cost estimates for the Other Incorporated Projects included in this report total approximately \$4.6 billion. Sources of funding for the Other Incorporated Projects are described in Section 4.7 of this report. The estimated financial impacts of the Other Incorporated Projects **are incorporated in this report** and the accompanying financial tables in Chapter 4. A brief description of the Other Incorporated Projects is provided in this section.

Other Incorporated Projects--Terminal Projects

- **Bradley West Core and Concourses.** This project calls for new concourses to replace existing ones that will include nine new gates on the west side in addition to the east side gates. Several of these gates will be specifically designed to accommodate new-generation aircraft such as the Airbus 380, Boeing 747-8 and Boeing 787, with features like multiple passenger loading bridges for each aircraft, larger passenger lounges/holdrooms, and wider taxiways and aircraft tarmac areas. The central core of TBIT, which currently provides for passenger processing (i.e., ticketing, baggage check/claim, security screening, concessions, etc.) would also be modified to provide additional floor areas and improvements to serve existing and future passengers at TBIT. These improvements will also include the addition of secured walkways connecting Terminals 3 and 4 to TBIT so passengers with connecting flights do not have to exit the terminals and go through security screening again. The areas in the central core that house the federal inspection services of U.S. Customs & Border Protection, as well as airline and terminal operations offices, and concessions areas also would be renovated and enlarged. For purposes of the financial analysis incorporated in this report, the Bradley West core and concourse project is assumed to include approximately 800,000 square feet of new terminal and concourse space.

Estimated project cost: \$1,594.6 million ♦ Estimated completion date: June 2013

- **Terminal Improvements Program.** This program includes a variety of terminal specific projects meant to improve the conditions in Terminals 1 through 8 within the CTA. These projects include the construction of in-line baggage screening systems for the other seven terminals at the Airport (TBIT and Terminal 3 projects have already advanced to construction). Other projects included in this program include: passenger boarding bridge replacements; purchase and installation of preconditioned air units; various utility improvements including sewer lines and electrical panel replacements; new bag claim devices; and other general terminal improvements.

Estimated project cost: \$615.0 million ♦ Estimated completion date: Ongoing through FY 2014

- **Central Utility Plant.** This project replaces the existing, outdated Central Utility Plant (CUP). The project will include replacement of the existing cooling towers, construction of an underground thermal energy storage tank at the site of the existing CUP, electrical upgrades to include a new electrical substation, and a retrofit of the existing Los Angeles Department of Water and Power (LADWP) substation.

Estimated project cost: \$468.0 million ♦ Estimated completion date: April 2014

- **Acquisition of Existing Terminal Improvements.** This includes the acquisition of various existing terminal improvements at the Airport that were previously funded by certain airline tenants through third party debt.

Estimated project cost: \$261.4 million ♦ Estimated completion date: June 2010

- **Elevators and Escalators Replacements (Terminals) – Phases 3 & 4.** This project is a continuation of the elevators and escalators replacements project for the terminals. As reflected in Section 3.3.1 above, Phases 1 & 2 of this project are included in the Series 2009 Projects.

Estimated project cost: \$125.6 million ♦ Estimated completion date: June 2013

- **Program Reserve – Terminal Development and Improvements.** This reserve serves as a budget placeholder for the financial capacity needed to address unexpected changes or additions to the terminal development and improvement program as they arise.

Estimated project cost: \$125.0 million ♦ Estimated completion date: Not applicable

Other Incorporated Projects--Airfield and Apron Projects

- **Noise Mitigation and Soundproofing.** The Department is currently implementing an Airport Residential Soundproofing Program (RSP) for aircraft noise impacted areas surrounding the Airport. The program includes installation of acoustic modifications to lessen the effects of aircraft noise in impacted homes adjacent to the Airport. In addition, the Department is managing a Voluntary Residential Acquisition and Relocation Program, under which the Department is in the process of acquiring residences in the Manchester Square and Belford Areas in lieu of soundproofing. These programs are ongoing.

Estimated project cost: \$431.0 million ♦ Estimated completion date: Ongoing through FY 2017

- **Bradley West Aprons.** This project is associated with the Bradley West Core and Concourses project and will include the construction of apron areas for aircraft parking.

Estimated project cost: \$188.3 million ♦ Estimated completion date: July 2012

- **Pavement Management Program.** This project includes the maintenance, repair, rehabilitation, evaluation, and testing of apron, airfield, taxiway, and related pavement structures.

Estimated project cost: \$175.0 million ♦ Estimated completion date: Ongoing through FY 2017

- **Bradley West Taxilane T and Associated Projects.** This project consists of the construction of a 3,166-foot long taxilane to connect Taxiway C on the south and Taxiway D on the north. Taxilane T will be constructed as part of a 300-foot wide concrete strip which will be the second part of the future dual taxilane/taxiway system replacing existing Taxiways Q and S, west of TBIT.

Estimated project cost: \$97.9 million ♦ Estimated completion date: June 2012

- **West Maintenance Facility Pad and Infrastructure.** This potential project includes the construction of new RON aircraft aprons, an aircraft maintenance hangar, associated office space, a ground run-up enclosure, and employee parking, all located west of Taxiway AA and south of World Way West.

Estimated project cost: \$193.6 million ♦ Estimated completion date: March 2015

- **Airfield Safety Improvements.** The purpose of this project is to evaluate and summarize short-term safety improvements for the North Airfield by establishing a group of subject matter experts to review alternatives. The project also involves initiating the Safety Management System (SMS) process through the FAA to study and recommend short-term solutions.

Estimated project cost: \$51.8 million ♦ Estimated completion date: December 2012

- **Other Airfield and Apron Projects.** These projects include the Airport Operations Center facility, runway status light system, enhanced access control monitoring system (ACAMS), GSE quick charging stations, and security airfield access posts upgrades.

Estimated project cost: \$43.4 million ♦ Estimated completion date: Ongoing through FY 2012

Other Incorporated Projects—Infrastructure and Other Projects

- **Elevators and Escalators Replacements (Parking) – Phases 3 & 4.** This project is a continuation of the elevators and escalators replacements project for the parking structures. As reflected in Section 3.3.3 above, Phases 1 & 2 of this project are included in the Series 2009 Projects.

Estimated project cost: \$31.4 million ♦ Estimated completion date: June 2013

- **IT Infrastructure Construction.** This project consists of a number of sub-projects which impact the underlying Department IT passive infrastructure, including telecom rooms, conduit, and cable/fiber.

Estimated project cost: \$28.4 million ♦ Estimated completion date: August 2012

- **Seismic Retrofit of CTA Pedestrian and Vehicular Bridges.** This project will make non-compliant bridges code compliant by upgrading existing seismic protection with current code compliant retrofits to make them more resistant to seismic activity, ground motion, or soil failure due to earthquakes.

Estimated project cost: \$21.1 million ♦ Estimated completion date: September 2012

- **Other Projects.** Includes closed circuit television system enhancement and expansion, improvements to the Department's wired and wireless technology infrastructure, CTA joint repair (roadway and parking areas), renovation of the roof of Air Freight No. 1, restoration of the Theme Building, and other improvements.

Estimated project cost: \$82.9 million ♦ Estimated completion date: Ongoing through FY 2012

Other Incorporated Projects—Cash Defeasance of Certain Bonds

- **Cash Defeasance of Subordinate Series 2003 A Bonds.** The Department expects to use cash or commercial paper proceeds to defease outstanding Subordinate Series 2003A Bonds.
Estimated project cost: \$23.7 million ♦ *Estimated completion date: By June 2010*
- **Cash Defeasance of Subordinate Subseries 2002 C2 Bonds.** The Department expects to use cash or commercial paper proceeds to defease outstanding Subordinate Subseries 2002 C2 Bonds.
Estimated project cost: \$20.0 million ♦ *Estimated completion date: By June 2010*

It should be noted that in addition to the Other Incorporated Projects discussed above and the Future Projects discussed in Section 3.2, there are other ongoing CIP projects at the Airport that are smaller in terms of estimated cost and more routine in nature relative to the majority of projects listed on Table III-1. These other ongoing projects (1) are not being funded with Series 2009 Bonds, (2) are not expected to be funded with future Bonds, and (3) are not estimated to have an impact on Airport operating expenses or revenues, and therefore are not reflected in this report or in the accompanying financial tables.

[THIS PAGE INTENTIONALLY LEFT BLANK]

IV. Financial Analysis

This chapter examines the financial structure of the Airport and the financial implications of the Series 2009 Projects and the Other Incorporated Projects; presents debt service, operating expense, and revenue projections; and presents projections of debt service coverage, airline rates and charges, and other key financial measures.

4.1 Financial Structure

This section discusses the City Charter, accounting practices employed by the Department, the cost center structure utilized for airline rate-setting purposes, the requirements and provisions of the Department's governing bond documents, and the status of the business and operating relationship between the Department and the airlines operating at the Airport.

4.1.1 City Charter

The City adopted a new City Charter that became effective July 1, 2000. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated, or controlled by the City; and (c) fix, regulate, and collect rates and charges for use of the Airport System.

Section 609 of the City Charter confers upon the Department the power to borrow money for any lawful purpose relating to the Department. Bonds so issued do not constitute or evidence indebtedness of the City. The Department has no taxing power. As of August 1, 2009, there were four series of Senior Bonds outstanding (Series 2002A, 2003B, 2008A, and 2008B), with a combined principal amount outstanding of approximately \$713 million. As of August 1, 2009, there were four series of Subordinate Obligations outstanding (Series 2002C-1, 2002C-2, 2003A, and 2008C), with a combined principal amount outstanding of approximately \$321 million. Additionally, pursuant to the Parity Subordinate Indenture, the Department is authorized to issue up to \$500 million aggregate principal amount of its Subordinate Commercial Paper Notes, which as of August 1, 2009 were outstanding with a maturity value of approximately \$182 million.

In 2000, the voters of the City approved Charter Amendment No. 8 relating to the Airport Revenue Fund. This change in the City Charter provided the Department with additional flexibility to account separately for the income and expenses of each airport under its control. The City Council adopted two ordinances, the LAX Ordinance and the Ontario Ordinance, to implement Charter Amendment 8, which resulted in the creation of the LAX Revenue Account and the Ontario Revenue Account.

4.1.2 Organization and Airport Accounting

The Airport is owned and operated by the City, acting through the Department. The City, acting through the Department, also operates and maintains LA/Ontario International Airport (LA/ONT) and Van Nuys Airport (VNY). In addition, the Department maintains LA/Palmdale Regional Airport (LA/PMD and, together with the Airport, LA/ONT, and VNY, the Airport System) although LA/PMD is not currently certificated by the FAA. The Department is under the management and control of a seven-member Board appointed by the Mayor. An Executive Director administers the Department and reports to the Board.

Each of the airports in the Airport System is accounted for separately by the Department. Currently, the operation of LA/ONT is financially self-sustaining, requiring no revenues from the General Fund of the City or other airports in the Airport System, though LAX revenues could be used at LA/ONT if necessary. Any revenue shortfalls associated with the operation of VNY are included as a requirement in the landing fee for the Airport (LAX), as discussed in Section 4.9.2.

The Airport is reported as a single enterprise fund and maintains its records on the accrual basis of accounting. The accounting and financial reporting policies of the Department conform to generally accepted accounting principles for local governmental units set forth by the Government Accounting Standards Board (GASB) as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public be financed or recovered primarily through user charges.

Maintenance and Operation (M&O) Expenses at the Airport are categorized into Cost Centers. Cost Centers include those areas or functional activities used for the purposes of accounting for the financial performance of the Airport. There are five direct revenue-producing Cost Centers and four indirect Cost Centers included in the Airport's financial structure. The Cost Centers included in the Airport's financial structure are described in greater detail below:

4.1.2.1 Direct Cost Centers

The five direct revenue-producing Cost Centers are as follows:

- Terminal Cost Center. The Terminal Cost Center is comprised of all passenger terminal buildings, other related and appurtenant facilities, and associated land, whether owned, operated, or maintained by the Department. Facilities include the passenger terminal buildings located in the CTA, passenger terminal buildings located outside the CTA, associated concourses, holdrooms, passenger tunnels, and all other facilities that are integral parts of the passenger terminal buildings.
- Apron Cost Center. The Apron Cost Center is comprised of the land and paved areas primarily adjacent to passenger terminal buildings, but also includes remote areas that provide for the exclusive and non-exclusive parking, loading, and unloading of passenger aircraft. The Apron Cost Center does not include aprons associated with general aviation, cargo, or aircraft maintenance facilities.
- Airfield Cost Center. The Airfield Cost Center is comprised of the land and facilities that support air navigation and flight activities, including aircraft access to, and egress from, apron areas. Land and facilities include runways, taxiways, approach and clear zones, navigation and related easements, infield areas, safety areas, and landing and navigational aids.
- Aviation Cost Center. The Aviation Cost Center is comprised of the land and facilities related to air cargo, general aviation, fixed base operator (FBO) operations, aircraft fueling, aircraft maintenance, airline services, and other aviation related activities.

- Commercial Cost Center. The Commercial Cost Center is comprised of the land and facilities not located in passenger terminal buildings that are provided for non-aeronautical commercial and industrial activities, including for example, public automobile parking, car rental service centers, golf course, the Theme Building, and the Proud Bird restaurant.

4.1.2.2 Indirect Cost Centers

The four indirect Cost Centers are as follows:

- Systems Cost Center. The Systems Cost Center includes the costs of providing, maintaining, operating, and administering airport systems. Examples include electrical distribution system, gas distribution system, potable water distribution system, chilled water distribution system, storm and sanitary sewer system, and industrial waste disposal. The Central Utility Plant (CUP) has been treated as a separate cost pool allocable to cost centers based upon BTU consumption.
- General Maintenance Cost Center. The General Maintenance Cost Center includes the costs of providing, maintaining, operating, and administering maintenance services, facilities, and equipment that cannot be directly allocated to cost centers.
- General Administration Cost Center. The General Administration Cost Center includes the general administrative and support costs related to providing, maintaining, operating, and administering the Airport that cannot be directly allocated to cost centers.
- Access Cost Center. The Access Cost Center includes the costs of providing, maintaining, operating, and administering facilities and services for on-Airport and off-Airport ground access for vehicles and pedestrians, including airside and landside access, and Airport access generally. It also includes the costs of increasing, preserving, or managing the throughput capacity of the Airport's access facilities; that is the volume of, and rate at which, users can be accommodated.

4.2 Senior Indenture

Pursuant to the terms of the Master Trust Indenture, dated as of April 1, 1995, as subsequently amended and supplemented (and referred to in this report as the Senior Indenture), the Department may issue Los Angeles International Airport Revenue Bonds (referred to in this report as Senior Bonds) secured by Pledged Revenues and by certain other security interests as specified therein.

Articles II, IV and V of the Senior Indenture establish the requirements for the Department to issue Senior Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Senior Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key provisions of the Senior Indenture as they pertain to this report are summarized below. The capitalized terms used in this Section 4.2 are used as defined in the Senior Indenture.

As summarized in Appendix D-1 of the Official Statement for the Series 2009 Bonds ("Proposed Amendments to the Master Senior Indenture"), certain amendments are proposed to the Senior Indenture that require the consent of the holders of Senior Bonds. Some of these amendments will not become effective until (i) the Department has received the consent of the owners of at least 51 percent in aggregate principal amount of all of the Senior Bonds Outstanding and (ii) either the

Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (the 51 Percent Senior Indenture Amendments) or the refunding or defeasance of the Series 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds has taken place. Certain other amendments to the Master Senior Indenture will not become effective until (i) the Department has received the consent of the owners of 100 percent in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and (ii) either the Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (100 Percent Senior Indenture Amendments) or the refunding or defeasance of the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds has taken place. R&A has assumed that the 51 Percent Senior Indenture Amendments and the 100 Percent Senior Indenture Amendments will not become effective at the time of issuance of the Series 2009 Senior Bonds. The Department does not expect the 51 Percent Senior Indenture Amendments to become effective until 2012. This report does not discuss any of the 100 Percent Senior Indenture Amendments. Neither the 51 Percent Senior Indenture Amendments nor the 100 Percent Senior Indenture Amendments, when effective, will materially change the financial forecasts in this report or the Department's ability to meet the Senior Rate Covenant included in the Senior Indenture.

4.2.1 Key Senior Indenture Definitions

“LAX Revenues” means, for any given period, except to the extent specifically excluded, all income, receipts, earnings, and revenue, received by the Department from the Airport, as determined in accordance with generally accepted accounting principles. LAX Revenues also include all income, receipts, and earnings from the investment of amounts held in the LAX Revenue Account, any Construction Fund (if allowed pursuant to a Supplemental Senior Indenture), the Reserve Fund, any Debt Service Reserve Fund, and earnings on the Maintenance and Operation Reserve Fund which are attributable to the Airport.

“Pledged Revenues” means LAX Revenues except for the following, which are specifically excluded:

- Ad valorem taxes and interest earnings thereon received by the Department;
- Any gifts, grants, and other income, including the interest earnings thereon, which by their terms cannot be used to pay debt service;
- Insurance proceeds or funds received as a result of condemnation, including the interest thereon, which by their terms cannot be used to pay debt service;
- Any Transfer (as defined below); and
- LAX Special Facilities Revenue, including interest earnings thereon.

The following amounts are also excluded from Pledged Revenues unless otherwise pledged under the terms of a Supplemental Senior Indenture:

- Swap Termination Payments, including the interest earnings thereon;
- Facilities Construction Credits;
- LAX Passenger Facility Charge (PFC) collections, including the interest earnings thereon;

- LAX rental car customer facility charge (CFC) collections, including the interest earnings thereon;
- All revenues of the Airport System that are not LAX Revenues;
- Released LAX Revenues; and
- Interest earnings on any Construction Fund (unless provided for in a Supplemental Senior Indenture).

“**LAX Maintenance and Operation Expenses**” means for any given period, the total operation and maintenance expenses of the Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of the Airport payable from moneys other than Pledged Revenues.

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

Senior “Aggregate Annual Debt Service” generally means the aggregate debt service due on the Senior Bonds in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Senior Bonds (e.g. variable rate obligations). For purposes of meeting the Senior Rate Covenant, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service. On the effective date of the 51 Percent Senior Indenture Amendments, for purposes of meeting the Senior Additional Bonds test described below, principal and/or interest on Senior Bonds paid from PFC revenues are excluded from Senior Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Senior Trustee and are set aside exclusively to be used to pay such debt service. The Department expects to use a certain amount of PFCs to pay for a portion of the debt service on Senior Bonds (including certain PFCs irrevocably committed by the Department through FY 2014).

“**Transfer**” means for any fiscal year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such fiscal year in the LAX Revenue Account (after all required deposits and payments under the Senior Indenture have been made as of the last day of the immediately preceding fiscal year).

4.2.2 Additional Senior Bonds

As of the date of this report, Section 2.11 of the Senior Indenture provides that as a condition to the issuance of any additional series of Senior Bonds, there shall first be delivered to the Senior Trustee either:

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

- (1) the Net Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date of issuance of the proposed series of Senior Bonds or the establishment of a Senior Program were at least equal to 125% of Maximum Senior Aggregate Annual Debt Service;
- (2) for each fiscal year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of the Senior Indenture; and
- (3) the estimated Net Pledged Revenues for each of the first three complete fiscal years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 125% of Maximum Senior Aggregate Annual Debt Service calculated as if the proposed series of Senior Bonds and the full Authorized Amount of such proposed Senior Program Bonds (as applicable) were then Outstanding.

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

At the time of issuance of the Series 2009 Senior Bonds, if necessary, R&A expects to deliver a certificate as described in (b) above.

For a description of certain amendments to Section 2.11 of the Senior Indenture that are part of the 51 Percent Senior Indenture Amendments mentioned previously, please refer to Appendix D-1 of the Official Statement for the Series 2009 Bonds (“Proposed Amendments to the Master Senior Indenture”).

4.2.3 Senior Rate Covenant

The Department covenants in Section 5.04 of the Senior Indenture (the Senior Rate Covenant) that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that Net Pledged Revenues together with any Transfer in each Fiscal Year will be equal to at least 125% of Senior Aggregate Annual Debt Service on the Outstanding Senior Bonds for that Fiscal Year. The amount of any Transfer taken into account shall not exceed 25% of Senior Aggregate Annual Debt Service on the outstanding Senior Bonds in such fiscal year.

4.2.4 PFC Revenues Used to Pay Debt Service

Pursuant to the Senior Indenture, the Department may, for any period, elect to use PFC Revenues to pay the principal of and interest on Senior Bonds issued to finance approved PFC projects. Pursuant to the Senior Indenture, the definition of Senior Aggregate Annual Debt Service excludes debt service on Senior Bonds paid with PFC revenues for purposes of meeting the Senior Rate Covenant.

The Department expects to use a certain amount of PFCs (including certain PFCs irrevocably committed by the Department through FY 2014) to pay for a portion of the principal of and interest on the Series 2009A Senior Bonds, the Series 2008A Senior Bonds and future Senior Bonds assumed to fund a portion of the costs associated with the Other Incorporated Projects. See Section 4.7.3 below for more detailed information.

4.3 Subordinate Indenture

Pursuant to the terms of the Master Subordinate Trust Indenture, dated as of December 1, 2002, as subsequently amended and supplemented (and referred to in this report as the Subordinate Indenture), the Department may issue Los Angeles International Airport Subordinate Revenue Bonds (referred to in this report as Subordinate Bonds) secured by Subordinate Pledged Revenues and by certain other security interests as specified therein.

Articles II, IV and V of the Subordinate Indenture establish the requirements for the Department to issue Subordinate Bonds, create certain funds and accounts, establish the principal function and uses of each fund and account, and define the covenants of the Department. The requirements of the Subordinate Indenture were utilized to develop the estimated application of revenues and debt service coverage calculations included in these financial analyses. Key aspects of the Subordinate Indenture as they pertain to this report are summarized below. The capitalized terms used in this Section 4.3 are defined in the Subordinate Indenture.

As summarized in the Official Statement for the Series 2009 Subordinate Bonds (in “Appendix D-2 - Proposed Amendments to the Master Subordinate Indenture”), certain amendments are proposed to the Subordinate Indenture that require the consent of the holders of Subordinate Bonds. Some of these amendments will not become effective until (i) the Department has received the consent of the owners of at least 51 percent in aggregate principal amount of all of the Subordinate Bonds Outstanding and (ii) either the Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002 C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (51 Percent Subordinate Indenture Amendments). Certain other amendments to the Master Subordinate Indenture will not become effective until (i) the Department has received the consent of the owners of 100 percent in aggregate principal amount of all of the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and (ii) either the Department has received the consent of the banks that provide letters of credit to support the Subordinate Commercial Paper Notes and the Subseries 2002C1 and C2 Subordinate Bonds and the Series 2003A Subordinate Bonds (100 Percent Subordinate Indenture Amendments). R&A has assumed that the 51 Percent Subordinate Indenture Amendments and the 100 Percent Subordinate Indenture Amendments will not become effective at the time of issuance of the Series 2009 Subordinate Bonds. The Department does not expect the 51 Percent Subordinate Indenture Amendments to become effective until 2012. This report does not discuss any of the 100 Percent Subordinate Indenture Amendments. Neither the 51 Percent Subordinate Indenture Amendments nor the 100 Percent Subordinate Indenture Amendments, when effective, will materially change the financial forecasts in this report or the Department’s ability to meet the Subordinate Rate Covenant included in the Subordinate Indenture.

4.3.1 Key Subordinate Indenture Definitions

“**Subordinate Pledged Revenues**” means Pledged Revenues less Senior Aggregate Annual Debt Service on the Senior Bonds, less any required deposits to the Senior Reserve Fund(s).

“**Net Subordinate Pledged Revenues**” means, for any given period, Pledged Revenues, less LAX Maintenance and Operation Expenses, less Senior Aggregate Annual Debt Service (defined previously in Section 4.2.1) on the Senior Bonds, less any required deposits to the Senior Reserve Fund(s).

Subordinate “Aggregate Annual Debt Service” generally means the aggregate debt service due on the Subordinate Bonds and the Subordinate Commercial Paper Notes in a given year. Specific calculation procedures are required for determining annual debt service on certain types of Subordinate Bonds and the Subordinate Commercial Paper Notes (e.g. variable rate obligations). For purposes of meeting the Subordinate Rate Covenant, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service. For purposes of meeting the Subordinate Additional Bonds test described below, principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid from PFC revenues are excluded from Subordinate Aggregate Annual Debt Service if such PFC revenues are irrevocably committed or are held by the Subordinate Trustee and are set aside exclusively to be used to pay such debt service. The Department expects to use a certain amount of PFCs to pay for a portion of the debt service on Senior Bonds (including certain PFCs irrevocably committed by the Department through FY 2014), however, the Department does not expect to use any PFCs to pay debt service on the Series 2009 Subordinate Bonds, the Series 2008 Subordinate Bonds, the Series 2002C-1 and C-2 Subordinate Bonds, Series 2003A Subordinate Bonds or any additional Subordinate Bonds expected to be issued through 2016.

4.3.2 Additional Subordinate Bonds

As of the date of this report, Section 2.11 of the Subordinate Indenture provides that as a condition to the issuance of any Series of Subordinate Bonds, there shall first be delivered to the Subordinate Trustee either:

- (a) a certificate prepared by an Authorized Board Representative showing that the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date of issuance of the proposed series of Subordinate Bonds or preceding the first issuance of the proposed Subordinate Program Bonds were at least equal to 115% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and the proposed series of Subordinate Bonds calculated as if the proposed Series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding; or
- (b) a certificate, dated as of a date between the date of pricing of the Subordinate Bonds being issued and the date of delivery of such Subordinate Bonds (both dates inclusive), prepared by a Consultant showing that:
 - (i) the Net Subordinate Pledged Revenues (as calculated by said Consultant) for any 12 consecutive months out of the most recent 24 consecutive months immediately preceding the date of issuance of the proposed series of Subordinate Bonds or the establishment of a Subordinate Program were at least equal to 115% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds and Subordinate Commercial Paper Notes;
 - (ii) for each fiscal year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of the Subordinate Indenture; and

(iii) the estimated Net Subordinate Pledged Revenues for each of the first three complete fiscal years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, will be at least equal to 115% of Maximum Subordinate Aggregate Annual Debt Service with respect to all outstanding Subordinate Bonds, Unissued Subordinate Program Bonds, Subordinate Commercial Paper Notes and calculated as if the proposed series of Subordinate Bonds and the full Authorized Amount of such proposed Subordinate Program Bonds (as applicable) were then outstanding.

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

At the time of issuance of the Series 2009 Subordinate Bonds, R&A expects to deliver a certificate as described in (b) above.

For a description of certain amendments to Section 2.11 of the Subordinate Indenture that are part of the 51 Percent Subordinate Indenture Amendments mentioned previously, please refer to Appendix D-2 of the Official Statement for the Series 2009 Bonds (“Proposed Amendments to the Master Subordinate Indenture”).

4.3.3 Subordinate Rate Covenant

The Department currently covenants in Section 5.04 of the Subordinate Indenture (the Subordinate Rate Covenant) that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that during each fiscal year Net Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes. The amount of any Transfer taken into account shall not exceed 15% of Subordinate Aggregate Annual Debt Service on the outstanding Subordinate Bonds and Subordinate Commercial Paper Notes in such fiscal year.

4.3.4 PFC Revenues Used to Pay Debt Service on Subordinate Bonds

Pursuant to the Subordinate Indenture, the Department may, for any period, elect to use PFC revenues to pay principal and interest associated with approved PFC projects. Pursuant to the Subordinate Indenture, for purposes of meeting the Subordinate Rate Covenant, the definition of Subordinate Aggregate Annual Debt Service excludes debt service in an amount equal to principal of and/or interest on Subordinate Bonds and Subordinate Commercial Paper Notes paid with PFC revenues. The Department does not have any current plans to use any PFC revenues to pay debt service associated with Series 2009 Subordinated Bonds, any of its outstanding Subordinate Bonds, or Subordinate Commercial Paper Notes.

4.4 Parity Subordinate Indenture

Pursuant to the terms of the Subordinate Trust Indenture, dated as of April 1, 2002, as subsequently amended (and referred to in this report as the Parity Subordinate Indenture), the Department may issue its Los Angeles International Airport Commercial Paper Notes Series A (governmental purpose), Series B (private activity) and Series C (Federally Taxable) (referred to in this report as Subordinate Commercial Paper Notes) secured by Subordinate Pledged Revenues and by certain other security interests as specified therein. Pursuant to the Subordinate Indenture, the Department

has covenanted to issue only Subordinate Commercial Paper Notes under the Parity Subordinate Indenture and to issue all other Subordinate Bonds secured by Subordinate Pledged Revenues pursuant to the Subordinate Indenture.

4.4.1 Additional Parity Subordinate Obligations

Section 2.11 of the Parity Subordinate Indenture currently provides that the Department will not issue obligations secured by a pledge of Subordinate Pledged Revenues in excess of \$300,000,000 unless the Rating Agencies then rating the Subordinate Commercial Paper Notes confirm their respective ratings and unless there is first delivered to the Subordinate Issuing and Paying Agent:

(a) a certificate prepared by an Authorized Representative showing that the Net Pledged Revenues for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of issuance of the proposed additional obligations to be secured by Subordinate Pledged Revenues were at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes calculated as if the proposed additional subordinate obligations were then outstanding; or

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

(1) the Net Pledged Revenues (as calculated by such Consultant) for any 12 consecutive months out of the 18 consecutive months immediately preceding the date of the issuance of the proposed additional subordinate obligations to be secured by Subordinate Pledged Revenues were at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes; and

(2) the estimated Net Pledged Revenues (as calculated by such Consultant) for two fiscal years following the date of issuance of the proposed additional subordinate obligations to be secured by Subordinate Pledged Revenues will be at least equal to 110% of maximum aggregate annual debt service on the Senior Bonds, the Subordinate Bonds, the Subordinate Commercial Paper Notes and the proposed additional subordinate obligations, taking into account the rates, fees and charges in effect at the time of issuance of the proposed additional subordinate obligations.

At the time of issuance of the Series 2009 Subordinate Bonds, R&A expects to deliver a certificate as described in (b) above.

At the time the 51 Percent Subordinate Indenture Amendments become effective (currently projected to be in 2012) the Department expects to amend Section 2.11 of the Parity Subordinate Indenture so that such Section will be the same as Section 2.11 of the Subordinate Indenture.

4.4.2 Parity Subordinate Rate Covenant

Section 4.04 of the Parity Subordinate Indenture (the Parity Subordinate Rate Covenant) currently provides that the Department will establish, fix prescribe and collect rates, tolls, fees, rentals and charges in connection with the Airport and for services rendered in connection therewith, so that during each fiscal year the Net Pledged Revenues will be equal to at least 110% of aggregate annual debt service on all Senior Bonds, Subordinate Bonds and Subordinate Commercial Paper Notes for

that fiscal year. At the time the 51 Percent Subordinate Indenture Amendments become effective (currently projected to be in 2012) the Department expects to amend Section 4.04 of the Parity Subordinate Indenture which amendments will increase the coverage requirements set forth in Section 4.04 of the Parity Subordinate Indenture from 110% to 115%.

4.5 Air Carrier Operating Permit

Airlines at the Airport operate under a 5-year Air Carrier Operating Permit for the use of Landing Facilities at the Airport. The Air Carrier Operating Permit can be terminated with a 30-day notice from the airlines or the Department. The Operating Permit sets forth various terms and conditions related to the use of Landing Facilities, including, but not necessarily limited to, insurance requirements, indemnification provisions, and responsibility for the use and disposal of hazardous substances. Section 4.9.2 of this report describes how landing fees are calculated by the Department and discusses current and projected landing fees.

4.6 Terminal Building Leases and Tariff

As described in more detail below, certain airlines at the Airport lease terminal building space under existing long-term terminal building leases. A few airlines lease terminal building space under short-term leases with terms similar to those in the LAX Passenger Terminal Tariff (the Tariff), as described in more detail below. Aeronautical users (the remainder of this report refers to airlines) occupying or otherwise using terminal space at the Airport without an existing lease pay for terminal space through fees and charges set forth in the Tariff.

4.6.1 Long-Term Leases (Terminals 2, 4, 5, 7, 8, and a Portion of Terminal 6)

Terminal space in Terminals 2, 4, 5, 7, 8, and a portion of Terminal 6 are leased pursuant to existing Long-Term Leases. Significant construction of each of these terminals was financed by third party debt (issued by the Regional Airports Improvement Corporation, or RAIC, on behalf of the relevant airline tenants) payable solely from payments made by the corresponding airline tenants or their subtenants of these terminals. The terms of the Long-Term Leases range from 35 to 40 years and generally expire between 2017 and 2025, and contain the following key provisions:

- Terminal rents under the Long-Term Leases are charged beginning January 1 of each year, and have historically been calculated incorporating actual requirements from the prior fiscal year (e.g., calendar 2010 rents will be based on actual FY 2009 requirements), except as described in the “AGREEMENTS FOR USE OF AIRPORT FACILITIES--Long Term Lease Litigation and Interim Settlement Agreement” section in the front portion of the Official Statement for the Series 2009 Bonds.
- The Long-Term Leases provide for certain preferential use rights, although the airlines also agree to (i) make reasonable efforts to accommodate scheduled airlines in need of passenger terminal facilities (holdroom, ticket counters, etc.) and ground services and (ii) assess such other scheduled airlines only their respective pro rata direct costs plus a reasonable administrative fee.
- Rental rates on pre-existing terminal premises and on ground areas are adjusted periodically, typically every five years, by mutual agreement or, if the parties are not able to agree, then by a process directed at establishing a rent based on the then-current fair rental value. The airlines subject to Long-Term Leases are also required to pay Maintenance and Operations (M&O) Rent in order to compensate the Department for a portion of its costs of maintaining

and operating the terminal and a portion of the costs of maintaining and operating the Airport. Historically, the airlines subject to Long-Term Leases have paid a charge equivalent to 15 percent of the direct terminal M&O costs as a proxy for certain maintenance and operations costs such as security costs, general administrative costs and access costs (costs associated with the roadways in and connecting to the Airport).

- In December 2006, the Department approved M&O Rates that included increased M&O expenses, including all direct and indirect costs allocated to the Terminal Cost Center (which are higher than the 15 percent proxy discussed above), retroactive to January 1, 2006. Certain of these direct and indirect costs allocated to the Terminal Cost Center, such as security costs and full indirect costs had not previously been included by the Department in Terminal rents and charges. The airline tenants disputed the right of the Department to make these changes. Settlement Agreements concerning, among other things, M&O Rates were reached for calendar years 2006, 2007, 2008 and a portion of 2009—see the “AGREEMENTS FOR USE OF AIRPORT FACILITIES--Long-Term Lease Litigation and Interim Settlement Agreements” subsection of the front portion of the Official Statement for the Series 2009 Bonds for more information.
- The Long-Term Leases also provide the Department the right to defease third party debt that financed terminal improvements under certain circumstances.
- In the event that the leased premises are damaged or destroyed such that the Department can not repair, replace or reconstruct such premises within a reasonable time, the Long-Term Lease may be terminated at the Airline’s option. If the Airlines are prevented from occupying or using the Terminal Facilities, or are materially restricted from operating aircraft to or from the Airport, by any final action, order or ruling of any federal or state governmental authority, the airlines may, at their option, terminate their respective Leases by 30 days written notice.
- In connection with the financing of certain public areas at various terminals, the Department entered into capital lease agreements with the respective airlines. The agreements generally provided for the payment of amounts by the Department to such airlines in the form of rent credits over various terms. In 2002 and 2003, the Department used its cash reserves to pre-pay all of its obligations under these Long-Term Leases, with the exception of obligations under the Long-Term Lease for Terminal 2 (the LAX Two Corporation). The Department continues to use rental credits to pay for its obligations on the capital lease with the LAX Two Corporation. These rental credits are applied as an offset of amounts owed to the Department by the LAX Two Corporation for terminal rentals and landing fees because they are netted out of amounts received by the Department. Rental credits are not included as Pledged Revenues under the Senior Indenture. See the “AGREEMENTS FOR USE OF AIRPORT FACILITIES--Rental Credit” subsection of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information.

4.6.2 LAX Passenger Terminal Tariff and Leases with Provisions Similar to the Tariff (Terminals 1, 3, TBIT, and a Portion of Terminal 6)

The Tariff applies to all airlines using terminal space at the Airport without an existing lease. The Tariff is similar to rate ordinances used by other airports in that it is used when there is no existing airline agreement or lease, and the Tariff has no term or expiration date but is subject to change from time to time by the Board. Currently, the Tariff applies to airlines using space subject to the Tariff in Terminal 1, Terminal 3, the Tom Bradley International Terminal (TBIT), and Terminal 6. The Tariff

went into effect on February 1, 2007 and was immediately applied to the airlines operating in Terminals 1 and 3 and to certain airlines using space in Terminal 6. On April 1, 2007, the Tariff was applied to airlines operating at TBIT. On September 21, 2009, the Tariff was amended to apply to aeronautical users at the Airport.

For terminal space subject to the Tariff, certain critical areas (including ticket counter space, gate areas, and other facilities from time to time) may be used by airlines on a joint use basis, to be available to airlines that make the most productive use of such areas. The Department has the right to schedule specific areas for the use by particular airlines for specific periods and may, from time to time, establish preferences in the use of joint use space in favor of an airline or airlines when the arrivals and departures of flights operated by such airline or airlines can be scheduled in a manner that will substantially exceed specified utilization standards. If the Department determines that any terminal space occupied or used by any airline under the Tariff is underutilized, the Department may accommodate other airlines in such space. Terminal rates under the Tariff are calculated based on a compensatory rate-making methodology, where all related costs in the Terminal Cost Center are allocated to all entities using or occupying terminal space. Under the Tariff, the Terminal Expenses include the following components:

- Base Charge: Generally equal to the greater of (1) (a) the Space Use Factor multiplied by the per square foot rate based on an appraised value (as annually adjusted to reflect increases in the Consumer Price Index, and as subject to five-year reappraisals), or (b) the Space Use Factor multiplied by the per square foot negotiated rate (as annually adjusted to reflect increases in the Consumer Price Index)(for cases in which negotiated rates apply), or (2) Terminal Capital Charges. Terminal Capital Charges are composed of direct terminal debt service, coverage on direct terminal debt service, and direct terminal amortization.
- Terminal Regular Expenses: Equal to direct and indirect terminal M&O Expenses and any required M&O Reserve deposit.
- Terminal Special Expenses: Equal to debt service, debt service coverage, and/or amortization related to Airline Equipment.
- Airport Infrastructure Charges: Equal to indirect terminal debt service, coverage on indirect terminal debt service, and indirect terminal amortization.

When the Tariff was implemented, the portion of Terminal costs allocated to the airlines was, in general, based on each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common use areas). For each airline, its Space Use Factor includes the measured area of its Occupied Terminal Area (its exclusive use areas), its Joint Use Areas and its International Joint Use Areas (if applicable).

Pursuant to either (i) a letter agreement approved by the Board that amends the terms of the Tariff (the Letter Agreement), or (ii) the Partial Settlement Agreement (see the "AGREEMENTS FOR USE OF AIRPORT FACILITIES--Complaints Regarding the Tariff and Subsequent Decisions" subsection of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information), for the airlines using terminal space subject to the Tariff that have entered into the Letter Agreement or the Partial Settlement Agreement, the Base Charge, Terminal Regular Expenses, and Airport Infrastructure Charges are allocated based on each airline's Space Use Factor, without a pro-rata portion of charges related to those parts of the terminal areas not exclusively used by airlines or other tenants. For airlines who have not entered into the Letter Agreement or the Partial

Settlement Agreement, the Base Charge, Terminal Regular Expenses and Airport Infrastructure Charges are allocated according to each airline's Space Use Factor and a pro-rata portion of those parts of the terminal areas not exclusively used by airlines or other tenants (generally, public use or common use areas). Because the Terminal Special Expenses relate solely to airline equipment, they are paid entirely by airlines based on each airline's Space Use Factor.

Virgin America has executed a 5-year terminal lease agreement, and United Airlines has executed a 13-year terminal lease agreement covering its premier ticket counters in Terminal 6 with the Department with provisions similar to the Tariff.

4.6.3 Negotiations and Legal Matters Regarding Terminal Rents and Charges

The Department and many of the airlines operating at the Airport have been involved in negotiations and various legal matters in recent years regarding certain aspects of the Airport's terminal rental rates. These negotiations and legal matters have involved both the airlines that are parties to long-term terminal leases as well as those airlines without long-term leases that are operating under the Tariff. Please refer to the "Long-Term Lease Litigation and Interim Settlement Agreements," "Complaints Regarding the Tariff and Subsequent Decisions", and "2009 Airline Negotiations" subsections in the "AGREEMENTS FOR USE OF AIRPORT FACILITIES" section of the front portion of the Official Statement for the Series 2009 Bonds for more detailed information on specific negotiations and legal matters.

As discussed in Section 3.4 of this Report (Other Incorporated Projects) and as reflected in the tables accompanying this chapter, the Department plans to issue future bonds (assumed to be Senior Bonds for purposes of this report) to acquire certain existing terminal improvements previously and independently financed by certain long-term terminal lease tenants at the Airport. In connection with this plan, for a given terminal with such existing terminal improvements, once such improvements have been acquired by the Department, it has been assumed for the financial projections reflected in this report (see Section 4.6.4 below) that the Department may then recover debt service payments allocated to that given terminal.

4.6.4 Assumptions for Projected Terminal Rents and Charges

For purposes of the financial projections incorporated in this report (and reflected in the financial tables accompanying this chapter), the following assumptions regarding Terminal rents and charges were incorporated:

- Long-Term Leases (Terminals 2, 4, 5, 7, 8 and a portion of Terminal 6) — Provisions incorporated in the Settlement Agreements related to the payment of M&O Expenses, as amended, (which specify terminal rents and fees for CY 2006, CY 2007, CY 2008, and a portion of CY 2009, and allow the Department to recover a portion of terminal security costs) are assumed, for purposes of the financial projections in this report, to extend through FY 2016. Current space rent and footprint rent amounts paid by LTL terminals are assumed to increase with inflation and, in the case of LTL terminals where certain existing terminal improvements are acquired by the Department, following the acquisition of such improvements, space rent and footprint rent payments are replaced with debt service payments allocated to such LTL terminals (without debt service coverage). For purposes of the analysis, it is assumed that 50 percent of Terminal 6 is leased under the Long-Term Leases, for the entire projection period.

- The Tariff (Terminals 1 and 3, TBIT and a portion of Terminal 6) — Terminal rents and fees specified under the Tariff (as applied pursuant to the Partial Settlement Agreement or the Letter Agreement are assumed, for purposes of the base financial analysis, to extend through FY 2016. Base Rent, Terminal Regular Expenses, and Airport Infrastructure Charges, as described in Section 4.6.2 of this Chapter, are assumed to be allocated to airlines (in each of the Terminals under the Tariff) based on each Airline’s Space Use Factor (without a pro-rata portion of the terminal’s public use or common use areas). Terminal Special Expenses are paid entirely by the specific airline(s) to which such expenses relate. For purposes of the analysis, it is assumed that 50 percent of Terminal 6 is subject to the LAX Passenger Terminal Tariff for the entire Projection Period.
- The final resolution of the ongoing negotiations and/or legal matters related to terminal rentals at the Airport (as discussed above in Section 4.6.3) could result in terminal rental revenues different than as reflected in the financial tables accompanying this chapter for FY 2010 through FY 2016 (based on the assumptions above). However, the assumptions above provide a reasonable basis for purposes of projecting Terminal rents and charges during the projection period.

4.7 Financing Plan

As discussed in Chapter 3, the Department’s capital planning efforts are organized for the purposes of this report into the Series 2009 Projects, Other Incorporated Projects and Future Projects. Projects are categorized based on a range of considerations including timing, demand levels, and certainty and stage in the project approval process. The Series 2009 Projects reflect those projects to be funded, in part, with Series 2009 Bond proceeds. The Other Incorporated Projects include projects other than the Series 2009 Projects that are certain enough in terms of scope, timing, cost, or approval to incorporate in this report, and are expected by the Department to be completed during the projection period (through FY 2016). The financial impacts of the Other Incorporated Projects have been analyzed and incorporated in this report and the accompanying financial tables. As discussed in more detail in Section 3.2 of this report, Future Projects are not reflected in this report or in the accompanying tables because the scope, timing, cost, and approval of these projects are uncertain.

The Department’s funding or finance plan is driven by overall policy objectives and more specific financing strategies for nearer term and more certain projects. The Department’s long term goals for funding its capital requirements include:

- developing over time an appropriate mix of senior and subordinated debt and of fixed and floating rate debt, and the potential incorporation of the use of derivatives;
- maintaining strong credit ratings and active senior and subordinate liens;
- using variable rate debt in a judicious and prudent manner, taking into account outstanding debt balances, cash on hand and market conditions;
- using PFCs, CFCs, and other sources of funds in a manner that optimizes a balance of leverage and pay-as-you-go approaches;
- considering alternative funding approaches such as off-balance sheet financings; and
- funding individual projects with a mix of funding sources based on market conditions, Airport objectives and the facts and circumstances at the time funding is required.

Given the financial strength of the Department and the wide range of funding sources available, the Department has a great deal of flexibility in developing specific funding approaches that will both accommodate project needs and preserve the Department's ability to meet its debt service obligations. The balance of this Section 4.7 discusses funding available to the Department and how these sources are incorporated into the financial analysis of the impacts of the Series 2009 Bond Projects and the Other Incorporated Projects.

- The Department intends to finance the Series 2009 Projects with TSA grants, FAA Airport Improvement Program (AIP) grants, internal Department funds, other funds (Series 2008 Bond proceeds on hand), PFC funding, and the net proceeds of the Series 2009 Bonds.
- The Department expects to finance Other Incorporated Projects with FAA AIP grants, internal Department funds, PFC funding, other funds (including grants other than TSA and AIP grants, Department Funds restricted for use on the Central Utility Plant, and other/third party funds), and the net proceeds of additional future senior and subordinate revenue bonds. Commercial paper may be used and refunded in the future with additional future bonds, however, the use of commercial paper is not assumed or reflected in these analyses.

Table IV-1 presents the estimated funding sources for the Series 2009 Projects and the Other Incorporated Projects discussed previously in Chapter 3. As shown on Table IV-1, the Series 2009 Projects are estimated to cost approximately \$1.0 billion and the Other Incorporated Projects are estimated to cost approximately \$4.6 billion. The financial impacts of both the Series 2009 Projects and the Other Incorporated Projects are reflected in the accompanying tables in this chapter.

4.7.1 Sources of Funding

A description of estimated funding sources for the Series 2009 Projects and the Other Incorporated Projects is presented in greater detail in the following paragraphs.

4.7.1.1 TSA Grants

The Department has received significant TSA funding to be used at several passenger terminals at the Airport and LA/Ontario Airport. To date, the Department has received a \$256 million letter-of-intent (LOI) from the TSA, of which \$235 million is planned to be used for the passenger terminals at the Airport. A portion of the \$235 million for the Airport has been used to date.

The Department is in the process of securing an additional \$225 million of TSA funding, of which the TSA has committed to \$75 million to date. The Department expects that the remaining \$150 million will be obligated through a future TSA LOI or TSA Other Transaction Agreement (OTA). Along with the \$235 million of LOI funding planned to be used at the Airport, this additional \$225 million would mean a total of \$460 million in TSA funding expected to be used at the Airport.

As reflected on Table IV-1, the Department expects to use approximately \$105.0 million of TSA grant funds in connection with the completion ongoing interior TBIT improvements as part of the Series 2009 Projects. In addition, the Department estimates that approximately \$105.0 million of the TSA LOI grant will be used to fund the in-line EDS system for Terminal 3 (also reflected on Table IV-1).

Los Angeles World Airports
Los Angeles International Airport

Table IV-1 (1 of 2)
Summary of the Series 2009 Projects and Other Incorporated Projects – Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

	Sources of Funds										
	Estimated Project Costs ^v	TSA Funds	AIP Funds	Department Funds	Other Funds ^{2/}	PFC Funds	Future Bond Proceeds ^{3/ 4/}		Series 2009 Bond Proceeds ^{3/ 5/}		Total
							Subordinate	Senior	Subordinate	Senior	
The Series 2009 Projects											
Terminal Projects											
Completion of TBIT Improvements	200,000,000 \$	105,000,000 \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	95,000,000 \$	95,000,000
In-Line Baggage Screening System - Terminal 3	140,000,000	105,000,000	-	-	-	-	-	-	-	35,000,000	35,000,000
Elevators and Escalators Replacements (Terminal) - Phases 1&2	90,400,000	-	-	9,040,000	-	36,160,000	-	-	-	45,200,000	45,200,000
	\$ 430,400,000 \$	210,000,000 \$	- \$	9,040,000 \$	- \$	36,160,000 \$	- \$	- \$	- \$	175,200,000 \$	175,200,000
Airfield and Apron Projects											
Crossfield Taxiway Projects ^{1/}	341,389,000 \$	- \$	45,606,000 \$	43,237,000 \$	- \$	- \$	- \$	- \$	- \$	252,546,000 \$	252,546,000
Airfield Intersection Improvements Phase 2	41,049,000	-	-	16,049,000	-	-	-	-	-	25,000,000	25,000,000
Airfield Operations Area Perimeter Fence (World Way West) Phase 3	17,162,000	-	-	-	-	-	-	-	-	17,162,000	17,162,000
Arcatchit Rescue and Fire Fighting Station Construction	13,590,000	-	-	-	11,000,000	-	-	-	-	2,590,000	2,590,000
	\$ 413,180,000 \$	- \$	45,606,000 \$	43,237,000 \$	27,049,000 \$	- \$	- \$	- \$	- \$	297,238,000 \$	297,238,000
Parking Projects											
Acquisition of Park One Property	125,000,000 \$	- \$	- \$	40,000,000 \$	- \$	- \$	- \$	- \$	- \$	85,000,000 \$	85,000,000
Elevators and Escalators Replacements (Parking) - Phases 1&2	22,600,000	-	-	22,600,000	-	-	-	-	-	-	-
	\$ 147,600,000 \$	- \$	- \$	62,600,000 \$	- \$	- \$	- \$	- \$	- \$	85,000,000 \$	85,000,000
Refunding											
Refunding - Subordinate Subseries 2002 C1	37,400,000 \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	37,400,000 \$	37,400,000
	\$ 37,400,000 \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$	37,400,000 \$	37,400,000
Total Series 2009 Projects	\$ 1,026,550,000 \$	210,000,000 \$	45,606,000 \$	114,877,000 \$	27,049,000 \$	36,160,000 \$	- \$	- \$	- \$	334,658,000 \$	594,658,000
Other Incorporated Projects^{7/}											
Terminal Projects											
Bradley West Core	881,454,000 \$	- \$	- \$	171,973,000 \$	- \$	- \$	- \$	- \$	619,481,000 \$	- \$	619,481,000
Bradley West Concourses	713,121,000	-	-	93,469,000	-	-	-	-	529,652,000	-	529,652,000
Terminal Improvements Program ^{8/}	614,971,000	250,000,000	-	54,971,000	-	90,000,000	-	-	310,000,000	-	310,000,000
Central Utility Plant	467,968,000	-	-	10,047,000	35,000,000	154,139,000	-	-	268,782,000	-	268,782,000
Acquisition of Existing Terminal Improvements	261,405,000	-	-	49,000,000	-	-	-	-	212,405,000	-	212,405,000
Elevators and Escalators Replacements (Terminal) - Phase 3&4	125,600,000	-	-	98,480,000	-	27,120,000	-	-	-	-	-
Program Reserve--Terminal Development and Improvements	125,000,000	-	-	125,000,000	-	-	-	-	-	-	-
	\$ 3,189,519,000 \$	250,000,000 \$	- \$	602,940,000 \$	35,000,000 \$	381,259,000 \$	- \$	- \$	1,940,320,000 \$	- \$	1,940,320,000
Airfield and Apron Projects											
Noise Mitigation and Soundproofing	451,000,000 \$	- \$	- \$	23,278,000	-	431,000,000	-	-	-	-	-
Bradley West Aprons	188,304,000	-	33,182,000	-	173,747,000	-	-	-	131,844,000	-	131,844,000
West Maintenance Facility Pad and Infrastructure	193,570,000	-	-	-	-	-	-	-	19,823,000	-	19,823,000
Pavement Management Program	175,000,000	-	35,000,000	-	-	-	-	-	140,000,000	-	140,000,000
Bradley West Taxiway T and Associated Projects	97,909,000	-	18,703,000	4,386,000	-	-	-	-	74,810,000	-	74,810,000
Airfield Safety Improvements	51,785,000	-	25,631,000	-	-	-	-	-	26,154,000	-	26,154,000
Other Airfield and Apron Projects ^{9/}	43,380,000	-	352,000	5,888,000	7,721,000	22,226,000	-	-	7,183,000	-	7,183,000
	\$ 1,180,898,000 \$	- \$	112,868,000 \$	33,542,000 \$	181,468,000 \$	453,226,000 \$	- \$	- \$	399,794,000 \$	- \$	399,794,000
Infrastructure and Other Projects											
Elevators and Escalators Replacements (Parking) - Phase 3&4	31,400,000 \$	- \$	- \$	31,400,000 \$	- \$	- \$	- \$	- \$	- \$	- \$	- \$
IT Infrastructure Construction	28,385,000	-	-	-	-	28,385,000	-	-	-	-	-
Seismic Retrofit of CTA Pedestrian and Vehicular Bridges	21,112,000	-	-	21,112,000	-	-	-	-	-	-	-
Other Projects ^{10/}	62,944,000	-	-	37,532,000	7,122,000	38,290,000	-	-	-	-	-
	\$ 163,821,000 \$	- \$	- \$	90,044,000 \$	7,122,000 \$	66,655,000 \$	- \$	- \$	- \$	- \$	- \$

Los Angeles World Airports
Los Angeles International Airport

Table IV-1 (2 of 2)
Summary of the Series 2009 Projects and Other Incorporated Projects – Costs and Funding (Based on \$4.50 PFC Level Throughout Projection Period)

	Sources of Funds																			
	Estimated Project Costs ^{1/}	TSA Funds	AIP Funds	Department Funds	Other Funds ^{2/}	PFC Funds	Future Bond Proceeds ^{3/, 4/}		Series 2009 Bond Proceeds ^{5/, 6/}											
							Subordinate	Senior	Subordinate	Senior	Total	Total								
Cash Deafesance of Certain Bonds																				
Cash Deafesance - Subordinate Series 2003 A	\$ 23,700,000	\$ -	\$ -	\$ 23,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash Deafesance - Subordinate Subseries 2002 C2	\$ 20,000,000	\$ -	\$ -	\$ 20,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 43,700,000	\$ -	\$ -	\$ 43,700,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Incorporated Projects	\$ 4,577,938,000	\$ 250,000,000	\$ 112,868,000	\$ 770,226,000	\$ 223,590,000	\$ 881,140,000	\$ 1,940,320,000	\$ 399,794,000	\$ 1,940,320,000	\$ 2,540,114,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Series 2009 Projects and Other Incorporated Projects	\$ 5,606,488,000	\$ 450,000,000	\$ 1,584,744,000	\$ 885,103,000	\$ 250,639,000	\$ 917,300,000	\$ 1,940,320,000	\$ 399,794,000	\$ 1,940,320,000	\$ 2,340,114,000	\$ 334,658,000	\$ 260,200,000	\$ 594,858,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	

Notes:

- 1/ Estimated costs shown include design, engineering, escalation for inflation (as appropriate), and contingency amounts.
- 2/ Other Funds include Series 2008 Bond proceeds, grants other than AIP and TSA Funds, Department Funds restricted for use on the CUP Project, and other 3rd party funding (West Maintenance Facility Pad and Infrastructure).
- 3/ A portion of the debt service associated with the Series 2009 Senior Bonds and Future Senior Bonds is expected to be paid with PFC revenues.
- 4/ Includes bond proceeds from future bond issues assumed in 2010 through 2015—see Table IV-3. Future bond proceeds used for Terminal Projects and Infrastructure and Other Projects are assumed to be from future Senior Bonds and future bond proceeds used for Airfield and Apron Projects are assumed to be from future Subordinate Bonds.
- 5/ Series 2009 Bond proceeds for Terminal and Parking projects are from Series 2009 Senior Bonds and Series 2009 Bond proceeds for Airfield and Apron projects are from Series 2009 Subordinate Bonds.
- 6/ Includes construction of Crossfield Taxiway C13, Crossfield Taxiway S, and associated projects.
- 7/ The financial impacts, if any, associated with Other Incorporated Projects are incorporated in the financial tables included in Chapter 4 of this report (with the impacts reflected in the Projection Period).
- 8/ Includes in-line bag screening systems for terminals other than TBT and T3; passenger boarding bridge replacements, utility improvements (including sewer, electrical, etc.), bag claim devices replacement; pre-conditioned air unit installation; and other terminal infrastructure improvements.
- 9/ Includes Airport Operations Center Facility, runway status light system; Enhanced Access Control Monitoring System (ACAMS); GSE quick charging stations; and security airfield access posts upgrade.
- 10/ Includes closed circuit television system enhancement and expansion; wired and wireless improvements; Central Terminal Area expansion (rent repair (roadway and parking), air freight roof renovation; Theme Building restoration; and other improvements.

Sources: City of Los Angeles, Department of Airports (October 2009).
Prepared by: Ricardo & Associates, Inc. (October 2009).

The remainder of the \$460 million total of expected TSA grant amounts for the Airport will be used to fund the installation of EDS and other security projects at other terminals in the future, as reflected in the Terminal Improvements Program project on Table IV-1 (under Other Incorporated Projects—Terminal Projects).

4.7.1.2 FAA Airport Improvement Program (AIP) Grants

The FAA Airport Improvement Program (AIP) provides Federal discretionary and entitlement grants for eligible airport projects. The entitlement funds are based upon airport passenger enplanement and cargo activity, with entitlement and discretionary funding subject to annual Congressional appropriations levels. AIP grants are distributed to airport operators on a reimbursement basis. As shown on Table IV-1, the Department expects to use \$45.6 million of AIP discretionary grants for the Crossfield Taxiway Projects. In connection with the Other Incorporated Projects, the Department expects to receive approximately \$112.9 million of future AIP grant funding for various apron and taxiway projects.

4.7.1.3 Passenger Facility Charges

The estimated capital project funding sources, projected airline payments, and other key financial results reflected in this report are based on the assumption that the current \$4.50 PFC level at the Airport is **not** increased to a higher PFC level throughout the Projection Period. The Department is actively involved in nationwide efforts to increase the current \$4.50 maximum PFC level nationwide. The Department plans to seek FAA approval for a higher PFC level at the Airport if in fact the maximum PFC level is increased by federal law. If the maximum PFC level is increased and the Department obtains approval to increase the PFC level at the Airport during the Projection Period, the Department plans to use the additional PFC revenues (through either pay-as-you-go spending or increased amounts paying debt service) to reduce the level of projected airline payments reflected in this report. If the current \$4.50 maximum level is not increased during the Projection Period and/or the Department is not able to obtain approval for a higher PFC level at the Airport during the Projection Period, the Department expects to explore other funding alternatives and seek other ways to reduce the level of projected airline payments reflected in this report.

The Department received its first approval from the FAA to impose a PFC in April 1993, and began collecting a \$3.00 PFC per eligible enplaned passenger on July 1, 1993. The Department subsequently received FAA approval to increase its PFC level to \$4.50 per eligible enplaned passenger and began collecting at the \$4.50 level on August 1, 2003. Pursuant to FAA regulations, the current \$4.50 PFC level collected by the Department results in a 75 percent reduction in AIP passenger entitlement grants.

The Department is currently authorized by the FAA, pursuant to six PFC application approvals, to impose and use approximately \$1.7 billion of PFC revenues (at the \$4.50 PFC level) for various projects at the Airport. Through June 30, 2009, the Department had collected approximately \$1.3 billion of its total approved collection authority for the Airport and had spent approximately \$700 million on approved projects.

As shown on Table IV-1, the Department expects to use approximately \$917.3 million of PFC funds for Series 2009 Projects and Other Incorporated Projects (including noise mitigation, soundproofing, the Central Utility Plant, elevators and escalators replacements, the Bradley West Core and Concourses, among other projects).

As described in more detail below, the Department plans to use PFC revenues to pay for a portion of the debt service on the Senior Bonds including the Series 2009 Senior Bonds, outstanding Series 2008 Senior Bonds, and future Senior Bonds to be issued to finance a portion of the costs associated with the Other Incorporated Projects. Given the level of annual PFC revenues at the Airport (FY 2009 PFC collections excluding interest earnings were \$104.8 million) and substantial existing PFC Fund balances available to apply to projects undertaken during the Projection Period, the Department expects to use PFC revenues and available PFC Fund balances, particularly in the early years when debt service becomes payable, to pay certain principal and interest to help reduce the impact of future debt service on airline rates and charges. The actual amount of PFC revenues that the Department ultimately uses to pay debt service may vary from year to year (allowing the Department to apply PFC revenues strategically to help manage to desired financial results—e.g., lower airline payments).

The Department expects to use PFC revenues to pay for a specific percentage of the total debt service associated with the Series 2009 Senior Bonds and the Series 2008 Senior Bonds issued to finance the TBIT Interior Improvements Project (roughly equivalent to the share of public space within TBIT). The Department has received FAA approval in connection with the use of PFC revenues to pay a portion of the total debt service associated with this project.

In connection with the future Bradley West Core, Bradley West Concourses, and Terminal Improvements Program elements of the Other Incorporated Projects, the Department expects that a range of approximately 25 percent to 50 percent of the estimated cost of these individual projects will be funded with PFC pay-as-you-go funds or future Senior Bond proceeds with associated debt service expected to be paid with PFC revenues. The remaining estimated project costs for these three projects are expected to be funded with Department Funds, and/or future revenue bond proceeds with associated debt service that will not be paid with PFC revenues. Future collection and use of PFC revenues to pay for the debt service associated with these three projects will require a new application and approval for use from the FAA.

Airport industry groups have requested that federal PFC regulations be changed to increase the PFC program's maximum PFC level from its current level of \$4.50. As part of a recent proposed bill for FAA Reauthorization for 2009, the House of Representatives proposed an increase in the maximum PFC level to \$7.00. The Senate's Bill for Reauthorization did not include an increase for the maximum PFC level, however it proposes the creation of a pilot program in which a limited number of airports would be allowed control over the PFC rate (with no maximum level). As of the date of this report, a Reauthorization Bill that could potentially increase the maximum PFC level has not been adopted by the House and the Senate.

4.7.1.4 Department Funds

As reflected on Table IV-1, the Department expects to use approximately \$114.9 million of Department funds for the Series 2009 Projects and approximately \$770.2 million of Department funds for Other Incorporated Projects.

The use of Department funds as reflected on Table IV-1 was based on an internal Department requirement that unrestricted cash plus the balance in the Maintenance and Operation Reserve Fund must be greater than or equal to 365 days' worth of LAX Maintenance and Operation Expenses.

4.7.2 Series 2009 Bond Proceeds

Bond proceeds are assumed to be the remaining source of funding for the Series 2009 Projects. As reflected on Table IV-1, approximately \$594.9 million of Series 2009 Bond proceeds are expected to be used to fund costs of the Series 2009 Projects.

Table IV-2 presents a listing of estimated sources and uses of funds for the proposed Series 2009 Bonds, broken out into the Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds. Table IV-2 also indicates (see footnote 1) how much of the Series 2009 Bonds will be used to pay off outstanding commercial paper amounts and how much will be used to reimburse the Department for project expenditures to date.

The assumptions, estimated sources and uses of funds, and debt service for the proposed Series 2009 Bonds were provided by the Department and its financial advisors, using information regarding the estimated cost and timing of the Series 2009 Projects and the estimated receipt of federal grants and other funds reflected on Table IV-1.

Debt service estimates for the proposed Series 2009 Bonds are based on the following assumptions:

- Approximately \$594.9 million of Series 2009 Bonds will be issued to fund a portion of the costs of the Series 2009 Projects.
- The Series 2009 Senior Bonds will be issued to fund a portion of the costs of the TBIT Interior Improvements completion project, the Terminal 3 in-line baggage screening system, elevator and escalator replacements (Phases 1 & 2), and the acquisition of the Park One Property.
- The Series 2009 Subordinate Bonds will be issued to fund a portion of the costs of the Crossfield Taxiway Projects, Airfield Intersection Improvements, Airfield Operations Area perimeter fence replacement, and the ARFF Station construction.
- The Series 2009 Senior Bonds are issued with up to a 30-year term and an overall interest rate of 5.37 percent, assuming approximately level debt service.
- The Series 2009 Subordinate Bonds are issued with up to a 30-year term (with the use of Build America Bonds for bonds maturing from 2024 through 2039) and an overall interest rate of 6.05 percent, an 4.01 percent after taking into account the subsidy from the Federal government related to the Build America Bonds, assuming approximately level debt service.
- Interest on the Series 2009 Bonds is capitalized through the various estimated project completion dates with a 2-month cushion.
- A portion of the proceeds of the Series 2009 Bonds will fund a deposit to the Senior Reserve Fund, which is a common reserve fund and is required to be funded at an amount equal to the least of (a) 10 percent of the principal amount of all Senior Bonds, (b) Maximum Annual Debt Service for all Senior Bonds, or (c) 125 percent of Average Annual Debt Service for all Senior Bonds.
- A portion of the proceeds of the Series 2009 Subordinate Bonds will fund a deposit to the Subordinate Reserve in an amount equal to the least of (a) 10 percent of the principal amount of the Series 2009 Subordinate Bonds, (b) Maximum Annual Debt Service for the Series 2009 Subordinate Bonds, or (c) 125 percent of Average Annual Debt Service for the Series 2009 Subordinate Bonds.

Table IV-2

Estimated Sources and Uses of Funds -- Series 2009 Bonds

	Senior Series 2009 Revenue Bonds	Subordinate Series 2009 Revenue Bonds	Total Series 2009 Revenue Bonds
Sources			
Par Amount of Bonds	\$ 285,430,000	\$ 388,510,000	\$ 673,940,000
Original Issue Premium / (Discount)	9,233,000	6,642,000	15,875,000
Interest Earnings	1,153,000	1,534,000	2,687,000
Total Sources	\$ 295,816,000	\$ 396,686,000	\$ 692,502,000
Uses			
Project costs funded with Series 2009 Bond proceeds ^{1/}	\$ 260,200,000	\$ 334,658,000	\$ 594,858,000
Capitalized interest--Series 2009 Bonds ^{2/}	8,457,000	21,993,000	30,450,000
Debt Service Reserve Fund	22,862,000	34,189,000	57,051,000
Costs of issuance	4,297,000	5,846,000	10,143,000
Total Uses	\$ 295,816,000	\$ 396,686,000	\$ 692,502,000

Notes:

1/ Includes approximately \$65 million of funds to reimburse the Department for project costs to date paid for with Department funds and approximately \$85 million of funds to refund outstanding commercial paper notes.

2/ Interest capitalized on Series 2009 Bonds through estimated completion dates with two months cushion.

Sources: City of Los Angeles, Department of Airports and Public Resources Advisory Group (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

4.7.3 Future Series Bond Proceeds

As reflected on Table IV-1, approximately \$399.8 million of future Subordinate Bond proceeds and \$1.9 billion of future Senior Bond proceeds (for a total of approximately \$2.3 billion) are expected to be used to fund a portion of the estimated costs of the Other Incorporated Projects.

Table IV-3 reflects future bond issues expected to be issued during the Projection Period (subsequent to the issuance of the Series 2009 Bonds)—including Series 2010 bonds, Series 2011 bonds, and series issued after Series 2011 bonds. Table IV-3 reflects both future bond principal (broken into Senior Bonds and Subordinated Bonds) and bond proceeds used to pay project costs, and which key projects are assumed to be funded with future bond issues.

Debt service estimates for future bonds were based on the following assumptions:

- Future bonds issued to pay for a portion of future Terminal Projects and Infrastructure and Other Projects were assumed to be Senior Bonds, with up to a 30-year term, approximately level debt service, and overall interest rate of 6.00 percent.
- Future bonds issued to pay for a portion of future Airfield and Apron Projects were assumed to be Subordinate Bonds, with up to a 30-year term, approximately level debt service, and overall interest rate of 6.00 percent.
- Parity debt service reserves equal to the Maximum Annual Debt Service for either the outstanding Senior Bonds or the outstanding Subordinate Bonds are funded with bond proceeds.
- Bond insurance has been assumed.
- Interest on the future bonds is capitalized through the estimated project completion date with a 2-month cushion using a capitalized interest investment rate of 1.00 percent and a Construction Fund investment rate of 0.50 percent.

Table IV-4 presents actual and estimated Senior Aggregate Annual Debt Service for outstanding Senior Bonds, proposed Series 2009 Senior Bonds, and future additional Senior Bonds (as reflected on Table IV-3) for FY 2008 through FY 2016. As discussed in earlier sections of this chapter, pursuant to the Senior Indenture, for purposes of meeting the Senior Rate Covenant, principal of and/or interest on Senior Bonds paid with PFC revenues are excluded from Senior Aggregate Annual Debt Service.

Table IV-4 reflects PFC revenues expected to be used by the Department each year to pay a portion of the debt service on the Series 2009 Senior Bonds, the outstanding Series 2008A Bonds, and future Senior Bonds.

As shown in Table IV-4, Aggregate Annual Debt Service for Senior Bonds is estimated to increase from approximately \$19.3 million in FY 2008 to approximately \$162.8 million in FY 2016. As also shown, the Senior Aggregate Annual Debt Service for Senior Bonds reflects the use of between approximately \$42.9 million and \$98.3 million of PFC revenues to pay Senior Bond debt service for certain years. The actual amount of PFC revenues that the Department will ultimately use to pay debt service may vary from year to year (allowing the Department to apply PFC revenues strategically to help manage to desired financial results—e.g., lower airline payments).

Table IV-3

Expected Future Bond Issues (After Issuance of Series 2009 Bonds) ^{1/}

	Future Series 2010	Future Series 2011	Future Series After 2011	Future Series Total
Bond Principal				
Senior Bonds	\$ 891,300,000	\$ 183,710,000	\$ 1,286,640,000	\$ 2,361,650,000
Subordinate Bonds	15,550,000	126,285,000	338,100,000	479,935,000
Total Expected Future Bond Principal	\$ 906,850,000	\$ 309,995,000	\$ 1,624,740,000	\$ 2,841,585,000

Bond Proceeds Used to Pay Project Costs

Senior Bond Proceeds	\$ 691,211,000	\$ 154,950,000	\$ 1,094,159,000	\$ 1,940,320,000
Subordinate Bond Proceeds	12,753,000	99,925,000	287,116,000	399,794,000
Total Expected Bond Proceeds Used to Pay Project Costs	\$ 703,964,000	\$ 254,875,000	\$ 1,381,275,000	\$ 2,340,114,000

	Future Series 2010	Future Series 2011	Future Series After 2011
Key Projects Funded with Expected Future Bonds			
<u>Funded from Senior Bond Proceeds (Paid with Pledged Revenues):</u>			
Bradley West Core	•		•
Bradley West Concourses	•		•
Central Utility Plant	•		•
Acquisition of Existing Terminal Improvements	•		
Terminal Improvements Program		•	•
<u>Funded from Senior Bond Proceeds (Paid with PFCs):</u>			
Bradley West Core	•		•
Bradley West Concourses	•		•
Terminal Improvements Program		•	•
<u>Funded from Subordinate Bond Proceeds:</u>			
Airfield Safety Improvements	•		•
Bradley West Aprons		•	•
Pavement Management Program		•	•
Bradley West Taxiway T and Associated Projects			•
West Maintenance Facility Pad and Infrastructure			•

Note:

1/ Debt service associated with expected future bond issues shown here is reflected on Table IV-4.

Sources: City of Los Angeles, Department of Airports and Public Resources Advisory Group (October 2009).

Prepared by: Ricondo & Associates, Inc. (October 2009).

Los Angeles World Airports
Los Angeles International Airport

Table W-4 (1 of 2)

Debt Service

Fiscal Years Ending June 30

	Actual		Projected						
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Existing Senior Bond Debt Service									
Series 1995-C	\$ 298,588	\$ 475,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 1995-D	1,494,540	966,311	-	-	-	-	-	-	-
Series 2002-A	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	1,624,633	2,819,633	8,100,638
Series 2003-B	15,882,100	15,917,850	15,943,850	16,184,100	16,181,350	16,185,600	16,184,850	1,887,600	-
Series 2008-A	-	-	-	42,075,700	42,074,950	42,077,750	42,075,000	42,074,775	42,074,675
Series 2008-B	-	-	1,434,000	1,435,500	1,434,250	1,435,250	1,433,250	1,433,250	-
Subtotal - Existing Senior Bond Debt Service	[A] \$ 19,299,860	\$ 18,983,794	\$ 19,002,483	\$ 61,319,833	\$ 61,315,183	\$ 61,323,233	\$ 61,321,733	\$ 48,215,258	\$ 50,175,313
Future Senior Bond Debt Service									
Proposed Series 2009 Bonds -- Paid with Pledged Revenues	\$ -	\$ -	\$ 1,442,902	\$ 9,950,262	\$ 21,626,692	\$ 21,626,692	\$ 16,021,549	\$ 16,021,549	\$ 16,021,549
Proposed Series 2009 Bonds -- Paid with PFC Revenues	-	-	700,127	7,354,829	3,530,326	3,530,326	9,135,469	9,135,469	9,135,469
Future Series 2010 Bonds -- Paid with Pledged Revenues	-	-	-	27,759,876	27,759,876	34,409,350	40,604,044	52,160,702	50,160,702
Future Series 2010 Bonds -- Paid with PFC Revenues	-	-	-	-	-	3,035,370	21,678,977	24,913,289	26,913,289
Future Series 2011 Bonds -- Paid with Pledged Revenues	-	-	-	-	-	1,066,776	1,768,301	1,768,301	1,768,301
Future Series 2011 Bonds -- Paid with PFC Revenues	-	-	-	-	-	7,199,946	11,934,719	11,934,719	11,934,719
Other Future Series Bonds -- Paid with Pledged Revenues	-	-	-	-	-	4,525,000	24,562,561	61,594,584	61,594,584
Other Future Series Bonds -- Paid with PFC Revenues	-	-	-	-	-	2,065,652	14,640,528	33,398,096	33,398,096
Subtotal - Future Senior Bond Debt Service	[B] \$ -	\$ -	\$ 2,143,029	\$ 45,064,967	\$ 52,916,894	\$ 77,459,112	\$ 140,346,148	\$ 210,926,709	\$ 210,926,709
Total Senior Lien Debt Service	[C]=[A]+[B] \$ 19,299,860	\$ 18,983,794	\$ 21,145,511	\$ 106,384,800	\$ 114,232,076	\$ 138,782,344	\$ 201,667,880	\$ 259,141,966	\$ 261,102,021
Less: PFC Revenues used to pay Debt Service									
Series 2008-A	\$ -	\$ -	\$ -	\$ (42,075,700)	\$ (39,334,000)	\$ (29,134,000)	\$ (16,934,000)	\$ (16,934,000)	\$ (16,934,000)
Proposed Series 2009	-	-	(700,127)	(7,354,829)	(3,530,326)	(3,530,326)	(9,135,469)	(9,135,469)	(9,135,469)
Future Series 2010	-	-	-	-	-	(3,035,370)	(21,678,977)	(24,913,289)	(26,913,289)
Future Series 2011	-	-	-	-	-	(7,199,946)	(11,934,719)	(11,934,719)	(11,934,719)
Other Future Series	-	-	-	-	-	(2,065,652)	(14,640,528)	(33,398,096)	(33,398,096)
Available PFC Revenues	[D] \$ -	\$ -	\$ (700,127)	\$ (49,430,529)	\$ (42,864,326)	\$ (44,965,293)	\$ (74,323,693)	\$ (96,315,573)	\$ (98,315,573)
AGGREGATE ANNUAL SENIOR DEBT SERVICE ^{1/}	[E]=[C]-[D] \$ 19,299,860	\$ 18,983,794	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
Allocation to Direct Cost Centers									
Terminal	\$ 11,366,460	\$ 11,203,095	\$ 12,785,986	\$ 44,759,754	\$ 55,320,613	\$ 77,767,836	\$ 111,296,400	\$ 150,916,344	\$ 148,426,180
Apron	426,355	421,598	425,216	429,625	429,559	429,649	429,610	253,444	576,572
Airfield	2,161,876	2,092,988	2,122,171	2,144,782	2,144,328	2,144,882	2,144,495	1,114,637	2,044,388
Aviation	1,925,384	1,927,719	1,919,233	1,940,953	1,940,687	1,941,085	1,940,990	987,822	2,292,533
Commercial	2,522,940	2,343,403	2,502,730	6,980,125	10,833,617	10,834,427	10,833,680	9,389,826	9,446,776
Subtotal - Total LAX Debt Service	\$ 18,403,014	\$ 17,988,803	\$ 19,755,335	\$ 56,255,239	\$ 70,668,803	\$ 93,117,879	\$ 126,645,175	\$ 162,662,073	\$ 162,786,448
Exclusions	69,572	114,117	-	-	-	-	-	-	-
Other Airports	827,274	880,874	690,049	699,132	698,947	699,172	695,013	164,321	-
Aggregate Annual Senior Debt Service	[E] \$ 19,299,860	\$ 18,983,794	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448

Los Angeles World Airports
Los Angeles International Airport

Table W-4 (2 of 2)

Debt Service
Fiscal Years Ending June 30

	Actual		Projected						
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Existing Subordinate Bond Debt Service									
Series 2002-C1 ^{2/}	\$ 1,103,289	\$ 1,870,000	\$ 1,365,100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Series 2002-C2 ^{2/}	585,381	1,000,000	730,000	-	-	-	-	-	-
Series 2005-A ^{2/}	664,656	1,185,000	912,450	-	-	-	-	-	-
Series 2009-C	-	11,901,220	15,980,149	15,983,399	15,982,305	15,980,768	15,978,368	15,983,368	15,980,199
Commercial Paper ^{3/}	-	-	-	-	-	-	-	-	-
Subtotal - Existing Subordinate Bond Debt Service	\$ 2,353,326	\$ 15,956,220	\$ 18,987,699	\$ 15,983,399	\$ 15,982,305	\$ 15,980,768	\$ 15,978,368	\$ 15,983,368	\$ 15,980,199
	[F]								
Future Subordinate Bond Debt Service									
Proposed Series 2009 Bonds (before any BAEs credit)	\$ -	\$ -	\$ 10,324,766	\$ 17,458,219	\$ 28,912,397	\$ 34,863,665	\$ 34,711,182	\$ 34,553,351	\$ 34,389,985
Future Series 2010 Bonds	-	-	-	552,547	552,547	591,229	1,138,171	1,138,171	1,138,171
Future Series 2011 Bonds	-	-	-	-	-	2,133,327	5,113,691	9,506,701	9,506,701
Other Future Series Bonds	-	-	-	-	-	515,060	4,444,151	16,651,262	19,142,924
Subtotal - Future Subordinate Bond Debt Service	\$ -	\$ -	\$ 10,324,766	\$ 18,010,766	\$ 29,464,944	\$ 38,103,280	\$ 45,407,196	\$ 61,849,486	\$ 64,177,781
	[G]								
AGGREGATE ANNUAL SUBORDINATE DEBT SERVICE	[H]=[F]+[G]	\$ 15,956,220	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,094,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
Allocation to Direct Cost Centers									
Terminal	\$ 105,105	\$ 171,612	\$ 4,844,409	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650	\$ 4,718,650
Apron	16,847	15,465	441,155	1,349,158	3,525,063	3,525,433	6,725,063	15,487,441	15,472,052
Airfield	338,809	12,350,760	21,480,387	27,926,358	37,203,536	45,839,966	49,941,851	57,626,762	59,967,278
Aviation	143,675	186,695	143,319	-	-	-	-	-	-
Commercial	81,019	350,924	259,975	-	-	-	-	-	-
Subtotal - Total LAX Debt Service	\$ 685,454	\$ 13,075,457	\$ 27,169,244	\$ 33,994,165	\$ 45,447,249	\$ 54,094,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
Exclusions	1,103,289	1,870,000	1,365,100	-	-	-	-	-	-
Other Airports	564,582	1,010,763	778,120	-	-	-	-	-	-
Aggregate Annual Subordinate Debt Service	\$ 2,353,326	\$ 15,956,220	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,094,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
	[H]								
TOTAL DEBT SERVICE	[E]=[H]	\$ 21,653,186	\$ 34,940,014	\$ 90,948,536	\$ 116,814,999	\$ 147,901,099	\$ 188,729,751	\$ 240,659,247	\$ 242,944,428

Notes:

- 1/ As defined in the Senior Indenture, for purposes of meeting the Senior Rate Covenant, Senior Aggregate Annual Debt Service is net of PFC Revenues used to pay Senior Debt Service.
- 2/ Variable rate debt service. Debt service reflected does not include associated letter of credit fees.
- 3/ Commercial paper outstanding as of August 1, 2009 is approximately \$182 million. The Department's current commercial paper authorization is \$500 million. Approximately \$85 million of the Department's \$182 million of outstanding commercial paper is expected to be repaid with the proceeds of the Series 2009 Bonds. Remaining outstanding commercial paper is expected to be repaid with future Series 2010 bond proceeds. Debt service associated with commercial paper is not reflected in this table.

Sources: City of Los Angeles, Department of Airports for existing Debt Service (June 2008), and Public Resources Advisory Group for Series 2009 and Future Debt Service (October 2009).
Prepared by: Ricondo & Associates, Inc. (October 2009).

Table IV-4 also presents estimates of Subordinate Aggregate Annual Debt Service for outstanding Subordinate Bonds, proposed Series 2009 Subordinate Bonds, future additional Subordinate Bonds, and commercial paper payments. Subordinate Aggregate Annual Debt Service is estimated to increase from \$2.4 million in FY 2008 to approximately \$80.2 million in FY 2016. At this time, the Department does not expect to use PFC revenues to pay for debt service on the Series 2009 Subordinate Bonds, outstanding Subordinate Bonds, or expected future Subordinate Bonds.

4.8 Maintenance & Operation Expenses

M&O Expenses at the Airport are captured within the SAP accounting system used by the Department. SAP provides the M&O Expense data that is used in the preparation of the annual financial statements and the tracking of budgeted expenses to actual expenses by division. As such, M&O Expenses are tracked within the SAP system in a number of classifications, including by cost center, cost element, and business area.

M&O Expenses are budgeted for each of the Department's Direct Divisions and Administrative Divisions. For rate-setting purposes, M&O Expenses by division are allocated to the various Airport cost centers described previously in Section 4.1.2. Within each division, M&O Expenses are also further categorized by detailed cost elements, including:

- Salaries and benefits;
- Contractual services;
- Administrative Services;
- Materials and Supplies;
- Utilities;
- Advertising and Public Relations; and
- Other Operating Expenses.

M&O Expenses for the Airport, as defined in the Senior Indenture, increased from \$381.5 million in FY 2004 to \$526.9 million in FY 2009 (preliminary actual), representing a CAGR of 6.7 percent. Detailed M&O Expenses presented in Table IV-5 for FY 2009 (\$552.5 million) are for budgeted FY 2009, as data is currently not available in sufficient detail to reflect preliminary actual FY 2009 M&O Expenses (as defined in the Senior Indenture) in the line items presented on Table IV-5. M&O Expenses increased from approximately \$514.1 million in FY 2008 to approximately \$526.9 million in FY 2009, an approximate 2.5 percent increase (reflecting emphasis the Department has placed on minimizing M&O Expense growth). It should be noted that M&O Expenses as defined in the Senior Indenture differ from Airport operating expenses reflected in the Department's audited financial statements.

Table IV-5 presents actual M&O Expenses at the Airport for actual FY 2007 through projected FY 2016. Projected M&O Expenses are based off budgeted FY 2010 M&O Expenses, equal to approximately \$555.7 million.

As shown at the bottom of Table IV-5, a portion of M&O Expenses at the Airport (approximately \$13.0 million in FY 2010 from various Administrative Divisions in FY 2008) is allocated to other airports in the Airport System. Certain operating expenses from other airports in the Airport System are allocated to the Airport, however any revenue shortfalls associated with the operation of VNY are included in the landing fee for the Airport.

Los Angeles World Airports
Los Angeles International Airport

Table IV-5
Summary of LAX Maintenance and Operation Expenses ^{1/}
Fiscal Years Ending June 30

BY TYPE OF EXPENSE	Actual		Budget		Projected					
	FY 2007	FY 2008	FY 2009 ^{2/}	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Salaries and Benefits	\$ 250,641,069	\$ 274,743,108	\$ 291,383,562	\$ 296,466,646	\$ 308,341,918	\$ 323,732,314	\$ 338,890,629	\$ 376,312,961	\$ 395,099,309	\$ 414,825,674
Contractual Services	139,335,231	150,241,764	163,053,000	163,377,400	169,921,967	178,402,566	187,308,044	207,379,396	217,731,666	228,602,999
Administrative Services	712,440	2,811,944	3,301,000	3,621,000	3,766,388	3,954,507	4,150,933	4,596,129	4,825,586	5,066,815
Materials and Supplies	43,238,205	38,380,150	39,472,000	37,549,800	39,054,194	41,003,254	43,049,817	47,682,708	50,041,993	52,540,993
Utilities	20,303,114	27,669,858	28,594,370	29,799,019	30,992,391	32,539,061	34,163,314	37,824,979	39,713,078	41,695,832
Advertising and Public Relations	9,994,370	8,278,866	9,846,000	8,150,800	8,477,022	8,899,974	9,344,872	10,345,766	10,862,754	11,404,992
Other Operating Expenses	13,026,035	11,967,579	16,815,500	16,727,200	17,397,562	18,265,340	19,177,107	21,232,012	22,292,313	23,405,378
SUBTOTAL - LAX M&O EXPENSES ^{1/}	\$ 477,250,463	\$ 514,093,270	\$ 552,465,452	\$ 555,692,065	\$ 577,950,442	\$ 606,797,014	\$ 637,084,715	\$ 705,354,951	\$ 740,567,698	\$ 777,541,683
Annual % change	4.3%	7.7%	7.5%	0.6%	4.0%	5.0%	5.0%	10.7%	5.0%	5.0%
Compound annual growth rate FY 2009 to FY 2016										
Equipment and Vehicles	5,756,513	3,803,041	3,062,300	1,719,000	1,788,132	1,877,489	1,971,263	2,181,676	2,290,960	2,405,358
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	\$ 483,006,976	\$ 517,896,311	\$ 555,527,752	\$ 557,411,065	\$ 579,738,574	\$ 608,674,503	\$ 639,055,978	\$ 707,536,627	\$ 742,858,658	\$ 779,947,041
SUMMARY BY COST CENTER										
Terminal	\$ 215,480,289	\$ 232,660,288	\$ 261,826,624	\$ 263,566,530	\$ 276,196,393	\$ 290,006,713	\$ 304,506,398	\$ 356,313,318	\$ 374,128,034	\$ 392,833,886
Apron	19,910,084	22,587,189	22,712,992	25,909,912	26,635,390	27,967,159	29,385,517	30,833,793	32,375,483	33,994,257
Airfield	108,591,899	114,556,223	121,409,510	111,337,172	114,454,613	120,177,344	126,186,211	132,495,522	139,120,298	146,076,313
Aviation	38,761,834	38,904,066	40,576,956	42,128,805	43,308,412	45,473,833	47,747,524	50,134,900	52,641,645	55,273,728
Commercial	73,272,269	81,902,527	77,047,274	86,484,808	90,376,383	94,943,702	99,534,287	104,457,252	109,626,264	115,053,577
Exclusions / Other	13,339,291	12,833,781	15,958,648	15,029,076	15,449,891	16,222,385	17,033,504	17,885,180	18,779,439	19,718,410
Other Airports	13,651,311	14,432,237	15,995,747	12,954,760	13,317,493	13,983,367	14,682,536	15,416,663	16,187,496	16,996,871
TOTAL LAX M&O EXPENSES plus VEHICLES AND EQUIPMENT EXPENSES	\$ 483,006,976	\$ 517,896,311	\$ 555,527,752	\$ 557,411,065	\$ 579,738,574	\$ 608,674,503	\$ 639,055,978	\$ 707,536,627	\$ 742,858,658	\$ 779,947,041

Notes:
1/ M&O Expenses reflected on this table are as defined in the Senior Indenture, and will differ somewhat from expenses reflected in audited financial statements.
2/ At the time this report was prepared, data was not available in sufficient detail to reflect preliminary actual FY 2009 M&O Expenses (as defined in the Senior Indenture) in the line items presented above. Preliminary actual FY 2009 M&O Expenses were approximately \$526.9 million, representing an approximate 2.5 percent increase from actual FY 2008.

Sources: City of Los Angeles, Department of Airports and Records & Associates, Inc. (October 2009).
Prepared by: Records & Associates, Inc. (October 2009).

Projections of future Airport M&O Expenses are based on an assumed 5.0 percent annual base growth rate for all categories of M&O Expenses to account for the anticipated impacts of inflation, staffing and operational requirements, and activity increases.

The Department expects that the Other Incorporated Projects, specifically the Bradley West terminal projects, will result in an approximately \$37 million increase in Terminal M&O Expenses in FY 2014. Estimated M&O Expenses associated with the Bradley West terminal projects were developed based on preliminary estimates of increased total terminal square footage and current M&O Expenses associated with TBIT. Expenses associated with increased space were discounted somewhat to account for higher efficiency in newer facilities (e.g., lower utility costs). M&O Expenses associated with the Series 2009 Projects (including approximately \$5.3 million estimated for the ongoing interior TBIT improvements and the Terminal 3 in-line bag system) are included in M&O Expenses reflected on Table IV-5 for FY 2011.

As shown, total M&O Expenses are projected to increase from \$555.7 million in FY 2010 to \$777.5 million in FY 2016. As reflected on Table IV-5, the CAGR for Airport M&O Expenses between FY 2009 and projected FY 2016 is 5.0 percent.

Details of the M&O Expense projections by expense category are described below.

4.8.1 Salaries and Benefits

M&O Expenses for Salaries and Benefits include expenses associated with wages, salaries, and employee benefits, regular overtime, and health subsidies. As shown in Table IV-5, salaries and benefits represented the single largest expense category in FY 2008, accounting for 53.4 percent of total M&O Expenses. As a municipal organization, the Department's employee and labor relations are governed by Civil Service rules and regulations, the Charter and the City Administrative Code, as well as 22 separate labor agreements between management and unions. As shown in Table IV-5, total salaries and benefit expenses are projected to increase from \$296.5 million in FY 2010 to \$414.8 million in FY 2016, representing a CAGR of 5.8 percent. This increase is a result of the base M&O Expense growth rate (5.0 percent, which is higher than inflation) along with increases related to future facilities.

4.8.2 Contractual Services

Contractual services expenses include expenses associated with various contractual obligations such as parking lot operations, engineering and consulting contracts, security services, fire services, legal services, and other miscellaneous contracts. Contractual services represented the second largest expense category in FY 2008, accounting for 29.2 percent of total M&O Expenses. As shown in Table IV-5, contractual expenses are projected to increase from \$163.4 million in FY 2010 to \$228.6 million in FY 2016, representing a CAGR of 5.8 percent. This increase is a result of the base M&O Expense growth rate (5.0 percent, which is higher than inflation) along with increases related to future facilities.

4.8.3 Administrative Services

Administrative Services expenses include expenses associated with training, travel, tuition reimbursement, memberships, and other miscellaneous administrative expenses. As shown in Table IV-5, administrative services expenses are projected to increase from \$3.6 million in FY 2010 to approximately \$5.1 million in FY 2016.

4.8.4 Materials and Supplies

Expenses associated with materials and supplies include various items such as custodial supplies, furniture and equipment, materials and parts for maintenance and repair of facilities, communication supplies, and other miscellaneous materials and supplies. Materials and supplies expenses accounted for 7.5 percent of total M&O Expenses in FY 2008. As shown in Table IV-5, expenses for materials and supplies are projected to increase from \$37.5 million in FY 2010 to \$52.5 million in FY 2016.

4.8.5 Utilities

Utility expenses include electrical, water, gas, and telephone expenses, and account for 5.4 percent of total M&O Expenses in FY 2008. As shown in Table IV-5, utility expenses are projected to increase from \$29.8 million in FY 2010 to \$41.7 million in FY 2016.

4.8.6 Advertising and Public Relations

Advertising and Public Relations expenses include expenses associated with media, public relations, marketing services, costumer services, and advertising. The Advertising and Public Relations budget is used to support plans to market the Airport System at local, U.S. and international trade shows and conferences, and to support marketing activities undertaken by the Los Angeles Convention and Visitors Bureau. Other campaigns include efforts to promote the Airport System as safe, secure, and user friendly. Advertising and public relations expenses are projected to increase from \$8.2 million in FY 2010 to \$11.4 million in FY 2016.

4.8.7 Other Operating Expenses

Other operating expenses include expenses not classified in the other expense categories, and include expenses such as insurance, litigation, lease expenses, and other miscellaneous expenses. Other operating expenses accounted for 2.3 percent of total M&O Expenses in FY 2008. As shown in Table IV-5, other operating expenses are projected to increase from \$16.7 million in FY 2010 to \$23.4 million in FY 2016.

4.9 Airport Revenues Other than Airline Terminal, Landing, and Apron Fees

Table IV-6 presents Airport revenues other than airline terminal, landing, and apron fees (hereinafter referred to as “nonairline revenues”) for actual FY 2007, actual FY 2008, actual FY 2009 (preliminary), and projected FY 2010 through FY 2016.

Nonairline revenues at the Airport are grouped into four primary categories, including:

- Aviation Revenues (excluding airline terminal rentals, landing fees, and apron fees);
- Concession Revenues;
- Airport Sales and Services Revenues; and
- Miscellaneous Revenues.

In FY 2009, nonairline revenues accounted for approximately \$361.3 million, or 49.0 percent, of total Pledged Revenues.

Los Angeles World Airports
Los Angeles International Airport

Table IV-6
Summary of Airport Revenues Other Than Airline Terminal Rentals and Signatory Airline Landing and Apron Fees
Fiscal Years Ending June 30

	Actual FY 2007	Actual FY 2008	Preliminary Actual FY 2009	Projected								
				FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016		
Aviation Revenues ^{1/}												
Landing Rent - Other than Pass. Terminals	\$ 30,620,799	\$ 30,041,766	\$ 30,500,000	\$ 30,500,000	\$ 31,415,000	\$ 32,357,450	\$ 33,328,174	\$ 34,328,019	\$ 35,357,859	\$ 36,418,595		
Land Rentals	48,054,087	47,739,758	45,185,689	48,082,000	49,524,460	51,010,194	52,540,500	54,116,715	55,740,216	57,412,423		
Plane Parking	1,059,555	875,544	684,460	736,000	760,954	791,812	821,562	851,614	879,003	907,380		
Fuel Fees	413,403	1,278,420	282,084	499,000	515,918	536,840	557,010	577,385	595,954	615,194		
Non-Signatory Landing Fees	49,300	1,413,288	1,413,288	1,200,000	1,259,020	1,329,437	1,399,773	1,472,417	1,542,231	1,615,548		
Other Aviation Revenue ^{2/}	12,162,493	12,038,332	13,376,061	5,880,000	6,199,147	6,577,639	6,959,258	7,355,960	7,742,143	8,149,568		
TOTAL AVIATION REVENUES	\$ 92,359,700	\$ 97,733,811	\$ 91,441,582	\$ 86,897,000	\$ 89,674,489	\$ 92,603,371	\$ 95,606,277	\$ 98,702,109	\$ 101,857,406	\$ 105,118,707		
Annual % change	8.4%	5.9%	-6.4%	-5.0%	3.2%	3.3%	3.2%	3.2%	3.2%	3.2%		
Concession Revenues												
Auto Parking ^{3/}	\$ 72,917,709	\$ 74,003,834	\$ 67,289,314	\$ 72,523,078	\$ 79,905,052	\$ 84,204,707	\$ 88,510,911	\$ 93,319,385	\$ 98,085,871	\$ 103,056,024		
Duty Free	32,036,693	35,379,531	30,501,729	29,000,000	31,202,000	33,718,000	36,296,000	42,422,000	45,082,000	47,868,000		
Car Rental	50,761,135	55,336,558	56,890,487	54,883,000	58,014,000	61,744,000	65,511,000	69,770,000	74,027,000	78,565,000		
Car Rental CFCs ^{4/}	-	24,964,160	22,085,910	22,966,000	23,839,000	24,915,000	25,958,000	27,083,000	28,149,000	29,267,000		
Food & Beverage	28,731,039	30,080,481	31,803,885	27,894,000	29,556,000	31,533,000	33,537,000	39,192,000	41,540,000	44,087,000		
Gifts & News	16,558,524	17,598,667	17,106,410	16,350,000	17,241,000	18,111,000	18,614,000	21,063,000	21,596,000	22,149,000		
Bus, Limo & Taxi	5,384,505	6,044,024	5,882,230	5,650,000	5,842,784	6,083,626	6,314,784	6,563,701	6,796,684	7,039,987		
Foreign Exchange	6,784,508	6,936,630	6,612,887	6,800,000	6,977,693	7,130,676	7,130,676	7,411,754	7,674,840	7,949,578		
Bus Service VNY to LAX	3,190,635	4,737,918	5,999,175	5,500,000	5,687,666	5,922,114	6,147,134	6,389,443	6,616,241	6,853,085		
Telecommunications	1,765,601	1,952,584	2,474,991	2,564,000	2,651,487	2,760,782	2,865,682	2,978,642	3,084,371	3,194,784		
Other Concession Revenue ^{6/}	4,746,409	4,855,971	5,448,944	5,517,000	5,705,246	5,940,418	6,166,135	6,409,193	6,636,691	6,874,267		
Terminal Advertising ^{6/}	4,300,021	13,768,301	13,134,578	13,407,000	13,809,210	14,223,486	14,650,191	15,089,697	15,542,388	16,008,659		
TOTAL CONCESSION REVENUES	\$ 227,176,779	\$ 275,658,659	\$ 265,230,550	\$ 262,634,078	\$ 280,051,138	\$ 296,025,785	\$ 311,701,513	\$ 337,651,815	\$ 354,831,086	\$ 372,914,385		
Annual % change	13.3%	21.3%	-3.8%	-1.0%	6.6%	5.7%	5.3%	8.3%	5.1%	5.1%		
Airport Sales and Services												
Airfield Bus	\$ 1,809,355	\$ 1,803,788	\$ 1,720,875	\$ 1,644,000	\$ 1,700,095	\$ 1,770,174	\$ 1,837,434	\$ 1,909,863	\$ 1,977,655	\$ 2,048,449		
Other Sales & Services	1,014,662	772,734	507,759	500,000	507,500	515,113	522,839	530,682	538,642	546,722		
TOTAL AIRPORT SALES & SERVICES	\$ 2,824,017	\$ 2,576,522	\$ 2,228,634	\$ 2,144,000	\$ 2,207,595	\$ 2,285,286	\$ 2,360,274	\$ 2,440,544	\$ 2,516,297	\$ 2,595,171		
Annual % change	38.8%	-8.8%	-13.5%	-3.8%	3.0%	3.5%	3.3%	3.4%	3.1%	3.1%		
Miscellaneous Revenues												
Miscellaneous Revenues	\$ 2,011,539	\$ 2,030,296	\$ 2,366,364	\$ 2,008,000	\$ 2,108,400	\$ 2,213,820	\$ 2,324,511	\$ 2,440,737	\$ 2,562,773	\$ 2,690,912		
Build America Bond tax credits	-	-	-	4,313,000	7,997,000	7,970,000	7,872,000	7,725,000	7,572,000	7,415,000		
TOTAL MISCELLANEOUS	\$ 2,011,539	\$ 2,030,296	\$ 2,366,364	\$ 6,321,000	\$ 10,105,400	\$ 10,183,820	\$ 10,196,511	\$ 10,165,737	\$ 10,134,773	\$ 10,105,912		
Annual % change	38.7%	0.9%	16.6%	167.1%	59.9%	0.8%	0.1%	-0.3%	-0.3%	-0.3%		
TOTAL NONAIRLINE REVENUES	\$ 324,372,035	\$ 377,999,288	\$ 361,267,130	\$ 357,996,078	\$ 382,038,633	\$ 401,098,262	\$ 419,864,574	\$ 448,960,205	\$ 469,339,562	\$ 490,734,175		
Annual % change	12.1%	16.5%	-4.4%	-0.9%	6.7%	5.0%	4.7%	6.9%	4.5%	4.5%		
Compound annual growth rate FY 2009 to FY 2016												

Notes:

- 1/ Other than airline terminal rentals and Signatory Airline Landing and Apron Fees.
- 2/ Includes terminal use fees, gate use fees, TSA revenue, federal grants—operating revenue, and other aviation fees. FY 2008 and FY 2009 includes \$5.1 million of and \$7.6 million, respectively, of TSA revenue for utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing. Only \$415,000 of TSA revenue is included in the FY 2010 Budget amount.
- 3/ Beginning with FY 2010, includes revenues associated with the Park One Property.
- 4/ This revenue item started in FY 2008.
- 5/ Includes luggage carts and ATM revenue.
- 6/ This revenue item started in FY 2007.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).
Prepared by: Ricondo & Associates, Inc. (October 2009).

In general, projections of nonairline revenues were based on a review of historical trends, budgeted FY 2010 revenues, the anticipated impacts of inflation, impacts related to the Series 2009 Projects and Other Incorporated Projects, current and assumed future lease provisions (described herein), and projected growth in Airport activity. Specific points concerning these projections are discussed in the following sections.

Between FY 2004 and FY 2009, nonairline revenues grew from \$265.6 million to \$361.3 million, representing a CAGR of 6.3 percent. As shown on Table IV-6, nonairline revenues are projected to increase to \$490.7 million in FY 2016, a CAGR of 4.5 percent for FY 2009 to FY 2016.

4.9.1 Aviation Revenues

Aviation Revenues at the Airport (excluding airline terminal rentals, landing fees, and apron fees) consist primarily of building rentals, land rent, fuel fees, and other aviation revenues. In FY 2009, Aviation Revenues totaled \$91.4 million, including \$7.6 million of TSA revenues in connection with utilities reimbursement, transportation security, canine and explosive program costs, and law enforcement officer staffing. Aviation Revenues are projected to increase to \$105.1 million in FY 2016, representing a CAGR of 2.0 percent for FY 2009 to FY 2016—primarily from expected growth in building and land rentals discussed below.

Specific details regarding key Aviation Revenues are discussed below.

- Building rentals other than passenger terminals are generated from the air freight terminal, hangar rentals, maintenance facilities, as well as other miscellaneous shops and storage facilities—pursuant to agreements between tenants and the Department. Between FY 2004 and FY 2009, nonairline building rental revenue decreased, primarily due to Delta Airlines returning an office building and hangar on Century Boulevard to the Department and decreasing the amount of space leased at their East Maintenance Site. Agreements in connection with two American Airlines maintenance buildings (each approximately 70 acres in size located to the west of TBIT) expire in FY 2010. In connection with future Airport development, the Department expects that these two properties may be moved to other locations at the Airport. For purposes of the analysis incorporated in this report, it was assumed that the Department would receive rental payments for these buildings similar to the current payments subsequent to expiration of the agreements for these two facilities in 2010.

Building rental revenues for the air freight terminal and other miscellaneous shops and storage facilities combined are projected to increase from approximately \$30.5 million in FY 2009 to approximately \$36.4 million in FY 2016, representing a CAGR of 2.6 percent.

- Land rental revenues at the Airport are derived from ground rent charged to various manufacturing and service companies, governmental agencies, transportation companies, and other tenants. Rental rates for ground areas vary depending on the land classification, including airline maintenance area, airline cargo area, nonairline industrial area, and central terminal area. Rates are generally adjusted every five years, reflecting a return on the fair market value of the land. The fair market value of land is determined through a third party appraisal of the property. Land rental revenues increased 5.0 percent in FY 2007 before decreasing slightly in FY 2008 and again in FY 2009. For projection purposes, land rental revenues are assumed to increase at 3.5 percent per year, increasing from approximately \$45.2 million in FY 2009 to approximately \$57.4 million in FY 2016.

- Plane parking and fuel fees at the Airport are derived from aircraft parking fees and fueling fees assessed to the airlines operating at the Airport. Plane parking and fuel fees grew at a CAGR of 11.6 percent between FY 2004 and FY 2008 primarily as a result of several carriers that allowed their permits to lapse during that period and were charged the non-permitted fee (\$0.01 per gallon). Projected revenues from plane parking and fuel fees were assumed to increase based on projected aircraft operational levels at the Airport. Plane parking and fuel fee revenues are projected to increase from approximately \$1.0 million in FY 2009 to approximately \$1.5 million by FY 2016, representing a CAGR of 6.7 percent.
- The Department does not currently impose any ground handling fees on third party and airline ground handling services operating at the Airport, and no such ground handling fees are planned to be implemented (or were assumed) during the Projection Period.

4.9.2 Concession Revenue

Concession revenues at the Airport consist of a number of revenue sources, and are comprised primarily of auto parking, car rental, ground transportation fees (bus, limo, and taxi), food and beverage, gift and news, duty free, and other concession revenues. Generally, future concession revenues were projected based on historical trends, budget FY 2010 revenues, future Airport passenger activity, assumed inflation, assumed impacts of the TBIT Interior Improvements and Bradley West Core and Concourse projects, and current and assumed future lease terms and provisions.

Between FY 2004 and FY 2009, concession revenues grew at a CAGR of 9.2 percent—primarily as a result of significant increases in parking, duty free, car rental, and food & beverage revenues in FY 2007 and FY 2008 and the collection of CFCs starting in FY 2008. Enplaned passengers between FY 2004 and FY 2009 grew at a CAGR of -0.5 percent.

As shown on Table IV-6, concession revenues decreased 3.8 percent in FY 2009 to \$265.2 million, and are projected to decrease 1.0 percent in FY 2010 to \$262.6 million. Concession revenues are projected to increase to approximately \$372.9 million in FY 2016, representing a CAGR of 5.0 percent for FY 2009 through FY 2016.

Details regarding key concession revenues are discussed below.

- The auto parking facilities at the Airport are operated for the Department by New South Parking under a management contract that expires in June 2010, subject to renewal. Under the terms of the contract, New South Parking receives 105 percent of New South Parking's direct operating costs (excludes overhead or indirect costs), subject to specified minimum staffing requirements. The Park 'N Fly sublease on the Park One property (which the Department acquired on July 28, 2009) began its second five-year term on January 1, 2008, which will expire December 31, 2012. Park 'N Fly has three five-year options left which may potentially extend the lease through December 31, 2027. Base rent for the current term is \$8.2 million per year. Park 'N Fly must also pay the Department 70 percent of its gross revenues in excess of a breakpoint level of \$12.5 million.

Parking rates at the Airport were last changed in 2002 and are currently \$30 maximum per day for Central Terminal Area garages (at \$3 for the first hour and \$2 for each additional 30 minutes), \$10 per day in Lot C and \$8 per day in Lot B. Parking rates include a 10.0 percent parking occupancy tax.

A number of off-Airport parking operators provide facilities that compete with parking services offered by the Department. Generally, these off-Airport parking operators raise or lower their parking rates in conjunction with rates charged by the Department for Airport parking facilities. For purposes of this report, it was assumed that the current effect of off-Airport competition on the demand for Airport parking facilities would not change materially during the projection period.

Auto parking revenues, the largest source of concession revenues at the Airport, were \$67.3 million in FY 2009, accounting for 25.4 percent of total concession revenues. Parking revenues grew at a CAGR of 2.3 percent between FY 2004 and FY 2009.

Parking transactions remained relatively flat from FY 2006 to FY 2008 at approximately 7.4 million (or, approximately 0.34 per O&D passenger). Parking revenues per transaction grew from approximately \$9.10 in FY 2006 to \$10.04 in FY 2008 (a 10.3 percent increase), suggesting that parking durations increased in FY 2008. Parking revenues decreased to approximately \$67.3 million in FY 2009 (a 9.1 percent decrease from FY 2008) and are projected to increase 7.8 percent to \$72.5 million in FY 2010.

For purposes of projecting public parking revenues for FY 2011 through FY 2016, it was assumed that (1) the number of parking transactions per O&D passenger would remain constant at 0.34 through FY 2016 and (2) the amount of parking revenues per transaction would increase 3.0 percent per year between FY 2011 and FY 2016 to account for any future parking rate increases. Currently, the Department has no specific plans to increase parking rates in the near future. In addition, it was assumed that the Department would collect parking revenue from the newly acquired Park One property in the amount of approximately \$8.4 million per year through the projection period.

As shown on Table IV-6, parking revenues are projected to increase from approximately \$67.3 million in FY 2009 to approximately \$103.1 million in FY 2016, representing a CAGR of 6.3 percent. This is higher than the 2.3 percent CAGR for FY 2004 to FY 2009 due in part to the addition of the Park One revenues beginning in FY 2010 and increasing in FY 2011.

- Duty Free revenues at the Airport are generated from the sale of duty free merchandise at the Airport. The duty free operator at the Airport is DFS Group L.P, which has been the duty free concessionaire at the Airport since 1982. The current agreement with DFS Group L.P. expires on December 31, 2012 with two one-year renewal options. The agreement with DFS Group L.P. provides that DFS pay the Department \$26.0 million or 30 percent of gross receipts, whichever is greater.

Between FY 2004 and FY 2009, duty free revenues increased at a CAGR of 9.2 percent. Duty free revenues on a per international enplaned passenger basis, grew at a CAGR of 9.6 percent for the same period. Duty free revenues were approximately \$30.5 million in FY 2009 and are projected to decrease to \$29.0 million in FY 2010.

For purposes of this report, it was assumed that the business terms of future duty free agreements will be similar to the terms of the existing agreement through the projection period. It was also assumed that following completion of the TBIT Interior Improvements project, beginning with FY 2011, that duty free spending per international passenger would increase by 4.0 percent annually based on (1) an expected increase in spending per passenger once the assumed disruption related to construction has ended and (2) the higher proportion of Duty Free revenues at the Airport generated from TBIT passengers. Duty free spending per international passenger was assumed to increase another 10.0 percent in FY 2014

following the future Bradley West terminal development (included in Other Incorporated Projects) to account for expanded facilities and expectations for such future facilities in terms of optimal location and efficiency. Duty free revenues are projected to increase from approximately \$30.5 million in FY 2009 to approximately \$47.9 million in FY 2016, representing a CAGR of 6.6 percent.

- The Department has entered into agreements with 10 rental car companies that expired in January 2008 and were extended through January 2010. These agreements provide for a concession fee equal to the greater of a minimum annual guarantee, ranging from approximately \$1.0 million to \$14.5 million per year, or 10.0 percent of gross revenues. In total, the minimum annual guarantees with these agencies totals approximately \$45.9 million. Historically, rental car companies have paid the Department 10.0 percent of gross revenues as these amounts have been higher than the minimum annual guarantee.

Car rental revenues to the Department (referred to as car rental revenues hereafter) increased from approximately \$37.4 million in FY 2004 to approximately \$56.9 million in FY 2009, representing a CAGR of 8.7 percent. Car rental revenues on a per O&D enplaned passenger basis increased at a CAGR of 9.3 percent between FY 2004 and FY 2009.

Projections of car rental revenues were based on the assumption that the business terms of the future rental car agreements (subsequent to January 2010) will be similar to terms in the current agreements, and, more specifically, that car rental revenues per O&D enplaned passenger will increase 3.75 percent annually for FY 2009 to FY 2013 and 4.0 percent annually for FY 2014 to FY 2016. Car rental revenues are projected to increase from approximately \$56.9 million in FY 2009 to approximately \$78.6 million in FY 2016, representing a CAGR of 4.7 percent.

The Department currently collects a rental car CFC to help pay for the planning of, and ultimately the design and financing of, a remote consolidated rental car facility. CFC collections totaled \$22.1 million in FY 2009 and are projected to increase to \$29.3 million in FY 2016 (a CAGR of 4.1 percent from FY 2009 to FY 2016). For purposes of this report, CFC collections have been reflected along with car rental revenues as concession revenues (as opposed to including it another category of nonairline revenues).

- Food and beverage agreements with 13 operators (with Host as the general operator) provide for food and beverage revenues at the Airport. The food and beverage agreements extend generally through December 2010 (and December 2012 for TBIT as noted below) and provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. For Host, percentage rentals range from 14.0 percent of gross revenues for food and beverage to 20.0 percent for alcoholic beverages. In total, the minimum annual guarantees for the various agreements equal approximately \$19.7 million per year. In recent years, the Department has generally received percentage rents from food and beverage operators (as the percentage rents have been higher than minimum annual guarantees). All food and beverage agreements for TBIT have been extended through December 31, 2012, with minimum annual guarantees increased to approximately \$21.8 million for the most recent fiscal year.

Between FY 2004 and FY 2009, food and beverage revenues to the Department (referred to as food and beverage revenues hereafter) grew at a CAGR of 11.6 percent. Food and beverage revenues on a per enplaned passenger basis, grew at CAGR of 12.2 percent for the same period. Food and beverage revenues were approximately \$31.8 million in FY 2009.

Projections of food and beverage revenues were based on the assumption that the business terms of future food and beverage agreements will be similar to the terms of the current agreements. It was also assumed that following completion of the TBIT Interior Improvements project, beginning with FY 2011, that food and beverage revenues per enplaned passenger would increase 4.0 percent annually based on (1) an expected increase in spending per passenger (once the assumed disruption related to construction has ended) to account for additional food and beverage facilities and expectations for such facilities in terms of optimal location and efficiency and (2) the higher proportion of food and beverage revenues at the Airport generated from TBIT passengers (who generally spend more time waiting for international flights relative to passengers at other Airport terminals). Food and beverage revenues per enplaned passenger are assumed to increase an additional 10.0 percent in FY 2014 following the future Bradley West terminal development (included in Other Incorporated Projects) to account for expanded facilities and expectations for such future facilities in terms of optimal location and efficiency.

Food and beverage revenues are projected to increase from \$31.8 million in FY 2009 to approximately \$44.1 million in FY 2016, representing a CAGR of 4.8 percent.

- Gift and news agreements comprising four operators (including AMS as the largest operator) provide for gift and news revenues at the Airport. The gift and news agreements generally extend through December 2010 and provide for a concession fee equal to the greater of a minimum annual guarantee or a percentage of gross revenues. The AMS Retail Agreement for TBIT operations only has been extended through December 31, 2012, with two one-year options. The percentage rent for AMS is 17.0 percent of gross sales. In total, the minimum annual guarantees for the various agreements equaled approximately \$16.3 million for the most recent fiscal year.

Between FY 2004 and FY 2009, gift and news revenues to the Department (referred to as gift and news revenues hereafter) were essentially flat, with a CAGR of -0.2 percent. Gift and news revenues on a per enplaned passenger basis, grew at a CAGR of 0.3 percent for the same period. Gift and news revenues were approximately \$17.1 million in FY 2009.

Projections of gift and news revenues were based on the assumption that the business terms of the future gift and news agreements will be similar to terms of the current agreements, and, more specifically, that gift and news revenues per enplaned passenger remain flat following FY 2009, with the exception of (1) a 3.0 percent increase in revenue per enplaned passenger assumed in FY 2011 following the completion of the TBIT Interior Improvements project (2) a 2.5 percent increase in revenue per enplaned passenger in FY 2012 related to the renewal of certain agreements, and (3) an additional 10.0 percent increase in FY 2014 following the future Bradley West terminal development (included in Other Incorporated Projects) to account for expanded facilities and expectations for such future facilities in terms of optimal location and efficiency.

Gift and news revenues are projected to increase from \$17.1 million in FY 2009 to \$22.1million in FY 2016, representing a CAGR of 3.8 percent.

- The Department began collecting advertising revenues in April 2007, under an agreement between the Department and JCDecaux Airport, Inc. executed in October 2006. Pursuant to this advertising agreement, which expires in April 2013, JCDecaux pays the Department the greater of a minimum annual guarantee or 70 percent of gross sales. The advertising agreement includes one optional four-year term extension if JCDecaux and the Department both agree to such an extension.

Advertising revenues to the Department were approximately \$13.1 million in FY 2009 and are projected to remain flat in FY 2010. For purposes of this report, advertising revenues to the Department were assumed to increase 3.0 percent annually for FY 2011 through FY 2016.

- Ground transportation at the Airport is currently provided by a number of operators including limousine, charter bus, taxi, and various commercial courtesy vehicle operators. In general, revenues generated from limousine, bus, and taxi operators is derived from per trip fees assessed to the operators, and vary based on the type of operator and vehicle. Trip fees at the Airport were last increased in September 2007. Between FY 2004 and FY 2009, bus, limo, and taxi revenues grew from approximately \$4.1 million to approximately \$5.9 million, at a CAGR of 7.5 percent. Projections of bus, limo, and taxi revenues for the various operators at the Airport are based on the assumption that bus, limo, and taxi revenues per enplaned passenger increase 1.5 percent annually. As shown on Table IV-6, bus, limo, and taxi revenues are projected to increase from approximately \$5.9 million in FY 2009 to approximately \$7.0 in FY 2016, representing a CAGR of 2.6 percent.
- Other concession revenues shown on Table IV-6 include revenues from luggage carts, ATMs, and telecommunications. These other concession revenues were approximately \$7.9 million in FY 2009 and are projected to increase to approximately \$10.1 million in FY 2016 (as a result of increased luggage cart and ATM revenues).

4.9.3 Airport Sales and Services Revenue

Airport sales and services revenues at the Airport include revenue derived from various sales and services provided by the Department to its tenants and users, including van pool fees, accommodations, utilities, airfield bus service, ID badges, and other sales and services. Between FY 2004 and FY 2009, Airport sales and services revenues have varied year to year, with FY 2009 revenues nearly equaling FY 2004 revenues. In FY 2010, total airport sales and services revenue is projected to be approximately \$2.1 million. Airport sales and services revenues are projected to increase to approximately \$2.6 million in FY 2016, representing a CAGR of 2.2 percent for FY 2009 to FY 2016.

4.9.4 Miscellaneous Revenue

Miscellaneous revenues at the Airport include revenue from refunds and reimbursements, litigation settlements, sale of property and equipment, tickets and impound fees, and other miscellaneous revenues. In FY 2009, miscellaneous revenues were approximately \$2.4 million. Due primarily to Build America Bond tax credits (associated with the Subordinate 2009 Bonds), miscellaneous revenues are projected to increase from \$2.4 million in FY 2009 to \$10.1 million in FY 2016.

4.10 Airline Revenues

As discussed previously, airline landing fees, apron fees, and terminal rental rates presented in these analyses are calculated pursuant to the methodologies contained in the Operating Permit, the Long-Term Leases, the Tariff, or short-term leases with terms similar to those in the Tariff. The following sections present greater detail with regards to each specific rate calculation.

4.10.1 Airline Terminal Rentals

As described in more detail in Section 4.6, certain airlines at the Airport lease terminal building space under existing Long-Term Leases or leases with provisions similar to those in the Tariff. Airlines using terminal space at the Airport without an existing lease pay for terminal space through fees and charges set forth in the Tariff.

Table IV-7 presents projected terminal rentals associated with the Long-Term Leases, the Tariff, and leases with provisions similar to the Tariff, broken into three categories—(1) LTL Terminal M&O Expense Payments; (2) Tariff Terminal M&O Expense Payments; and (3) Debt Service and Other Payments. As shown on Table IV-7, terminal rents are charged on a CY basis (with requirements for a given CY as described below in items 1. through 4.). At the bottom of Table IV-7, the CY charges are then converted to a FY basis for purposes of being incorporated into the overall Airport financial projections (which are completed on a FY basis).

1. LTL Terminal M&O Expense Payments are based on relevant provisions incorporated in the Interim Settlement Agreements (discussed in Section 4.6, which specify terminal rents and fees for Long-Term Leases for CY 2006, CY 2007, CY 2008, and a portion of CY 2009 and allow the Department to recover a portion of terminal security costs). For purposes of LTL Terminal M&O Expense Payment projections, the provisions in the Interim Settlement Agreements related to M&O Expenses are assumed to extend through FY 2016. CY charges for M&O Expenses are based on the applicable actual prior FY M&O Expenses.
2. Tariff Terminal M&O Expense Payments are based on provisions in the Tariff (as applied pursuant to the Partial Settlement Agreement or the Letter Agreement)--for purposes of the financial analysis, these provisions are assumed to extend through FY 2016. CY charges for M&O Expenses are based on the applicable actual prior FY M&O Expenses.
3. Debt Service and Other Payments for Tariff terminals are based on provisions in the Tariff (as applied pursuant to the Partial Settlement Agreement or the Letter Agreement)—assumed to extend through FY 2016. CY charges for Debt Service and Other Payments are based on applicable requirements for that given CY.

Debt Service and Other Payments for LTL terminals are based on current space rent and footprint rent amounts increased with inflation and, in the case of LTL terminals where certain existing terminal improvements are expected to be acquired by the Department (the acquisition of such existing terminal improvements is an element of the Other Incorporated Projects described in Section 3.4 of this report), space rent and footprint rent

Table IV-7

Airline Terminal Rental Payments -- All Terminals Combined
Reflected on a Calendar Year Basis and a Fiscal Year Basis (Ending June 30)

	Projected						
	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016
1. LTL Terminal M&O Expense Payments--T2,T4,T5,T7,T8, and T6 (50%)							
a. M&O Expense Rent ^{1/}	\$ 38,210,409	\$ 40,120,930	\$ 42,126,976	\$ 44,233,325	\$ 46,444,991	\$ 48,767,241	\$ 51,205,603
[A]							
2. Tariff Terminal M&O Expense Payments--T1,T3,TBIT, and T6 (50%)							
b. Terminal Regular Expenses ^{2/}	\$ 70,903,869	\$ 71,055,131	\$ 77,840,934	\$ 81,916,676	\$ 86,012,370	\$ 118,729,382	\$ 123,187,943
c. Terminal Special Expenses ^{2/}	6,481,372	6,805,441	7,145,713	7,502,999	7,878,149	8,272,056	8,685,659
Total Tariff Terminal M&O Expense Payments [B]	\$ 77,385,241	\$ 77,860,572	\$ 84,986,647	\$ 89,419,675	\$ 93,890,519	\$ 127,001,438	\$ 131,873,602
3. Debt Service and Other Payments ^{3/}							
Capital Charges ^{4/}	\$ 39,860,385	\$ 72,984,947	\$ 85,338,250	\$ 105,381,061	\$ 156,861,133	\$ 180,124,870	\$ 177,456,959
Airport Infrastructure Charges ^{2/}	1,815,619	1,848,418	1,967,014	1,933,745	1,780,748	1,431,496	1,809,006
Space Rent (LTL)	2,612,357	2,690,728	2,771,450	2,854,593	2,940,231	3,028,438	3,119,291
Footprint Rent (LTL)	324,513	327,758	331,036	334,346	337,690	341,066	344,477
[C]	\$ 44,612,874	\$ 77,851,852	\$ 90,407,748	\$ 110,503,745	\$ 161,919,802	\$ 184,925,870	\$ 182,729,733
TOTAL FOR ALL TERMINALS (CY BASIS):	\$ 160,208,524	\$ 195,833,353	\$ 217,521,372	\$ 244,156,745	\$ 302,255,312	\$ 360,694,548	\$ 365,808,938
TOTAL FOR ALL TERMINALS (FY BASIS) ^{5/}	\$ 148,891,623	\$ 178,020,938	\$ 206,677,363	\$ 230,833,059	\$ 273,206,029	\$ 331,474,930	\$ 363,251,743

Notes:

- 1/ As described in Section 4.6.1 of this Report. Based on applicable actual prior FY M&O Expenses.
- 2/ As described in Section 4.6.2 of this Report. Based on applicable actual prior FY M&O Expenses.
- 3/ Assumes the acquisition of certain terminal improvements T2, T5, T6, T7, and T8 at the beginning of CY 2010. Debt Service and Other Payments are based on amounts applicable to the current CY shown.
- 4/ Includes (1) debt service payments allocated to T2, T5, T6 (50%), T7, and T8 without debt service coverage, (2) debt service, debt service coverage, and amortization for T1, T3, TBIT, and T6 (50%), and (3) debt service associated with the CUP Project allocated to T4 (without debt service coverage).
- 5/ For example, FY 2011 is roughly equal to 1/2 of CY 2010 Terminal Rentals plus 1/2 of CY 2011 Terminal Rentals.

Sources: City of Los Angeles; Department of Airports and Ricondo & Associates, Inc. (October 2009).
Prepared by: Ricondo & Associates, Inc. (October 2009).

are to be replaced with debt service payments allocated to such LTL terminals (without debt service coverage). Such debt service payments for LTL terminals are included in the line item labeled “Capital Charges”—as footnoted. CY charges for Debt Service and Other Payments are based on applicable requirements for that given CY.

As shown at the bottom of Table IV-7, terminal rental payments are projected to increase from approximately \$148.9 million in FY 2010 to approximately \$363.3 million in FY 2016. This increase in terminal rental payments is primarily a result of (1) increased debt service associated with the TBIT Interior Improvements, the future Bradley West Core and Concourses projects, and the Terminal Improvements Program; and (2) increased M&O Expenses related these same terminal projects.

For airlines that may move from one passenger terminal at the Airport to another (as a result of mergers or other reasons), it is not expected that such moves would result in material differences in terminal rental revenues.

4.10.2 Airline Landing and Apron Fees

Table IV-8 presents the calculation of Landing Fee and Apron Fee requirements and rates for FY 2010 through FY 2016, under the Landing Fee and Apron Fee rate methodologies contained in the Operating Permit. Landing and Apron Fees at the Airport are established using a cost-based, or compensatory methodology, and are calculated for each fiscal year based upon budgeted costs. At the end of each fiscal year, Landing and Apron Fees are settled with the airlines for any variances between actual and budgeted costs.

The airline Landing Fee is calculated by dividing the total Airfield requirement by the estimated maximum gross landed weight of all airfield users. The total Airfield requirement is calculated based on the following cost components attributable to the Airfield cost center:

- M&O Expenses
- Expenditures for capital items whose cost net of grants, PFCs, and contributed capital is less than \$100,000
- Amortization of capital expenditures whose cost net of grants, PFCs, and contributed capital is \$100,000 or more
- Annual debt service
- Debt service coverage (0.25x) (debt service coverage is included in the rate base for landing fees only to the extent that coverage is greater than amortization costs—e.g., if debt service in the rate base for landing fees was hypothetically \$40 million for a given Fiscal Year, then debt service coverage of 0.25x would be equal to \$10 million, but if amortization expenses were \$10 million or more then no debt service coverage would be included in the rate base)
- Build America Bonds debt service credit (if applicable)
- The M&O Reserve requirement attributable to the Airfield
- The net costs attributable to operating Van Nuys Airport

Los Angeles World Airports
Los Angeles International Airport

Table IV-8

Landing and Apron Fees
Fiscal Years Ending June 30

	Budget		Projected				
	FY 2010 ^{1/}	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Landing Fee							
Operating Expense	\$ 111,337,172	\$ 114,454,613	\$ 120,177,344	\$ 126,186,211	\$ 132,495,522	\$ 139,120,298	\$ 146,076,313
Amortization Expense	14,016,079	18,906,152	21,343,313	22,797,496	21,169,900	19,907,830	19,221,633
Senior Lien Debt Service	2,122,171	2,144,782	2,144,328	2,144,882	2,144,495	1,114,637	2,044,388
Subordinate Lien Debt Service	21,480,387	27,926,358	37,203,536	45,839,966	49,941,851	57,626,762	59,967,278
Credit for Build America Bonds Debt Service Coverage ^{2/}	(3,883,454)	(7,200,241)	(7,173,218)	(7,089,088)	(6,955,650)	(6,817,532)	(6,674,569)
M&O Reserve	314,694	1,089,253	1,411,782	1,482,440	3,160,474	1,630,251	1,711,917
Van Nuys Reliever Net Costs	5,331,795	5,557,529	5,643,493	5,733,325	5,827,200	5,925,299	6,027,812
TOTAL AIRFIELD REQUIREMENT	\$ 150,718,843	\$ 162,878,446	\$ 180,750,578	\$ 197,095,231	\$ 207,783,792	\$ 218,507,545	\$ 228,374,772
Total Landed Weight (000's) ^{3/}	44,894,970	46,849,178	48,028,573	49,096,696	50,140,464	50,988,213	51,856,458
Landing Fee Rate ^{4/}	\$ 3.33	\$ 3.48	\$ 3.76	\$ 4.01	\$ 4.14	\$ 4.29	\$ 4.40
Apron Fee							
Operating Expense	\$ 25,909,912	\$ 26,635,390	\$ 27,967,159	\$ 29,365,517	\$ 30,833,793	\$ 32,375,483	\$ 33,994,257
Amortization Expense	2,605,110	2,607,342	2,926,330	3,104,545	4,694,304	4,248,640	4,191,596
Senior Lien Debt Service	425,216	429,625	429,559	429,649	429,610	253,444	576,572
Subordinate Lien Debt Service	441,155	1,349,158	3,525,063	3,525,433	6,725,063	15,487,441	15,472,052
Credit for Build America Bonds Debt Service Coverage ^{2/}	(429,285)	(796,611)	(796,611)	(783,204)	(769,326)	(754,962)	(740,093)
M&O Reserve	73,234	253,486	328,544	344,987	735,492	379,385	398,390
Land Rental	-	-	-	-	-	-	-
TOTAL APRON REQUIREMENT	\$ 29,025,343	\$ 30,478,390	\$ 34,380,044	\$ 35,986,928	\$ 42,648,936	\$ 51,989,431	\$ 53,892,772
Passenger Landed Weight (000's) ^{3/}	39,319,283	42,749,364	43,809,189	44,763,653	45,711,826	46,488,742	47,298,271
Apron Fee Rate	\$ 0.74	\$ 0.71	\$ 0.78	\$ 0.80	\$ 0.93	\$ 1.12	\$ 1.14
COMBINED RATE	\$ 4.07	\$ 4.19	\$ 4.55	\$ 4.82	\$ 5.08	\$ 5.40	\$ 5.54

Notes:

1/ With the exception of Debt Service and credit for Build America Bonds in FY 2010, amounts reflected in this table are as reflected in FY 2010 Budget.

2/ Debt service coverage is 0.25x for Senior Lien Debt Service and 0.15x for Subordinate Lien Debt Service. Only debt service coverage above and beyond amortization expenses is included in the Landing Fee and Apron Fee calculation.

3/ Landed weight reflected for FY 2010 is budgeted amount; thereafter it is as projected in this report.

4/ For FY 2010, the FY 2010 Budget rate is reflected on this table. The calculated FY 2010 rate based on requirements reflected on this page would be approximately \$0.03 (three cents) higher than the budget rate of \$3.33 as a result of Series 2009 debt service reflected in FY 2010.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).
Prepared by: Ricondo & Associates, Inc. (October 2009).

Because the Department establishes the Landing Fee based on a compensatory methodology using total airline landed weight as a divisor, the Airport does not expose itself to any risk of reduced landing fee revenues that might result from loss of airline service or other such disruptions.

Similarly, the Apron Fee is calculated by dividing the Apron requirement (comprised of the same cost items described above but allocable to the Apron cost center) by the total estimated maximum gross landed weight of the passenger airlines.

As shown in Table IV-8, the Landing Fee is projected to increase from the FY 2010 Budget rate of \$3.33 per thousand pound unit to \$4.40 per thousand pound unit in FY 2016. Overall, Landing Fees are projected to increase from approximately \$150.7 million in FY 2010 to approximately \$228.4 million in FY 2016.

The Apron Fee is projected to increase from the FY 2010 Budget rate of \$0.74 per thousand pound unit to \$1.14 per thousand pound unit in FY 2016. Overall, Apron Fees are projected to increase from approximately \$29.0 million in FY 2010 to approximately \$53.9 million in FY 2016.

The combined Landing and Apron Fee is projected to increase from the FY 2010 Budget rate of \$4.07 per thousand pound unit to \$5.54 per thousand pound unit in FY 2016.

4.10.3 Passenger Airline Cost per Enplanement

Table IV-9 presents passenger airline cost per enplanement for actual FY 2008, estimated FY 2009, and projected FY 2010 through FY 2016. Passenger airline cost per enplanement was \$8.87 in FY 2008 and increased to \$10.77 in FY 2009. This increase was due in part to (1) an increase in terminal payments in FY 2009 related to various terminal payments realized in FY 2009 that were associated with terminal legal matters, (2) an increase in landing and apron fees, and (3) a decrease in enplaned passengers in FY 2009.

Based on the estimates and calculations described in the previous sections of this chapter, passenger airline cost per enplanement (in future dollars) is estimated to increase from \$11.33 in FY 2010 to \$19.71 in FY 2016. This increase can be attributed to increases in terminal, airfield, and apron-related capital costs (associated with the Series 2009 Projects and the Other Incorporated Projects); assumed growth in base M&O Expenses allocable to airline-related Cost Centers; and incremental M&O Expenses associated with various terminal improvements.

Table IV-9 also reflects estimates of current and future debt service amounts paid directly and independently (payments are not made to the Department) by certain LTL carriers in connection with certain outstanding bonds previously issued by the Regional Airports Improvement Corporation (RAIC). As noted on Table IV-9, it is estimated that such payments decrease starting in FY 2011 following the Department's planned acquisition of certain existing terminal improvements (see Sections 3.4 and 4.6 for more information).

4.11 Application of Pledged Revenues and Debt Service Coverage

Table IV-10 presents projected cash flow and debt service coverage ratios, respectively, for the Airport for FY 2010 through FY 2016. Included in this cash flow are Airline Revenues, other aviation revenues, various nonairline revenues, Investment Earnings, M&O Expenses, Debt Service, M&O Reserve deposits, and capital lease payments. Assumptions included in this table include the following:

Los Angeles World Airports
Los Angeles International Airport

Table IV-9
Passenger Airline Cost per Enplaned Passenger
Fiscal Years Ending June 30

	Actual FY 2008	Preliminary Actual FY 2009	Projected									
			FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016			
Airline Revenues												
Airline Terminal Rentals (all terminals combined)	\$ 116,164,146	\$ 154,957,130	\$ 148,891,623	\$ 178,020,938	\$ 206,677,363	\$ 230,839,059	\$ 273,206,029	\$ 331,474,930	\$ 363,251,743			
Signatory Airline Landing and Apron Fees	171,822,321	162,108,164	179,744,186	193,356,836	215,130,621	233,082,159	250,432,728	270,496,976	282,267,544			
Total Airline Revenues	\$287,986,467	\$317,065,294	\$328,635,809	\$371,377,774	\$421,807,984	\$463,921,218	\$523,638,756	\$601,971,906	\$645,519,287			
Less Landing Fees - Cargo Airline	(11,905,260)	(11,990,769)	(12,715,364)	(13,651,673)	(15,226,134)	(16,694,924)	(17,628,444)	(18,530,234)	(19,299,612)			
Total Passenger Airline Revenues	\$276,081,207	\$305,074,525	\$315,920,445	\$357,726,101	\$406,581,850	\$447,226,294	\$506,010,312	\$583,441,672	\$626,219,676			
Enplanements	31,142,339	28,328,978	27,884,300	28,409,600	29,143,500	29,803,800	30,520,800	31,137,100	31,775,099			
Passenger Airline Cost Per Enplanement	\$8.87	\$10.77	\$11.33	\$12.59	\$13.95	\$15.01	\$16.58	\$18.74	\$19.71			
Estimated LTL Terminal Third Party Debt Service Payments ^{1/}	\$45,753,000	\$45,691,000	\$45,906,000	\$24,945,000	\$24,948,000	\$24,949,000	\$24,949,000	\$24,949,000	\$24,945,000			
Passenger Airline Revenues including Third Party Debt Service Payments above Per Enplanement	\$321,834,207	\$350,765,525	\$361,826,445	\$382,671,101	\$431,529,850	\$472,175,294	\$530,959,312	\$608,390,672	\$651,164,676			
	\$10.33	\$12.38	\$12.98	\$13.47	\$14.81	\$15.84	\$17.40	\$19.54	\$20.49			

Note:

1/ Includes approximations of debt service payments paid directly by T2, T4, T5, T6, T7, and T8 for outstanding third party debt related to terminal improvements at the Airport (on a Fiscal Year basis) through FY 2010. Thereafter, only T4 debt service payments are included. Payments are approximated based on outstanding principal amounts, scheduled sinking fund payments, and related interest rates. It should be noted that certain outstanding principal amounts are large bullet maturities.

Sources: City of Los Angeles, Department of Airports and Ricondo & Associates, Inc. (October 2009).
Prepared by: Ricondo & Associates, Inc. (October 2009).

Los Angeles World Airports
Los Angeles International Airport

Table IV-10
Airport Cash Flow and Debt Service Coverage
Fiscal Years Ending June 30

	Projected						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Table 9	\$ 328,635,809	\$ 371,377,774	\$ 421,807,984	\$ 463,921,218	\$ 523,638,756	\$ 601,971,906	\$ 645,519,287
Table 6	\$ 86,897,000	\$ 89,674,499	\$ 92,603,371	\$ 95,606,277	\$ 98,702,109	\$ 101,857,406	\$ 105,118,707
Table 6	\$ 262,634,078	\$ 280,051,138	\$ 296,025,785	\$ 311,701,513	\$ 337,651,815	\$ 354,831,086	\$ 372,914,385
Table 6	\$ 2,144,000	\$ 2,207,595	\$ 2,285,286	\$ 2,360,274	\$ 2,440,544	\$ 2,516,297	\$ 2,595,171
Table 6	\$ 6,321,000	\$ 10,105,400	\$ 10,183,820	\$ 10,165,511	\$ 10,134,773	\$ 10,105,912	\$ 10,105,912
	\$ 21,788,761	\$ 24,887,166	\$ 31,762,328	\$ 37,972,134	\$ 44,171,388	\$ 48,005,516	\$ 51,971,255
Total Pledged Revenues	\$ 708,420,648	\$ 778,303,573	\$ 854,668,573	\$ 921,757,926	\$ 1,016,770,350	\$ 1,119,316,984	\$ 1,188,224,717
LAX M&O Expenses	\$ 555,692,065	\$ 577,950,442	\$ 606,797,014	\$ 637,084,715	\$ 705,354,951	\$ 740,567,698	\$ 777,541,683
NET REVENUES	\$ 152,728,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
Senior Aggregate Annual Debt Service ^{1/}	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
Subordinate Aggregate Annual Debt Service	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
M&O Reserve	\$ 1,496,423	\$ 6,452,915	\$ 8,362,895	\$ 8,780,692	\$ 19,792,190	\$ 10,208,510	\$ 10,719,110
Capital Leases	\$ 3,300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total - Other Requirements	\$ 54,554,271	\$ 97,401,451	\$ 125,177,895	\$ 156,681,791	\$ 208,521,941	\$ 250,867,757	\$ 253,663,538
NET FUNDS REMAINING	\$ 98,174,312	\$ 102,951,679	\$ 122,693,664	\$ 127,991,420	\$ 102,893,458	\$ 127,881,529	\$ 157,019,496
SENIOR BOND DEBT SERVICE COVERAGE							
Pledged Revenues	\$ 708,420,648	\$ 778,303,573	\$ 854,668,573	\$ 921,757,926	\$ 1,016,770,350	\$ 1,119,316,984	\$ 1,188,224,717
LESS: Capital Lease Rental Credits	\$ 3,300,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PLEDGED REVENUES	\$ 705,120,648	\$ 778,303,573	\$ 854,668,573	\$ 921,757,926	\$ 1,016,770,350	\$ 1,119,316,984	\$ 1,188,224,717
LAX M&O EXPENSES	\$ 555,692,065	\$ 577,950,442	\$ 606,797,014	\$ 637,084,715	\$ 705,354,951	\$ 740,567,698	\$ 777,541,683
NET PLEDGED REVENUES	\$ 149,428,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
SENIOR AGGREGATE ANNUAL DEBT SERVICE	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
Senior Bond Debt Service Coverage ^{2/}	7.31	3.52	3.47	3.03	2.45	2.33	2.52
SUBORDINATE BOND DEBT SERVICE COVERAGE							
NET PLEDGED REVENUES	\$ 149,428,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
LESS: Senior Aggregate Annual Debt Service	\$ 20,445,384	\$ 56,954,371	\$ 71,367,751	\$ 93,817,051	\$ 127,344,188	\$ 162,826,393	\$ 162,786,448
NET SUBORDINATE PLEDGED REVENUES	\$ 128,983,199	\$ 143,398,759	\$ 176,503,808	\$ 190,856,160	\$ 184,071,211	\$ 215,922,892	\$ 247,896,585
SUBORDINATE AGGREGATE ANNUAL DEBT SERVICE	\$ 29,312,465	\$ 33,994,165	\$ 45,447,249	\$ 54,084,048	\$ 61,385,563	\$ 77,832,853	\$ 80,157,980
Subordinate Bond Debt Service Coverage ^{2/}	4.40	4.22	3.88	3.53	3.00	2.77	3.09
TOTAL DEBT SERVICE COVERAGE							
NET PLEDGED REVENUES	\$ 149,428,584	\$ 200,353,130	\$ 247,871,559	\$ 284,673,211	\$ 311,415,399	\$ 378,749,286	\$ 410,683,034
SENIOR AND SUBORDINATE BOND DEBT SERVICE	\$ 49,757,849	\$ 90,948,536	\$ 116,814,999	\$ 147,901,099	\$ 188,729,751	\$ 240,659,247	\$ 242,944,428
Total Debt Service Coverage ^{2/}	3.00	2.20	2.12	1.92	1.65	1.57	1.69

Note: ^{1/} Senior Aggregate Annual Debt Service is net of PFC Revenues committed to pay Senior Lien Debt Service.

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

Sources: City of Los Angeles, Department of Airports and Record & Associates, Inc. (October 2009).
Prepared by: Record & Associates, Inc. (October 2009).

- Total Pledged Revenues include investment earnings which include earnings available from balances in the Airport Revenue Fund and various bond service funds. The interest income from available balances in the PFC Fund and various construction funds is restricted and unavailable for Pledged Revenues.
- Debt Service Coverage ratios as required by the Indentures are also presented in Table IV-10. Net Pledged Revenues together with any Transfer which shall not exceed 25% of Aggregate Annual Debt Service on the Senior Bonds are required to be at least 1.25 times the annual debt service requirement for Senior Bonds and 1.15 times for Subordinate Bonds. As presented, the Senior Bond debt service coverage ratio exceeds the 1.25 coverage requirement in each year of the Projection Period. In addition, the Subordinate Bond debt service coverage ratio is projected to also exceed the 1.15 coverage ratio requirements in each year of the projection period.¹ No Transfers were assumed for purposes of the analysis reflected in this report.

¹ In Table IV-10, annual debt service presented represents estimated “actual” debt service payments required (rather than Maximum Annual Debt Service associated with certain additional bonds tests) so that cash flow for the Airport can be projected. For actual compliance with tests for the issuance of Bonds, see the separate certifications and/or Consultant Certifications.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B
AUDITED FINANCIAL STATEMENTS OF
LOS ANGELES WORLD AIRPORTS
(DEPARTMENT OF AIRPORTS OF
THE CITY OF LOS ANGELES, CALIFORNIA)
LOS ANGELES INTERNATIONAL AIRPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

[THIS PAGE INTENTIONALLY LEFT BLANK]

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles,
California)
**LOS ANGELES INTERNATIONAL
AIRPORT**

Annual Financial Report

For the Years Ended June 30, 2008 and 2007

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Annual Financial Report
For the Years Ended June 30, 2008 and 2007

Table of Contents

	<i>Page(s)</i>
FINANCIAL SECTION:	
Independent Auditor's Report.....	1-2
Financial Statements for the Years Ended June 30, 2008 and 2007:	
Statements of Net Assets.....	3-4
Statements of Revenues, Expenses, and Changes in Net Assets.....	5
Statements of Cash Flows.....	6-7
Notes to Financial Statements.....	8-43
Required Supplementary Information - Schedules of Funding Progress	44
COMPLIANCE SECTION:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

The Members of the Board of Airport Commissioners
of the City of Los Angeles, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the Los Angeles International Airport (LAX), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles (City), as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of LAWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LAX's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As disclosed in Note 1, the financial statements presents only LAX and do not purport to, and do not, present fairly the financial position of LAWA or the City as of June 30, 2008 and 2007, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LAX as of June 30, 2008 and 2007 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2008 on our consideration of the LAX'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 for the year ended June 30, 2008. The purpose of that report is to describe the scope of our testing of

internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The pension and postemployment healthcare plans schedules of funding progress on page 44 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 17, 2008

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statement of Net Assets
 June 30, 2008 and 2007
 (Dollars in thousands)

	2008	2007
ASSETS		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 432,526	\$ 383,911
Investments with fiscal agents (Note 3)	101,780	153,452
Accounts receivable, net of allowance for uncollectible accounts of \$768 and \$1,629 in 2008 and 2007 respectively	11,041	15,024
Unbilled receivables	21,996	33,323
Accrued interest receivable	4,440	5,635
Due from other agencies	40,083	32,000
Prepaid expenses and inventories	4,806	3,641
Total unrestricted current assets	616,672	626,986
Restricted current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	791,178	713,691
Investments with fiscal agents (Note 3)	27,470	27,528
Accrued interest receivable	3,945	4,842
Passenger facility charges receivable (Note 13)	16,917	18,298
Total restricted current assets	839,510	764,359
Total current assets	1,456,182	1,391,345
Noncurrent assets:		
Capital assets (Notes 4 and 12):		
Land and air easements	619,766	619,766
Buildings, improvements, and equipment	1,709,382	1,665,780
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(1,041,491)	(959,812)
Construction work in process	783,332	355,555
Net capital assets	2,255,412	1,865,712
Deferred bond issuance expenses	2,189	2,504
Total noncurrent assets	2,257,601	1,868,216
Total assets	\$ 3,713,783	\$ 3,259,561

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Net Assets (Continued)
 June 30, 2008 and 2007
 (Dollars in thousands)

	2008	2007
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current liabilities payable from unrestricted assets:		
Contracts and accounts payable	\$ 102,994	\$ 69,134
Employee benefits and insurance claims payable (Notes 6)	5,753	6,365
Salaries payable	5,117	4,218
Commercial paper notes payable (Note 5)	330,228	178,745
Current obligations under capital leases (Notes 6 and 12)	1,197	1,140
Accrued interest payable	491	1,959
Other liabilities (Notes 6 and 15)	804	4,065
Current liabilities payable from unrestricted assets	446,584	265,626
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions	165,317	186,333
Bonds payable, net of deferred charges and credits of \$878 and \$919 in 2008 and 2007, respectively (Note 5)	14,158	13,334
Contracts and accounts payable	5,366	23,975
Accrued bond interest payable	877	955
Current liabilities payable from restricted assets	185,718	224,597
Total current liabilities	632,302	490,223
Long-term liabilities:		
Bonds payable, net of deferred charges and credits of \$5,697 and \$6,580 in 2008 and 2007, respectively (Note 5)	198,052	212,215
Obligations under capital leases (Notes 6 and 12)	49,518	50,715
Employee benefits and insurance claims payable (Notes 6)	41,291	26,070
Other liabilities (Note 6 and 15)	114,384	111,458
Total long-term liabilities	403,245	400,458
Total liabilities	1,035,547	890,681
Net assets:		
Invested in capital assets, net of related debt	1,766,228	1,563,016
Restricted:		
Capital projects	174	164
Debt service	26,688	26,667
Special purpose	641,089	526,265
Unrestricted	244,057	252,768
Total net assets	\$ 2,678,236	\$ 2,368,880

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Revenues, Expenses, and Changes in Net Assets
 For the years ended June 30, 2008 and 2007
 (Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Operating revenue:		
Aviation revenue:		
Landing fees	\$ 171,822	\$ 148,937
Building rentals	146,206	107,338
Other aviation revenue	61,932	61,689
Concession revenue	275,659	227,177
Airport sales and services	2,577	2,824
Miscellaneous revenue	2,030	2,012
Total operating revenue	<u>660,226</u>	<u>549,977</u>
Operating expenses:		
Salaries and benefits	291,015	255,536
Contractual services	151,155	141,306
Materials and supplies	37,870	43,313
Administrative expense	1,665	725
Utilities	27,674	20,101
Advertising and public relations	8,286	10,015
Net other operating expense/(revenue)	67	(2,472)
Total operating expenses before depreciation and amortization	<u>517,732</u>	<u>468,524</u>
Income from operations before depreciation and amortization	142,494	81,453
Depreciation and amortization	(83,908)	(72,438)
Operating income	<u>58,586</u>	<u>9,015</u>
Nonoperating revenue (expenses):		
Passenger facility charges (Note 13)	116,705	116,083
Interest income	49,477	39,502
Change in fair value of investments	22,207	11,468
Interest expense	(18,278)	(15,266)
Bond expense	(428)	(345)
Other nonoperating revenue, net	1,390	810
Total nonoperating revenue, net	<u>171,073</u>	<u>152,252</u>
Income before contributions and transfers	229,659	161,267
Capital grant contributions (Note 14)	34,555	62,947
TSA contributions (Note 14)	52,330	11,094
Inter-agency transfers	(7,188)	(43,511)
Change in net assets	309,356	191,797
Net assets, beginning of year	<u>2,368,880</u>	<u>2,177,083</u>
Net assets, end of year	<u>\$ 2,678,236</u>	<u>\$ 2,368,880</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Cash Flows
 For the years ended June 30, 2008 and 2007
 (Dollars in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers	\$ 676,397	\$ 544,730
Cash received in protest from customers	132	91,680
Payments for goods and services	(226,983)	(153,412)
Payments to employees	(275,506)	(253,138)
Other receipts (payments), net	6,633	(6,057)
Net cash provided by operating activities	<u>180,673</u>	<u>223,803</u>
Cash flows from noncapital financing activities:		
Inter-agency transfer out	<u>(7,188)</u>	<u>(43,511)</u>
Net cash provided by noncapital financing activities	<u>(7,188)</u>	<u>(43,511)</u>
Cash flow from capital and related financing activities:		
Acquisition and construction of capital assets	(476,317)	(388,641)
Receipts from passenger facility charges	118,086	117,172
Principal paid on bonds	(12,415)	(11,820)
Interest paid on bonds and commercial paper	(18,993)	(12,181)
Bond and commercial paper issuance cost paid	(112)	(75)
Bond payment liability returned as escheated funds	(19)	-
Principal paid on capital leases	(1,140)	(1,026)
Interest paid on capital leases	(1,754)	(2,263)
Cash transferred from (to) fiscal agent	58	(154)
Net receipts from commercial paper	151,483	178,745
Federal grants and TSA receipts	86,885	74,041
Net cash used in capital and related financing activities	<u>(154,238)</u>	<u>(46,202)</u>
Cash flow from investing activities:		
Increase in fair value of investments	22,207	11,468
Interest received	53,992	40,248
Cash collateral (paid) received under securities lending transactions	(21,016)	32,320
Net cash provided by investing activities	<u>55,183</u>	<u>84,036</u>
Net increase cash and cash equivalents	74,430	218,126
Cash and cash equivalents, beginning of year	<u>1,251,054</u>	<u>1,032,928</u>
Cash and cash equivalents, end of year	<u>\$ 1,325,484</u>	<u>\$ 1,251,054</u>
The following is a reconciliation of cash and cash equivalents		
to the statement of net assets:		
Cash and pooled investments held by the City Treasurer - unrestricted	\$ 432,526	\$ 383,911
Unrestricted cash held with fiscal agent	101,780	153,452
Cash and pooled investments held by the City Treasurer - restricted	791,178	713,691
	<u>\$ 1,325,484</u>	<u>\$ 1,251,054</u>

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Statements of Cash Flows (Continued)
 For the years ended June 30, 2008 and 2007
 (Dollars in thousands)

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 58,586	\$ 9,015
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	83,908	72,438
Change in provision for uncollectible accounts	(861)	(1,875)
Other expenses, net	(218)	(506)
Changes in assets and liabilities:		
Accounts receivable	4,844	11,131
Unbilled receivable	11,327	(6,096)
Due from other agencies	(8,083)	(9,847)
Prepaid expenses and inventories	(1,165)	(668)
Contracts and accounts payable	17,162	(30,518)
Employee benefits and insurance claims payable	14,609	1,804
Salaries payable	899	594
Other liabilities	(335)	178,331
Total adjustments	122,087	214,788
Net cash provided by operating activities	\$ 180,673	\$ 223,803
Noncash capital, and financing activities:		
Acquisition of capital assets included in accounts payable	\$ 44,453	\$ 46,365

See accompanying notes to financial statements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements

June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) Organization and Reporting Entity

The financial statements of the Los Angeles International Airport (LAX) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) operates LAX. LAWA is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates Los Angeles International Airport (LAX), LA/Ontario International Airport (ONT), Van Nuys Airport (VNY) and LA/Palmdale Regional Airport (PMD) and collectively, the Airport System.

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated or controlled by the City; and (c) fix, regulate and collect rates and charges for use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position and changes in financial position and cash flows of LAX only and are not intended to present fairly the financial position, changes in financial position, or cash flows of LAWA or the City in conformity with GAAP.

(b) Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each airport in the Airport System. Only the funds of LAX are included in the reporting entity. Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City. LAX applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(c) Cash and Pooled Investments

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAX's outstanding bonds. In order to maximize investment return, LAX pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAX's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair value of the pool, if separately reported. Certain money market investments with initial maturities at the time of purchase of less than one year are recorded at cost.

Interest income arising from such cash and pooled investments is apportioned to LAX based on the relationship of LAX's respective daily cash balances to aggregate cash and pooled investments.

(d) Accounts Receivable and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables aged beyond 90 days are put into the collection process and then referred after 120 days to LAX's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set as a reserve by LAX policy. This policy requires that 2% of outstanding receivables plus all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense. Unbilled receivable balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal period might not get processed through the billing system for up to sixty days into the next fiscal year. For fiscal year 2008, certain customer accounts with credit balances were offset to Unbilled Receivables.

(e) Contracts Payable, Accounts Payable and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, then an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities. Reserves for claims and litigation are recorded as other long-term liabilities.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(f) *Securities Lending*

The City Treasurer engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

(g) *Investments with Fiscal Agents*

LAX has funds that are held by fiscal agents and pledged to the payment or security of the 1995, 2002, and 2003 bonds (see Note 3).

(h) *Federal Grants*

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as capital grant contributions in the statements of revenues, expenses and changes in net assets.

(i) *Capital Assets*

All capital assets are carried at cost or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less allowance for accumulated depreciation. Such cost includes, where appropriate, net interest capitalized as part of the cost of construction of capital assets. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of \$5,000 for all capital assets.

(j) *Landing Fees*

Landing fee rates are used to determine what fees are to be charged to the airlines each time that a qualified aircraft lands at LAX. The type of landing fee method applied by LAX is compensatory. Under this fee methodology, the fees charged by LAX for a facility or service are based on costs attributable only to that facility or service. For example, the landing fees charged for using the airfield and apron are based on LAX's actual costs of operating the airfield and apron. For control purposes, the landing fees are calculated twice each fiscal year.

(k) *Concession Revenue*

Concession revenue is generated through LAX concessionaires or tenants, who pay monthly fees for using airport facilities to offer their goods and services to the general public and air traveling community. Payments to LAX are based on negotiated agreements with concessionaires to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to concession revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAX in the month following the activity.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(k) Concession Revenue (continued)

The timing of concessionaire reporting determines when accruals are required for each tenant.

(l) Depreciation and Amortization

Depreciation expense includes amortization of assets under capital leases. Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; landplane ports, 10 to 35 years; and equipment, 5 to 20 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

(m) Preliminary Costs of Capital Projects

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

(n) Operating and Nonoperating Revenue and Expenses

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as depreciation and amortization, maintenance, insurance, and utilities.

(o) Interest Expense

LAX capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest expense was \$18,278,000 for the year ended June 30, 2008 and \$15,266,000 for the year ended June 30, 2007. All outstanding bonds are for refunding purpose, therefore, there was no capitalized interest in both FY2008 and FY2007.

(p) Employee Benefits

LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(q) *Statements of Cash Flows*

Cash and cash equivalents as reported in the statements of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are, therefore, considered to be cash equivalents.

(r) *Use of Estimates*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

(s) *Reclassifications*

Certain reclassifications have been made to fiscal year 2007 amounts in order to conform to the fiscal year 2008 presentation.

(t) *Inventory*

LAX's inventory consists primarily of general office supplies and is recorded at cost on a first-in, first-out basis.

(u) *Bond Premiums, Discounts, and Issuance Costs*

Bond premiums, discounts, issuance costs, and gains and losses on extinguishment are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on extinguishment. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

(v) *Net Assets*

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2008 and 2007, net assets of \$444.2 million and \$355.9 million, respectively, are restricted by enabling legislation.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(1) Reporting Entity and Summary of Significant Accounting Policies (continued)

(v) Net Assets (continued)

- *Unrestricted Net Assets* – This category represents net assets of LAX, not restricted for any project or other purpose.

(2) Recent Accounting Pronouncements

(a) Recent Accounting Pronouncements

In December 2006, GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. GASB Statement No. 49 will be effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. LAX is required to implement the statement for the fiscal year 2008-09 financial statements. LAX is evaluating its potential liability concerning GASB Statement No. 49.

GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets.*" Issued in June 2007, this statement establishes standards for accounting and financial reporting for intangible assets, for all state and local governments.. Types of assets that may be considered intangible assets include easements, water rights, timber rights, patents, trademarks, and computer software. GASB 51 will be effective for LAX beginning in fiscal year 2010. Retroactive reporting is required. LAX is evaluating its potential liability concerning GASB Statement No. 51.

(3) Cash and Investments

(a) Cash and Pooled Investments

The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities but safety and liquidity still take precedence over return. Interest earned on pooled investments is allocated to the participating funds based on each fund's average daily deposit balance during the allocation period with all remaining interest allocated to the General Fund. Investments in the City Treasury 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.

Pursuant to California Government Code Section 53607 and the Los Angeles City Council File No. 94-2160, the City Treasury provides an Annual Statement of Investment Policy (the Policy) to the City Council. The policy governs the City's pooled investment practices. The

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(3) Cash and Investments (continued)

(a) Cash and Pooled Investments (continued)

Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted by California Government Code Sections 53600-53636 and 16429.1.

Examples of investments permitted by the City's pooled investment policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts (in Special Investment Program only), bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund.

The Investment Advisory Committee (IAC) reviews investment performance and strategy. The IAC is composed of the City Treasurer as chairperson, the Office of the Mayor, City Controller, Chief Legislative Analyst, City Administrative Officer, Director of Office of Finance, and an external investment advisor.

The investment disclosure information by pool is not available; accordingly, disclosures provided herein represent the combined General and Special Investment Pools. LAX is invested only in the General Pool.

LAX's equity in the City Treasurer's pooled investment and securities lending programs consists of the following cash and investments, based on the relative percentages of such equity to the General Investment Pool of the City Treasurer's pooled funds and is not necessarily indicative of LAX's actual investments in the pooled funds (in thousands):

Description	2008	2007
Deposits	\$ 53,353	\$ 41,709
U.S. Treasury securities	336,396	318,305
Federal agency securities	221,246	390,746
Commercial paper	358,178	128,419
Medium-term corporate notes	254,531	218,423
Total	1,223,704	1,097,602
Less restricted portion	(791,178)	(713,691)
Unrestricted portion	\$ 432,526	\$ 383,911

The restricted portion represents cash and investments that are restricted as to use either by bond indenture requirements or the Federal Aviation Administration.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(3) Cash and Investments (continued)

(b) Investments Authorized by the City's Investment Policy

The table below identifies the investment types that are authorized for LAX by the City's investment policy for the General Pool. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

	<u>Maximum maturities</u>	<u>Maximum concentration</u>
U.S. Treasury and federal agency securities	5 years	100%
Bonds issued by local agencies	5 years	100
Registered state warrants and municipal notes	5 years	100
Bankers' acceptances	180 days	40
Commercial paper	270 days	40
Negotiable certificates of deposit or time deposits	180 days	30
Yankee certificates of deposit	180 days	30
CRA certificates of deposit or time deposits	180 days	30
Repurchase agreements	32 days	15
Reverse repurchase agreements	92 days	5*
Medium-term corporate notes	5 years	30
Shares of a money market mutual fund	N/A	20
Securities lending program	5 years	20
Asset-backed securities	5 years	20**
Collateralized mortgage obligations	5 years	20**
Local agency investment fund (LAIF)		(per state limit)***

* The total of reverse repurchase agreements and the securities subject to a securities lending agreement may not exceed 20% of the total portfolio.

** Combined total for mortgage-backed and asset-backed securities.

*** Current account limit is \$40 million.

At June 30, 2008 and 2007, LAX had \$1,223,704,000 and \$1,097,602,000, respectively, invested with the City Pool, which represents approximately 21.42% and 19.07%, respectively, of the City Treasury's General Investment Pool.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(3) Cash and Investments (continued)

(c) City of Los Angeles Investment Pool

At June 30, 2008, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Days</u>	<u>Days</u>	<u>Days</u>	<u>To 5 Years</u>
U.S. Treasury Notes	\$ 1,619,055	\$ -	\$ -	\$ -	\$ 1,619,055
U.S. Government Agencies	1,530,897	230,356	174,594	224,569	901,378
Medium Term Notes	1,186,097	-	-	352,990	833,107
Commercial Paper	1,984,742	1,450,906	386,282	147,554	-
Guaranteed Investment Contracts	135,224	135,224	-	-	-
Certificates of Deposit	8,000	-	-	8,000	-
Short Term Investment Funds	38	38	-	-	-
State of California LAIF	1	1	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	918,758	-	-	-	918,758
U.S. Agencies	10,721	-	-	-	10,721
Total General and Special Pools	<u>\$ 7,393,533</u>	<u>\$ 1,816,525</u>	<u>\$ 560,876</u>	<u>\$ 733,113</u>	<u>\$ 4,283,019</u>

At June 30, 2007, the investments held in the City Treasury's General and Special Investment Pool Programs and their maturities are as follows (in thousands):

<u>Type of Investments</u>	<u>Amount</u>	<u>Investment Maturities</u>			
		<u>1 to 30</u> <u>Days</u>	<u>31 to 60</u> <u>Days</u>	<u>61 to 365</u> <u>Days</u>	<u>366 Days</u> <u>To 5 Years</u>
U.S. Treasury Notes	\$ 1,651,432	\$ -	\$ -	\$ 100,394	\$ 1,551,038
U.S. Government Agencies	2,588,342	270,397	63,258	267,283	1,987,404
Medium Term Notes	1,135,468	-	-	364,595	770,873
Commercial Paper	900,606	811,138	54,758	34,710	-
Guaranteed Investment Contract	314,860	314,860	-	-	-
State of California LAIF	2,664	2,664	-	-	-
Short Term Investment Funds	7	7	-	-	-
Securities Lending Cash Collateral					
U.S. Treasury Notes	898,087	-	-	5,386	892,701
U.S. Agencies	217,385	-	-	-	217,385
Total General and Special Pools	<u>\$ 7,708,851</u>	<u>\$ 1,399,066</u>	<u>\$ 118,016</u>	<u>\$ 772,368</u>	<u>\$ 5,419,401</u>

Interest Rate Risk. The City's pooled investment policy limits the maturity of its investments to a maximum of five years for U.S. Treasury and federal agency securities, medium term corporate notes, and bonds issued by local agencies; 270 days of commercial paper; and 32 days for repurchase agreements.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(3) Cash and Investments (continued)

(c) City of Los Angeles Investment Pool (continued)

Credit Risk. The City's pooled investment policy requires that for all classes of investments, except linked banking program certificates of deposits, the issuers must have minimum credit ratings by Standard and Poor's Corporation (S&P) A-1/A or Moody's Investor Services (Moody's) P-1/A2 and, if available, Fitch IBCA F1/A. In addition, domestic banks are limited to those with a current Fitch Ratings BankWatch of "B/C" or better and an A-1 short-term rating. The City Treasurer is granted the authority to specify approved California banks with a Fitch Ratings BankWatch of "C" or better and an A-2 rating where appropriate. In addition to a "AAA" rating for country risk, foreign banks with domestic licensed offices must be rated "B" or better and TBW-1 short-term rating by Fitch Ratings BankWatch. Domestic savings banks must be rated "B/C" or better and TBW-1 short-term rating by Fitch Ratings BankWatch.

Medium term notes must be issued by corporations operating within the United States and having total assets in excess of \$500 million. Commercial paper issuers must meet the preceding requirement or must be issued by corporations organized in the United States as a special purpose corporation, trust or limited liability company having program-wide credit enhancements.

The City's \$1.53 billion investments in U.S. government-sponsored enterprises consist of securities issued by the Federal Home Loan Bank - \$594.5 million, Federal National Mortgage Association - \$293.8 million, Federal Home Loan Mortgage Corporation - \$537.2 million, Federal Farm Credit Bank - \$105.5 million. As of June 30, 2008, these securities carried the highest ratings of AAA (S&P) and Aaa (Moody's).

The City's \$1.19 billion investments in medium term notes consist of securities issued by banks and corporations that comply with the requirements discussed above and were rated "A" or better by S&P and "A3" or better by Moody's.

The City's \$1.98 billion investments in commercial paper comply with the requirements discussed above and were rated AAA/A-1/A-1+ by S&P and Aaa/P-1 by Moody's.

The issuers of guaranteed investment contracts (in Special Investment Program only), certificates of deposits and the State of California Local Agency Investment Fund (LAIF) are not rated.

Concentration of Credit Risk. The City's investment policy does not allow more than 10% of its investment portfolio, except U.S. Treasury and U.S. sponsored agency issues, to be invested in securities of a single issuer including its related entities. The City's investment policy further provides for a maximum concentration limit of 30% on any individual federal agency or government-sponsored entity. The City's pooled investments comply with these requirements. GAAP requires disclosure of certain investments in any one issuer that represent 5% or more of total investments. Of the City's total pooled investments as of June 30, 2008, \$594.5 million (8%) was invested in securities issued by the Federal Home Loan Bank and \$537.2 million (7%) was invested in securities issued by Federal Home Loan Mortgage Corporation.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(3) Cash and Investments (continued)

(d) City of Los Angeles Securities Lending Program

The Securities Lending Program (the SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities; and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the General Investment Pool (the Pool) shall be available for lending. The City receives cash as collateral on loaned securities, which is reinvested in securities permitted under the Policy. In accordance with the California Government Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans shall have a maximum life of 90 days. Earnings from securities lending shall accrue to the Pool and shall be allocated on a pro-rata basis to all Pool participants.

LAX's share of cash collateral received and corresponding liability aggregated approximately \$165,317,000 and \$186,333,000 at June 30, 2008 and 2007, respectively. During the fiscal year, collateralizations on all loaned securities were within the required 102% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the year. There was no credit risk exposure to the City because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(3) Cash and Investments (continued)

(e) Investments with Fiscal Agents

LAX also maintains investments with fiscal agents that are pledged to the payment or security of LAX's 1995, 2002, and 2003 bonds. These investments are also generally invested in short-term investments under the control of the fiscal agents.

The investment practices of the fiscal agents are the same as those of the City Treasurer, and have similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

These investments are uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name.

LAX's investments with fiscal agents were as follows (in thousands):

<u>Description</u>	<u>2008</u>	<u>2007</u>
Money Market Funds	\$ 109,696	\$ 161,425
U.S. Treasury Securities	19,554	19,555
Total	<u>\$ 129,250</u>	<u>\$ 180,980</u>

Concentration of Credit Risk: The money market funds are comprised of investments in the First American Treasury Obligation Fund and Federated U.S. Treasury Cash Reserve Fund and the entire U.S. Treasury Securities are invested in U.S. Treasury Bills.

Interest Rate Risk: The maturity date of the U.S. Treasury Bills invested is less than one year and the weighted average maturity of the money market funds is as follows:

First American Treasury Obligation Fund – 40 days

Federated U.S. Treasury Cash Reserve Fund – 54 days

Credit Risk:

First American Treasury Obligation Fund – Aaa (Moody's) and AAA (Standard & Poor's)

Federated U.S. Treasury Cash Reserve Fund – Aaa (Moody's) and AAA (Standard & Poor's)

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(4) Changes in Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	Balance at July 1, 2007	Additions	Deductions	Balance at June 30, 2008
Capital assets, not depreciated:				
Land	\$ 575,421	\$ -	\$ -	\$ 575,421
Air easements	44,345	-	-	44,345
Construction work in process	355,555	435,395	(7,618)	783,332
Total capital assets, not depreciated	<u>975,321</u>	<u>435,395</u>	<u>(7,618)</u>	<u>1,403,098</u>
Capital assets, depreciated:				
Buildings	521,799	40	-	521,839
Improvements	998,197	34,739	-	1,032,936
Equipment and vehicles	145,784	11,849	(3,026)	154,607
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,850,203</u>	<u>46,628</u>	<u>(3,026)</u>	<u>1,893,805</u>
Less accumulated depreciation and amortization:				
Buildings	(287,845)	(13,045)	-	(300,890)
Improvements	(470,150)	(58,650)	-	(528,800)
Equipment and vehicles	(106,212)	(7,663)	2,229	(111,646)
Leased property	(95,605)	(4,550)	-	(100,155)
Total accumulated depreciation and amortization	<u>(959,812)</u>	<u>(83,908)</u>	<u>2,229</u>	<u>(1,041,491)</u>
Total capital assets depreciated, net	<u>890,391</u>	<u>(37,280)</u>	<u>(797)</u>	<u>852,314</u>
Total capital assets, net	<u>\$ 1,865,712</u>	<u>\$ 398,115</u>	<u>\$ (8,415)</u>	<u>\$ 2,255,412</u>

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(4) Changes in Capital Assets (continued)

Capital asset activity for the year ended June 30, 2007 was as follows (in thousands):

	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007
Capital assets, not depreciated:				
Land	\$ 556,072	\$ 23,594	\$ (4,245)	\$ 575,421
Air easements	44,345	-	-	44,345
Construction work in process	221,758	407,594	(273,797)	355,555
Total capital assets, not depreciated	<u>822,175</u>	<u>431,188</u>	<u>(278,042)</u>	<u>975,321</u>
Capital assets, depreciated:				
Buildings	514,259	7,540	-	521,799
Improvements	739,173	259,024	-	998,197
Equipment and vehicles	130,488	21,172	(5,876)	145,784
Leased property	184,423	-	-	184,423
Total capital assets, depreciated	<u>1,568,343</u>	<u>287,736</u>	<u>(5,876)</u>	<u>1,850,203</u>
Less accumulated depreciation and amortization:				
Buildings	(275,134)	(12,711)	-	(287,845)
Improvements	(422,761)	(48,734)	1,345	(470,150)
Equipment and vehicles	(105,855)	(6,202)	5,845	(106,212)
Leased property	(90,814)	(4,791)	-	(95,605)
Total accumulated depreciation and amortization	<u>(894,564)</u>	<u>(72,438)</u>	<u>7,190</u>	<u>(959,812)</u>
Total capital assets depreciated, net	<u>673,779</u>	<u>215,298</u>	<u>1,314</u>	<u>890,391</u>
Total capital assets, net	<u>\$ 1,495,954</u>	<u>\$ 646,486</u>	<u>\$ (276,728)</u>	<u>\$ 1,865,712</u>

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(5) Bonds and Commercial Notes Payable

LAX issued revenue bonds in 1995, 2002, and 2003 for various airport improvement projects and to refund previously issued debt. LAX's revenues are pledged as security for the bonds.

The 1995 Revenue Bonds were issued in the amount of \$365,855,000 to finance capital improvements and to refund previously issued debt. The bonds are limited obligations of LAWA payable from and secured by a pledge of LAX revenues.

In fiscal year 2003, LAX issued a total of \$217,175,000 of revenue bonds to fund LAX airport improvement projects and advance refund a portion of the 1995 bonds.

During the fiscal year, LAX issued an additional \$204,599,000 in commercial paper to meet its financing needs. A portion of these funds are being used to reimburse the airport for cash used in the construction of improvements on the south airfield and to the Tom Bradley International Terminal (TBIT). Additionally, these funds are being used to fund deposits that have been placed into revocable escrow accounts used as an interim step toward maintaining the required IRS non-taxable definition for long term financing of defeasing outstanding bonds issued to finance terminal improvements at LAX.

Outstanding revenue bonds as of June 30, 2008 mature in varying amounts through 2020. Bond and commercial paper notes activity for the year ended June 30, 2008 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 10,195	\$ -	\$ (1,230)	\$ 8,965	\$ 1,500
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	2.75*	57,400	-	-	57,400	-
Issues of 2003 Series A	2.59*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	94,305	-	(11,185)	83,120	11,780
Subtotal		218,050	-	(12,415)	205,635	13,280
Commercial paper Series A	2.01*	30,000	128,400	-	158,400	158,400
Commercial paper Series B	1.41*	-	75,000	-	75,000	75,000
Commercial paper Series C	4.26*	148,745	1,199	(53,116)	96,828	96,828
Deferred charges and credits, net	N/A	7,499	-	(924)	6,575	878
Total		<u>\$404,294</u>	<u>\$ 204,599</u>	<u>\$ (66,455)</u>	<u>\$ 542,438</u>	<u>\$ 344,386</u>

* Average variable rate.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(5) Bonds and Commercial Notes Payable (continued)

Bonds and commercial paper notes activity for the year ended June 30, 2007 was as follows (in thousands):

<u>Debt issue</u>	<u>Interest rate%</u>	<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2007</u>	<u>Due in one year</u>
Issue of 1995	5.00% to 8.38%	\$ 12,695	\$ -	\$ (2,500)	\$ 10,195	\$ 1,230
Issues of 2002 Series A	4.10 to 5.25	32,450	-	-	32,450	-
Issues of 2002 Series C	3.52*	57,400	-	-	57,400	-
Issues of 2003 Series A	3.52*	23,700	-	-	23,700	-
Issues of 2003 Series B	4.00 to 5.00	103,625	-	(9,320)	94,305	11,185
Subtotal		229,870	-	(11,820)	218,050	12,415
Commercial paper Series A	3.68*	-	30,000	-	30,000	30,000
Commercial paper Series C	5.26*	-	148,745	-	148,745	148,745
Deferred charges and credits, net	N/A	8,261	-	(762)	7,499	919
Total		<u>\$ 238,131</u>	<u>\$ 178,745</u>	<u>\$ (12,582)</u>	<u>\$ 404,294</u>	<u>\$ 192,079</u>

* Average variable rate.

LAX's future annual debt service requirements as of June 30, 2008, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u> ⁽¹⁾	<u>Total</u>
Fiscal year ending June 30:			
2009	\$ 13,280	\$ 7,933	\$ 21,213
2010	13,475	7,344	20,819
2011	14,395	6,653	21,048
2012	15,120	5,929	21,049
2013	15,890	5,159	21,049
2014 – 2018	92,700	14,308	107,008
2019 – 2020	40,775	1,215	41,990
Total	<u>\$ 205,635</u>	<u>\$ 48,541</u>	<u>\$ 254,176</u>

⁽¹⁾ Interest requirements for variable-rate bonds were calculated using June 30, 2008 rates of 1.50%, 1.35%, and 2.87% for 2002 C1, 2002 C2, and 2003 A Bonds, respectively.

(6) Other Long-Term Liabilities

Other long-term liabilities' activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Balance at July 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2008</u>	<u>Due in one year</u>
Employee benefits & insurance claims payable	\$ 32,435	\$ 14,609	\$ -	\$ 47,044	\$ 5,753
Obligations under capital leases	51,855	-	(1,140)	50,715	1,197
Other liabilities	115,523	2,947	(3,282)	115,188	804
Total	<u>\$ 199,813</u>	<u>\$ 17,556</u>	<u>\$ (4,422)</u>	<u>\$ 212,947</u>	<u>\$ 7,754</u>

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(6) Other Long-Term Liabilities (continued)

Other long-term liabilities' activity for the year ended June 30, 2007 was as follows (in thousands):

	Balance at July 1, 2006	Additions	Deductions	Balance at June 30, 2007	Due in one year
Employee benefits & insurance claims payable	\$ 30,631	\$ 9,432	\$ (7,628)	\$ 32,435	\$ 6,365
Obligations under capital leases	52,881	-	(1,026)	51,855	1,140
Other liabilities	23,269	106,758	(14,504)	115,523	4,065
Total	<u>\$ 106,781</u>	<u>\$ 116,190</u>	<u>\$ (23,158)</u>	<u>\$ 199,813</u>	<u>\$ 11,570</u>

(7) Related Party Transactions

The City provides certain administrative, crash-fire-rescue, police services, and water and power to LAX. The payments for these services, included in operating expenses for the years ended June 30, 2008 and 2007, were \$51,727,000 and \$42,227,000, respectively. In addition, LAX collects parking taxes on behalf of the City of Los Angeles. For the years ended June 30, 2008 and 2007, parking taxes collected and remitted to the City of Los Angeles were \$7,457,000 and \$7,250,000, respectively.

(8) Inter-Airport Funding Activity

LAX controls the expense disbursement process for each of LAWA's other airports: Ontario, Van Nuys and Palmdale. LAX supports the payment activities for these airports by first processing their approved budgeted expenditures and then transferring this impact to the airport that ordered the goods and services in the form of an inter-airport cash transfer. The requesting airport then records the expenditure to the appropriate classification on its books of account at the time it reimburses LAX for the activity. Whenever a specific airport is unable to make a cash transfer to LAX, due to a lack of funds, the amount is then recorded as a Due To Other Agency transaction. Conversely, LAX will record the same amount owed to it as a Due from Other Agency transaction. As a result of this process, Palmdale Airport has accumulated a total of \$40,083,000 and \$32,000,000 in Due To Other Agency balance owed to LAX at June 30, 2008 and 2007, respectively.

Upon combining the statement of net assets of all four airports that comprise LAWA, the Due From Other Agency asset balance on LAX's statement of net assets fully offset against the Due To Other Agency liability on the respective statement of net assets of Palmdale Airport. The amount of elimination for this balance at June 30, 2008 is \$40,083,000. With Palmdale Airport being part of the LAWA airport system, there is no near-term expectation for repayment of the Due To Other Agency balances to LAX.

(9) Retirement System

(a) Retirement Plan Description

All full-time employees of LAX are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS) of the City of Los Angeles, California, a single employer defined benefit pension plan. LACERS serves as a common investment and administrative agent for various City departments and agencies that participate in LACERS.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(9) Retirement System (continued)

(a) Retirement Plan Description (continued)

LAX makes contributions to LACERS for its pro rata share of retirement costs attributable to its employees.

LACERS provides retirement, disability, death benefits, postemployment healthcare benefits and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old, or if the retirement date is between October 2, 1996 and September 30, 1999 at age 50 or older with at least 30 years of service. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have more than 30 years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. LACERS does not have a mandatory retirement age and none of LAX's employees are required to contribute to LACERS.

(b) Actuarially Determined Contribution Requirements and Contributions Made

The Board of Administration of LACERS establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to LACERS at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to January 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after January 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of LACERS. LAX's pro rata share of the combined actuarially required contributions (ARC) for pension and postemployment healthcare benefits and actual contributions made to LACERS, which are based on LAX's salaries relative to total salaries for LAWA as a whole, were approximately \$39,700,000 (100% of ARC), \$34,600,000 (100% of ARC) and \$33,500,000 (100% of ARC) for the years ended June 30, 2008, 2007, and 2006, respectively. The allocation of contributions between the pension and postemployment healthcare benefits is not available.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)

LACERS's funding policy provides for actuarially determined periodic contributions at rates such that sufficient assets will be available to pay benefits when due. The current year contribution requirement was determined based on the June 30, 2006 actuarial valuation, using the following actuarial assumptions:

	LACERS
Actuarial valuation date	June 30, 2006
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	4.75% - 12.25%
Inflation rate	3.75%
Cost of living adjustments	3.00%

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)

The FY2007 contribution requirement was determined based on the June 30, 2005 actuarial valuation, using the following actuarial assumptions:

	<u>LACERS</u>
<u>Actuarial valuation date</u>	<u>June 30, 2005</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
<u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>4.75% - 10%</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Cost of living adjustments</u>	<u>3%</u>

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)

The City's and member contribution rates for the year ended June 30, 2008 are as follows:

Contribution rates:	<u>LACERS</u>
City	14.65% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

The City's and member contribution rates for the year ended June 30, 2007 are as follows:

Contribution rates:	<u>LACERS</u>
City	14.6% of covered payroll
Plan members	8.22% to 13.33% of salaries at entry age with City subsidy for members prior to February 1983; 6% for entry date after January 1983

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(9) Retirement System (continued)

(b) Actuarially Determined Contribution Requirements and Contributions Made (continued)

The City's annual pension cost, the percentage of annual pension cost contributed to the plans, and the net pension obligation for fiscal year 2007-08 and the two preceding years for each of the plans are as follows (dollars in thousands):

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
LACERS	06/30/06	\$ 227,006	100%	\$ (83,049)
	06/30/07	276,191	86%	(81,723)
	06/30/08	286,368	100%	(79,972)

The City allocated a pro rata share of its net pension obligation to LAWA and the amounts recorded at June 30, 2008 and 2007 were \$9,459,000 and \$8,298,000, respectively.

(c) Funded Status of LACERS

Based upon available data, the following is funded status information for the plan as of June 30, 2008, separate information for LAX is not available (dollars in thousands):

	<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$ 11,186,404
Actuarial Value of Assets	9,438,318
Unfunded AAL	1,748,086
Funded Ratio	84.4%
Covered Payroll	\$ 1,977,645
Unfunded AAL as a percentage of covered payroll	88.4%

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(c) Funded Status of LACERS (continued)

The funded status of the plan as of June 30, 2008 was based on the following actuarial assumptions:

	<u>LACERS</u>
<u>Actuarial valuation date</u>	<u>June 30, 2008</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions:	
<u>Investment rate of return</u>	<u>8.00%</u>
<u>Projected salary increases</u>	<u>4.75% - 12.25%</u>
<u>Inflation rate</u>	<u>3.75%</u>
<u>Cost of living adjustments</u>	<u>3.00%</u>

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(9) Retirement System (continued)

(c) *Funded Status of LACERS (continued)*

Actuarial valuations involve the estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The required schedule of funding progress, presented as Required Supplementary Information (RSI) on page 44, present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the Actuarial Accrued Liability (AAL) for benefits.

Other contribution information and ten-year historical trend information can be found in LACERS's Comprehensive Annual Financial Report. Copies of LACERS's Comprehensive Annual Financial Report can be obtained from LACERS, 360 East Second Street, 2nd Floor, Los Angeles, California 90012.

(d) *Other Postemployment Benefits (OPEB)*

LAX, as a participant in LACERS, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. LACERS is advance funding the retiree health benefits on an actuarial-determined basis.

Projections of benefits are based on the substantive plan and include the types of benefits in force at the valuation date. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(d) Other Postemployment Benefits (OPEB) (continued)

For the fiscal year ended June 30, 2008, the City's annual required contribution rate for OPEB was 5.48% of annual covered payroll and was determined based on the June 30, 2006 actuarial valuation. Significant methods and assumptions are as follows:

	<u>LACERS OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2006</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
<u>Actuarial assumptions: Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
Healthcare cost trend rates:	
Medical	8.75% graded down over 8 years to ultimate rate of 5%
Dental	5%

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(d) Other Postemployment Benefits (OPEB) (continued)

For the fiscal year ended June 30, 2007, the City's annual required contribution rate for OPEB was 6.1% of annual covered payroll and was determined based on the June 30, 2005 actuarial valuation. Significant methods and assumptions are as follows:

	LACERS OPEB
Actuarial valuation date	June 30, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level percent of payroll
Remaining amortization Period	Multiple layers not exceeding 30 years, closed
Asset valuation method	5-year market related
Actuarial assumptions: Investment rate of return	8%
Projected salary increases	N/A
Inflation rate	3.75%
Healthcare cost trend rates:	
Medical	12% graded down over 7 years to ultimate rate of 5%
Dental	5%

Amounts contributed specifically to the Retiree Health Insurance Premium Subsidy by LAX alone are not available.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(d) Other Postemployment Benefits (OPEB) (continued)

The City's annual pension cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB asset (obligation) for fiscal year 2007-08 and the two preceding years for the plan are as follows (dollars in thousands):

	<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset (Obligation)</u>
LACERS	06/30/06	\$ 76,116	100%	-
	06/30/07	115,233	100%	-
	06/30/08	108,848	100%	-

From the most recent data made available by the City, as of June 30, 2008, LACERS membership consists of 30,326 active plan participants and 14,975 retired members. Also as of June 30, 2008, the date of the latest actuarial valuation of the City's Retiree Health Insurance Premium Subsidy, the total unfunded health benefit subsidy applicable to LACERS as a whole was approximately \$585,123,000 as follows (dollars in thousands):

	<u>LACERS</u>
Actuarial Accrued Liability (AAL)	\$ 1,928,043
Actuarial Value of Assets	1,342,920
Unfunded AAL	585,123
Funded Ratio	69.7%
Covered Payroll	\$ 1,977,645
Unfunded AAL as a percentage of covered payroll	29.6%

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

(9) Retirement System (continued)

(d) Other Postemployment Benefits (OPEB) (continued)

The funded status of the OPEB plan as of June 30, 2008 was based on the following actuarial assumptions:

	<u>LACERS OPEB</u>
<u>Actuarial valuation date</u>	<u>June 30, 2008</u>
<u>Actuarial cost method</u>	<u>Projected unit credit</u>
<u>Amortization method</u>	<u>Level percent of payroll</u>
<u>Remaining amortization Period</u>	<u>Multiple layers not exceeding 30 years, closed</u>
<u>Asset valuation method</u>	<u>5-year market related</u>
Actuarial assumptions: <u>Investment rate of return</u>	<u>8%</u>
<u>Projected salary increases</u>	<u>N/A</u>
<u>Inflation rate</u>	<u>3.75%</u>
Healthcare cost trend rates:	
Medical	8.75%, decreasing by 0.5% for each year for eight years until it reaches an ultimate rate of 5%
Dental	5%

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)
 June 30, 2008 and 2007

9) Retirement System (continued)

(d) Other Postemployment Benefits (OPEB) (continued)

Actuarial valuations involve estimate of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plans and the annual required contributions of the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The require schedule of funding progress, presented as RSI on page 44 present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

(10) Self-Insurance

LAX is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAX's accrued total liability for workers' compensation has been based on the results of an actuarial study and has been allocated to LAX based on a ratio of LAX salaries to total LAWA salaries. A reconciliation of the accrued workers' compensation liability (included in employee benefits and insurance claims payable) is as follows (in thousands):

Liability at June 30, 2006	\$ 28,476
Provisions for claims	4,432
Claim payments	<u>(2,628)</u>
Liability at June 30, 2007	30,280
Provisions for claims	5,918
Claim payments	<u>(4,591)</u>
Liability at June 30, 2008	31,607
Current portion	<u>(3,161)</u>
Long-term liability at June 30, 2008, net of current portion	<u><u>\$ 28,446</u></u>

The LAWA Risk Management Division oversees a sophisticated, self-administered Risk and Claims Management program. Claims are administered in-house by a dedicated team of Analysts who will manage and direct a claim/ lawsuit until resolved. LAWA Risk Management (in cooperation with its contracted broker of record) is responsible for placing insurance policies up to the policy limits of \$1.0 billion for General Liability coverage and \$1.25 billion for War and Terrorism coverage. Additional lines of insurance include General Property Insurance, with policy limits of \$1.5 billion, Boiler and Machinery coverage and Earthquake insurance. These insurance limits are in excess of LAWA's self-insured retention (deductible) which for general liability insurance is \$10,000/claim with a \$300,000 annual aggregate and \$100,000 per occurrence and annual aggregate on Property insurance. The self-insured retention for both Property and Liability

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(10) Self-Insurance (continued)

insurance as well as the purchase of all insurance policies is budgeted and funded annually by the Risk Management Division. Historically, no liability or property claims have reached or exceeded the stated policy limits. LAWA also continues to maintain a catastrophic loss fund that is held in reserve to fund claims or losses that may conceivably breach insurance policy limits. The transference of risk exposure through the procurement of liability and property insurance has proven to be a very effective program for LAWA in its management of risk.

For other types of claims, commercial insurance is used when it is either legally or contractually required, or judged to be the most effective way to finance risk. LAWA's Risk Management Division estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2008, 2007, and 2006, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty and other insurance. LAWA also maintains an insurance trust fund to pay the deductible for property damage and any claims in excess of the insurance coverage.

(11) Commitments and Contingencies

As of June 30, 2008, a number of claims and lawsuits are pending against LAX that arose in the normal course of operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAX's operations.

(a) Environmental Issues

Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the environmental cleanup of any sites found to be contaminated. This evaluation has not been completed to date.

LAWA bears the financial responsibility for the cleanup of environmental contamination on property owned by it. However, LAWA believes that if the contamination originated based on contractual arrangements, the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. LAWA, as property owner, however, assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution. As a result of the hazardous materials management plan noted above, LAWA has already begun cleanup on several sites, is in the process of implementing additional safeguards to prevent additional hazardous substance contamination and is completing the environmental evaluation of LAWA's facilities. However, the extent of the cleanup and/or the ability of the original tenants to reimburse LAWA for such cleanup cannot be determined at the present time. Therefore, under the circumstances, it is reasonably possible that losses could be incurred; however, until such matters are resolved, the range of loss, if any, cannot be reasonably estimated.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(11) Commitments and Contingencies (continued)

(b) *High-Security Environment*

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the September 11 Events). Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues, and parking revenue. During fiscal year 2008, LAWA's passenger volume was 6.4%, or 4.7 million, below its pre-September 11th Events level.

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. LAWA's capital improvement program was also reevaluated and several planned expenditures were suspended, except where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service.

A number of airlines are recovering from the economic difficulties they experienced immediately following the September 11 Events.

LAX is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAX, (iii) the future financial condition of the airlines using LAX, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

(c) *Other*

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$87,500,000 and \$45,800,000 as of June 30, 2008 and 2007, respectively. The change in commitments is due to the following projects: \$26,300,000 for inspection testing, and surveying for the center taxiway, in-line baggage screening, runway 25L reconstruction, and TBIT interior improvement projects; and, \$37,300,000 for land acquisition.

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(12) Capital Lease Agreements

LAWA has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amounted to \$184,423,000 for both June 30, 2008 and 2007. Accumulated depreciation with respect to such property for the respective years was \$100.2 million and \$95.6 million, respectively.

Estimated future minimum lease payments under these agreements are as follows (in thousands):

Fiscal year ending June 30,

2009	\$	3,076
2010		3,146
2011		3,268
2012		3,327
2013		3,439
2014 – 2018		18,883
2019 – 2023		23,004
2024 – 2026		14,327
Total minimum lease payments	\$	72,470
Less interest portion		(21,755)
Present value of minimum lease payments	\$	50,715

LAX currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAX by such airlines for terminal leases and landing fees.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(13) Passenger Facility Charges

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system; (2) reduce noise or mitigate noise impacts resulting from an airport; or (3) furnish opportunities for enhanced competition between or among carriers.

Since 1990, the following activities have taken place:

- In April 1993, the FAA granted LAWA's authority to collect PFCs at LAX in the amount of \$360,000,000 for 5 years for specifically approved airport improvement projects. Effective July 1, 1993, LAWA began collecting PFCs in the amount of \$3 per passenger.
- In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at Ontario. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000.
- In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at ONT. Accordingly, PFC charges totaling \$126,100,000 collected at LAX were transferred.
- In November 1997, the FAA approved LAWA's application to impose \$3 per passenger PFCs at LAX, for noise mitigation projects. Approved collections of \$150,000,000 at LAX were to be used for the soundproofing of City of Los Angeles residences and sound insulation of nearby city residences.
- On October 2, 1998, the FAA approved LAWA's application to amend PFCs at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000.
- Effective August 1, 2003, the FAA approved an increase to the PFC charge at LAX from \$3.00 to \$4.50.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used only on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement. Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (in thousands):

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(13) Passenger Facility Charges (continued)

	2008	2007
Amount collected	\$ 1,101,698	\$ 983,612
Interest received	107,918	89,001
Cumulative PFC collections	\$ 1,209,616	\$ 1,072,613

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

(14) Capital Grant Contributions

Contributed capital related to governmental grants and other aid increased by \$13.0 million to \$87.0 million during the year ended June 30, 2008. Capital grant funds were used for projects under the Airport Improvement Program and Transportation Security Administration security-related capital projects. During fiscal year 2007, capital grant contributions increased from fiscal year 2006 by \$42.0 million to \$74.0 million.

(15) Terminal Rents

LAX has lease arrangements at its passenger terminal facilities with American Airlines, Continental Airlines, Delta Air Lines, LAX TWO Corporation, and United Air Lines (collectively, the “Long-term Airlines”) that have various terms of up to 40 years. Under these leases, the Long-term Airlines pay various charges, including maintenance and operations rent (“M&O Rent”) that reflects the expenses that LAX incurs in maintaining and operating the terminals. The M&O Rent rates are set each calendar year based on the actual audited M&O expenses for the prior fiscal year ending June 30.

Historically, less than the full amount of M&O expenses attributable to the airlines has been charged to the terminal tenants as M&O Rent. On December 18, 2006, the Board of Airport Commissioners (“BOAC”) approved a resolution setting the M&O Rent rate for 2006, effective January 1, 2006, based upon the full amount of M&O expenses expended in the year ended June 30, 2005 attributable to the airlines for all LAX passenger terminals.

The Long-term Airlines have objected to LAX’s calculation of the M&O Rents as approved by the BOAC for 2006. On January 18, 2007, American, Continental and United Airlines filed a complaint with the United States District Court objecting to the 2006 M&O Rents. Subsequently, Northwest Airlines, as the primary shareholder of LAX TWO, and Delta Air Lines also filed objections. In February of 2008, LAWA entered into interim settlement agreements with each of the Long-term Airlines resolving all disputed charges between January 1, 2006 and December 31, 2008. The agreements resulted in the issuance of credits for a portion of the amounts assessed to date. As part of these agreements, the Long-Term Airlines and LAWA agreed to work together to reach an agreement on future charges implemented January 1, 2009 and after. To date, no new agreements have been reached; however, the parties have commenced negotiations.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(15) Terminal Rents (continued)

Separately, the BOAC approved a new lease form on December 18, 2006 with a subsequent institution of a tariff on January 22, 2007. Certain carriers utilizing terminals 1 and 3 as well as carriers that operate from the Tom Bradley International Terminal objected to the tariff and filed a complaint with the Department of Transportation (“DOT”). The DOT issued its final decision on June 15, 2007. The decision resulted in a refund of a portion of the amounts assessed under the tariff to the complainants. A small number of tenants and sub-tenants were not party to the DOT action and continue to be assessed at the tariff rate. Subsequent to the DOT Supplemental Order on July 13, 2007, the carriers that were party to the DOT complaint filed a Petition to Review at the United States Court of Appeals regarding the DOT ruling.

Pending the resolution of these objections, LAX has classified the disputed cash portion of the M&O Rent and interest earned as “Cash under Protest” of \$95,179,252 and has not included these amounts as Revenue. The disputed portion of the M&O Rent is classified as “Customer Liability–Protested Revenue” and “Interest Earned under Protest;” both amounts are included as part of other long term liabilities reported in the Statement of Net Assets.

(16) Subsequent Events

(a) Bond Issuance

LAX issued three series bonds totaling \$853,300,000 in August 2008. The proceeds from the sale of these bonds were used to reimburse the Department for previous capital expenditures, pay for future capital expenditures, repay outstanding commercial paper notes and refund the balance of the 1995 D bonds. In September of 2008, bond proceeds were used to repay the balance of the Series A (tax exempt non-AMT) and Series B (tax-exempt AMT) commercial paper notes leaving only the Series C (taxable) notes outstanding.

(b) Terminal Rents

In July of 2008, LAWA and carriers that operate from the Tom Bradley International Terminal reached an agreement on M&O Rent and Base Rent Charges settling all disputed charges between the period January 1, 2006 and December 31, 2009. The agreement resulted in the issuance of credits for a portion of the amounts assessed to date.

The Partial Settlement Agreement signed on July 24, 2008 has not been fully implemented since all customer credits and LAX revenue adjustments to be recognized are extremely complex and are still being calculated as of this date.

In October 2008, the BOAC authorized a blanket order allowing the Executive Director of LAWA to enter into letter agreements with carriers that are currently under the tariff, as well as new entrants regarding tariff charges. The letter agreements may result in the issuance of credits for a portion of the amounts assessed to date.

On December 11, 2008 the United States Court of Appeals will hear oral arguments on the Petition to Review filed by carriers that were party to the DOT complaint.

LOS ANGELES WORLD AIRPORTS
(Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT

Notes to Financial Statements (Continued)

June 30, 2008 and 2007

(16) Subsequent Events (continued)

(c) Financial Market Volatility

Recent market conditions have resulted in an unusually high degree of volatility and increased risks associated with certain investments held by the City that could impact the value of investments after the date of these financial statements. The unfolding financial crisis may affect the market value of certain investments, but the impact of future events cannot be determined at this time.

The values of assets held by the City's retirement and other postemployment benefit plans have also been impacted by recent market conditions. The plans' actuarial valuations employ a smoothing policy, which requires that the difference between the actual market return and the expected return on the market value be recognized in even increments over five years. As a result, the impact of recent market losses will be amortized and evidenced in actuarial valuations and funded status over the next five years and may eventually result in an increase in required City contributions.

SUPPLEMENTAL INFORMATION

LOS ANGELES WORLD AIRPORTS
 (Department of Airports of the City of Los Angeles, California)
LOS ANGELES INTERNATIONAL AIRPORT
 Required Supplementary Information (Unaudited)
 June 30, 2008

Schedules of Funding Progress

a) Retirement System

Based upon available data, the following represents the LACERS Schedule of Funding Progress, separate information for LAX is not available (dollars in thousands):

LACERS Retirement System Schedule of Funding Progress (in thousands)						
<u>Valuation date (June 30)</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Actuarial value of assets</u>	<u>Unfunded AAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded AAL as a % of covered payroll</u>
2006	\$ 9,870,662	\$ 7,674,999	\$(2,195,663)	77.8%	\$ 1,733,340	(126.7)%
2007	10,526,874	8,599,700	(1,927,174)	81.7%	1,896,609	(101.6)%
2008	11,186,404	9,438,318	(1,748,086)	84.4%	1,977,645	(88.4)%

b) Other Postemployment Benefits (OPEB)

Based upon available data, the following represents the LACERS Schedule of Funding Progress for the OPEB plan; separate information for LAX is not available (dollars in thousands):

Other Postemployment Benefits Healthcare Plan Schedule of Funding Progress (in thousands)						
<u>Valuation date (June 30)</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Actuarial value of assets</u>	<u>Unfunded AAL</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>Unfunded AAL as a % of covered payroll</u>
2006	\$ 1,730,799	\$ 990,270	\$ (740,529)	57.2%	\$ 1,733,340	(42.7)%
2007	1,730,400	1,185,544	(544,856)	68.5%	1,896,609	(28.7)%
2008	1,928,043	1,342,920	(585,123)	69.7%	1,977,645	(29.6)%

COMPLIANCE SECTION



MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.928.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.286.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

The Members of the Board of Airport Commissioners
of the City of Los Angeles, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying basic financial statements of the Los Angeles International Airport (LAX), a departmental component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the LAX's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LAX's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the LAX's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the LAX's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of LAWA's management, Board of Airport Commissioners, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Jini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 17, 2008

APPENDIX C-1

CERTAIN DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Senior Indenture, the Tenth Supplemental Senior Indenture, the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture found in Appendices C-2 through C-5.

“Accreted Value” means (a) with respect to any Capital Appreciation Senior Bonds or Capital Appreciation Subordinate Bonds, as the case may be, as of any date of calculation, the sum of the amount set forth in a Supplemental Senior Indenture or a Supplemental Subordinate Indenture, as the case may be, as the amount representing the initial principal amount of such Capital Appreciation Senior Bonds or Capital Appreciation Subordinate Bonds, as the case may be, plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Senior Bonds or Original Issue Discount Subordinate Bonds, as the case may be, as of the date of calculation, the amount representing the initial public offering price of such Original Issue Discount Senior Bonds or Original Issue Discount Subordinate Bonds, as the case may be, plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be, authorizing the issuance of such Capital Appreciation Senior Bond or Original Issue Discount Senior Bond or Capital Appreciation Subordinate Bond or Original Issue Discount Subordinate Bond, as the case may be.

“Aggregate Required Deposits” means, for any month, the sum of the Required Deposits under all Supplemental Subordinate Indentures becoming due in such month.

“Airport Revenue Fund” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

“Airport System” means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, LA/Ontario International Airport, Van Nuys Airport and LA/Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

“Authorized Representative” means the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer or such other officer or employee of the Board or the Department or other person which other officer, employee or person has been designated by the Board or the Department as an Authorized Representative by written notice delivered by the President of the Board, the Executive Director, the Chief Operating Officer or the Chief Financial Officer to the Senior Trustee or the Subordinate Trustee, as the case may be.

“Balloon Indebtedness” means, with respect to any Series of Senior Bonds or Subordinate Bonds, as the case may be, twenty five percent (25%) or more of the principal of which matures on the same date or within a Fiscal Year, that portion of such Series which matures on such date or within such Fiscal Year; provided, however, that to constitute Balloon Indebtedness the amount of Senior Bonds or Subordinate Bonds, as the case may be, of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any preceding Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Senior Bonds or Subordinate Bonds, as the case may be, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Senior Commercial Paper Program and the Commercial Paper constituting part of such Senior Program will not be Balloon Indebtedness. A Subordinate Commercial Paper Program and the Commercial Paper constituting part of such Subordinate Program will not be Balloon Indebtedness.

“*Board*” means the Board of Airport Commissioners of the City of Los Angeles, California, created under the provisions of the Charter, and any successor to its function.

“*Bond Counsel*” means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Senior Indenture and the Subordinate Indenture, as the case may be, and which are acceptable to the Department.

“*Bondholder*,” “*holder*,” “*owner*” or “*registered owner*” means (a) for purposes of the Senior Indenture, the person in whose name any Senior Bond or Senior Bonds are registered on the books maintained by the Senior Registrar and will include any Credit Provider or Liquidity Provider to which a Senior Repayment Obligation is then owed, to the extent that such Senior Repayment Obligation is deemed to be a Senior Bond under the provisions of the Senior Indenture; and (b) for purposes of the Subordinate Indenture, the person in whose name any Subordinate Bond or Subordinate Bonds are registered on the books maintained by the Subordinate Registrar and will include any Credit Provider or Liquidity Provider to which a Subordinate Repayment Obligation is then owed, to the extent that such Subordinate Repayment Obligation is deemed to be a Subordinate Bond under the provisions of the Subordinate Indenture.

“*Business Day*” means a day on which banks located in New York, New York, in Los Angeles, California and in the city in which the principal corporate trust office of the Senior Trustee or the Subordinate Trustee, as the case may be, is located are open, provided that such term may have a different meaning for any specified Series of Senior Bonds if so provided by Supplemental Senior Indenture or any specified Series of Subordinate Bonds if so provided by Supplemental Subordinate Indenture.

“*Capital Appreciation Senior Bonds*” means Senior Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Senior Indenture and is payable only upon redemption or on the maturity date of such Senior Bonds. Senior Bonds which are issued as Capital Appreciation Senior Bonds, but later convert to Senior Bonds on which interest is paid periodically will be Capital Appreciation Senior Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Senior Bonds, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Capital Appreciation Subordinate Bonds*” means Subordinate Bonds all or a portion of the interest on which is compounded and accumulated at the rates and on the dates set forth in a Supplemental Subordinate Indenture and is payable only upon redemption or on the maturity date of such Subordinate Bonds. Subordinate Bonds which are issued as Capital Appreciation Subordinate Bonds, but later convert to Subordinate Bonds on which interest is paid periodically will be Capital Appreciation Subordinate Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Subordinate Bonds, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Charter*” means the Charter of the City of Los Angeles, as amended from time to time, and any other article or section of the Charter of the City of Los Angeles, as amended from time to time, in which the provisions relating to the Board and the Department are set forth or may hereafter be set forth, and any predecessor provisions thereof which will be deemed to continue in force.

“*Chief Financial Officer*” means the person at a given time who is the chief financial officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

“*Chief Operating Officer*” means the person at a given time who is the chief operating officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

“*City*” means The City of Los Angeles, California.

“*City Attorney*” means legal counsel to the Board and staff of the Department who otherwise acts as provided for in the Charter.

“*City Treasury*” means the official depository of the City established pursuant to the Charter which is under the control of the Treasurer.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

“*Commercial Paper*” means notes of the Department with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Senior Program or a Subordinate Program, as the case may be, adopted by the Board.

“*Consultant*” means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Department to perform acts and carry out the duties provided for such consultant in the Senior Indenture or the Subordinate Indenture, as the case may be.

“*Costs*” or “*Costs of a Project*” means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Senior Bonds and Subordinate Bonds, costs of Credit Facilities, Liquidity Facilities, Senior Capitalized Interest, Subordinate Capitalized Interest, the Senior Reserve Fund, any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund), any Subordinate Debt Service Reserve Fund, Senior Trustee’s fees and expenses, and Subordinate Trustee’s fees and expenses; (6) any Senior Swap Termination Payments due in connection with a Series of Senior Bonds or the failure to issue such Series of Senior Bonds, or any Subordinate Swap Termination Payments due in connection with a Series of Subordinate Bonds or the failure to issue such Series of Subordinate Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department.

“*Credit Facility*” means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Senior Reserve Fund Surety Policy, a Senior Debt Service Reserve Fund Surety Policy (other than a Senior Reserve Fund Surety Policy), a Subordinate Debt Service Reserve Fund Surety Policy, or other financial instrument which obligates a third party to make payment of or provide funds to the Senior Trustee or the Subordinate Trustee, as the case may be, for the payment of the principal of and/or interest on Senior Bonds or Subordinate Bonds, as the case may be, whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

“*Credit Provider*” means the party obligated to make payment of principal of and interest on the Senior Bonds or the Subordinate Bonds, as the case may be, under a Credit Facility.

“*Department*” means the Department of Airports of the City of Los Angeles, or any successor thereto performing the activities and functions of the department under the Charter.

“*Estimated Completion Date*” means the estimated date upon which a Specified LAX Project or a specified Project has been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified LAX Project or a Project is expected to have been acquired and payment therefor made, in each case, as that date will be set forth in a certificate of an Authorized Representative delivered to the Senior Trustee or the Subordinate Trustee, as the case may be, at or prior to the time of issuance of the Senior Bonds or the Subordinate Bonds, as the case may be, which are issued to finance such Project.

“*Executive Director*” means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Senior Trustee and the Subordinate Trustee by the Department.

“*Facilities Construction Credit*” and “*Facilities Construction Credits*” means the amounts further described in the Master Senior Indenture and the Master Subordinate Indenture resulting from an arrangement embodied in a written agreement of the Department and another person or entity pursuant to which the Department permits such person or entity to make a payment or payments to the Department which is reduced by the amount owed by the Department to such person or entity under such agreement, resulting in a net payment to the Department by such person or entity. The “*Facilities Construction Credit*” will be deemed to be the amount owed by the Department under such agreement which is “netted” against the payment of such person or entity to the Department. “*Facilities Construction Credits*” will include any credits extended to airlines or other users of LAX Airport Facilities related to RAIC projects.

“*Fifth Supplemental Subordinate Indenture*” means the Fifth Supplemental Subordinate Trust Indenture, to be dated as of December 1, 2009, by and between the Department and the Subordinate Trustee.

“*Fiscal Year*” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Department designates as its fiscal year.

“*Fitch*” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Fitch*” will be deemed to refer to any nationally recognized rating agency designated by the Department (other than Moody’s or S&P).

“*Fourth Supplemental Subordinate Indenture*” means the Fourth Supplemental Subordinate Trust Indenture, dated as of August 1, 2008, by and between the Department and the Subordinate Trustee.

“*Government Obligations*” means (A) with respect to the Senior Bonds and the Senior Indenture (1) United States Obligations (including obligations issued or held in book-entry form), (2) prerefunded municipal obligations meeting the following conditions: (a) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (c) the principal of and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (d) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (e) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (f) the municipal obligations are rated in their highest rating category by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds, and (3) any other type of security or obligation that Moody’s if Moody’s then maintains a rating on any of the Senior Bonds and S&P if S&P then maintains a rating on any of the Senior Bonds have determined to be permitted defeasance securities; and (B) (A) with respect to the Subordinate Bonds and the Subordinate Indenture, (a) United States Obligations (including obligations issued or held in book-entry form); (b) prerefunded municipal obligations meeting the following conditions: (i) the municipal obligations are not subject to redemption prior to maturity, or the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer has covenanted not to redeem such obligations other than as set forth in such instructions; (ii) the municipal obligations are secured by cash and/or United States Obligations, which United States Obligations may be applied only to interest, principal and premium payments of such municipal obligations; (iii) the principal of

and interest on the United States Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations; (iv) the United States Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; (v) the United States Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent; and (vi) the municipal obligations are rated in their highest rating category by one or more of the Rating Agencies, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Subordinate Bonds and such Rating Agencies are then maintaining a rating on any of the Subordinate Bonds; and (c) any other type of security or obligation which the Rating Agencies then maintaining ratings on the Subordinate Bonds to be defeased have determined to be permitted defeasance securities.

“*Implemented*” means, (a) when used with respect to a Senior Program, a Senior Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Senior Program, the provisions of the Master Senior Indenture have been complied with; and (b) when used with respect to a Subordinate Program, a Subordinate Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Subordinate Program, the provisions of the Master Subordinate Indenture have been complied with.

“*Independent*” means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Department or the City, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Department, the City or the Board as an official, officer or employee.

“*LAX Airport Facilities*” or “*LAX Airport Facility*” means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

“*LAX Maintenance and Operation Expenses*” means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

“*LAX Maintenance and Operation Reserve Account*” means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173,232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

“*LAX Revenue Account*” means the account established pursuant to the Master Senior Indenture and Section 23.10(a) of the Los Angeles Administrative Code.

“*LAX Revenues*” means, except to the extent specifically excluded herefrom, all income, receipts, earnings and revenues received by the Department from the Los Angeles International Airport, for any given period, as determined in accordance with generally accepted accounting principles, as modified from time to time, including, but not limited to, (1) rates, tolls, fees, rentals, charges and other payments made to or owed to the Department for the use or availability of property or facilities at Los Angeles International Airport, (2) amounts received or owed from the sale or provision of supplies, materials, goods and services provided by or made available by the Department at Los Angeles International Airport, including Facilities Construction Credits, and rental or business interruption insurance proceeds, received by, held by, accrued to or entitled to be received by the Department or any successor thereto from the possession, management, charge, superintendence and control of Los Angeles International Airport (or any LAX Airport Facilities or activities and undertakings related thereto) or from any other facilities wherever located with respect to which the Department receives payments which are attributable to LAX Airport Facilities or activities or undertakings related thereto, all of which is required to be deposited in the Airport Revenue Fund pursuant to the Charter and the LAX Revenue Account pursuant to the Master Senior Indenture. “*LAX Revenues*” include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Senior Construction Fund or Subordinate Construction Fund allowed to be pledged by the terms of a Supplemental Senior Indenture, the Senior Reserve Fund, any Senior Debt Service Reserve Fund, the Subordinate Reserve Fund, any other Subordinate Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

“*LAX Special Facilities*” or “*LAX Special Facility*” means, with respect to Los Angeles International Airport, a facility or group of facilities or improvements or category of facilities or improvements which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Senior Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

“*LAX Special Facilities Revenue*” means the contractual payments and all other revenues derived by or available to or receivable by the Department from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

“*LAX Special Facility Obligations*” means bonds or other debt instruments issued pursuant to an indenture other than the Senior Indenture or the Subordinate Indenture to finance LAX Special Facilities and which are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

“*Liquidity Facility*” means a letter of credit, line of credit, standby purchase agreement or other financial instrument, including a Credit Facility, which is available to provide funds with which to purchase Senior Bonds or Subordinate Bonds, as the case may be.

“*Liquidity Provider*” means the entity, including the Credit Provider, which is obligated to provide funds to purchase Senior Bonds or Subordinate Bonds, as the case may be, under the terms of a Liquidity Facility.

“*Los Angeles International Airport*” and “*LAX*” means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Department at such location or in which the Department has other rights or from which the Department derives revenues at such location.

“*Mail*” means by first-class United States mail, postage prepaid.

“*Maintenance and Operation Expenses of the Airport System*” means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

“*Maintenance and Operation Reserve Fund*” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and the provisions of the Master Senior Indenture.

“*Master Senior Indenture*” means the Master Trust Indenture, dated as of April 1, 1995, by and between the Department and the Senior Trustee, as amended.

“*Master Subordinate Indenture*” means the Master Subordinate Trust Indenture, dated as of December 1, 2002, by and between the Department and the Subordinate Trustee, as amended.

“*Moody’s*” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities rating agency, “*Moody’s*” will be deemed to refer to any other nationally recognized rating agency designated by the Department.

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

“*Net Proceeds*” means insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Department from the sale of LAX Airport Facilities under the threat of condemnation less expenses (including attorneys’ fees and expenses and any fees and

expenses of the Senior Trustee or the Subordinate Trustee, as the case may be) incurred in the collection of such proceeds or award.

“*Non-Qualified Swap*” means any Swap which is not a Senior Qualified Swap or a Subordinate Qualified Swap.

“*Ordinance No. 173,232*” means the City of Los Angeles Ordinance No. 173,232 which became effective on June 19, 2000.

“*Original Issue Discount Senior Bonds*” means Senior Bonds which are sold at an initial public offering price of less than 95% of their face value and which are specifically designated as Original Issue Discount Senior Bonds by the Supplemental Senior Indenture under which such Senior Bonds are issued.

“*Original Issue Discount Subordinate Bonds*” means Subordinate Bonds which are sold at an initial public offering price of less than face value and which are specifically designated as Original Issue Discount Subordinate Bonds by the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued.

“*Outstanding*” means:

(1) when used with respect to Senior Bonds means all Senior Bonds which have been authenticated and delivered under the Senior Indenture, except:

(a) Senior Bonds cancelled or purchased by the Senior Trustee for cancellation or delivered to or acquired by the Senior Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Senior Bonds deemed to be paid in accordance with the Master Senior Indenture;

(c) Senior Bonds in lieu of which other Senior Bonds have been authenticated under the provisions of the Senior Master Indenture;

(d) Senior Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Senior Trustee or a Senior Paying Agent;

(e) Senior Bonds which, under the terms of the Supplemental Senior Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Senior Repayment Obligations deemed to be Senior Bonds under the Master Senior Indenture to the extent such Senior Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Senior Bonds acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Senior Bonds under the Master Senior Indenture, Senior Bonds held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Senior Bonds are pledged to secure a debt to an unrelated party;

(2) when used with respect to Subordinate Bonds means all Subordinate Bonds which have been authenticated and delivered under the Subordinate Indenture, except:

(a) Subordinate Bonds cancelled or purchased by the Subordinate Trustee for cancellation or delivered to or acquired by the Subordinate Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;

(b) Subordinate Bonds deemed to be paid in accordance with the Master Subordinate Indenture;

(c) Subordinate Bonds in lieu of which other Subordinate Bonds have been authenticated under the provisions of the Master Subordinate Indenture;

(d) Subordinate Bonds that have become due (at maturity or on redemption, acceleration or otherwise) and for the payment of which sufficient moneys, including interest accrued to the due date, are held by the Subordinate Trustee or a Subordinate Paying Agent;

(e) Subordinate Bonds which, under the terms of the Supplemental Subordinate Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;

(f) Subordinate Repayment Obligations deemed to be Subordinate Bonds under the Master Subordinate Indenture to the extent such Subordinate Repayment Obligations arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding Subordinate Bonds acquired by the Liquidity Provider; and

(g) for purposes of any consent or other action to be taken by the holders of a specified percentage of Subordinate Bonds under the Master Subordinate Indenture, Subordinate Bonds held by or for the account of the Department or by any person controlling, controlled by or under common control with the Department, unless such Subordinate Bonds are pledged to secure a debt to an unrelated party.

“*Parity Subordinate Indenture*” means the Subordinate Trust Indenture, dated as of April 1, 2002, by and between the Department and the Parity Subordinate Issuing and Paying Agent, as issuing and paying agent, together with all amendments and supplements thereto.

“*Parity Subordinate Issuing and Paying Agent*” means U.S. Bank Trust National Association, and any successor thereto.

“*Passenger Facility Charges*” or “*PFCs*” means all or a designated portion of charges collected by the Department pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508), the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) and 14 CFR Part 158, all as amended from time to time, or any other applicable federal law, in respect of any component of LAX and interest earnings thereon, net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

“*Payment Date*” means, with respect to any Senior Bonds or Subordinate Bonds, as the case may be, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“*Pledged Revenues*” means, except to the extent specifically excluded herein or under the terms of any Supplemental Senior Indenture (only with respect to the Series of Senior Bonds issued pursuant to such Supplemental Senior Indenture), LAX Revenues. “Pledged Revenues” will also include such additional revenues, if any, as are designated as “Pledged Revenues” under the terms of any Supplemental Senior Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Department from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “LAX Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Senior Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Senior Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “Pledged Revenues,” unless designated as “Pledged Revenues” under the terms of a Supplemental Senior Indenture: (a) any Senior Swap Termination Payments paid to the Department pursuant to a Senior Qualified Swap or any Subordinate Swap Termination Payments paid to the

Department pursuant to a Subordinate Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Senior Indenture (provided that only Passenger Facility Charges in respect of LAX may be so pledged), (d) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (e) Released LAX Revenues. Further, interest earnings or other investment earnings on any Senior or Subordinate Construction Fund established by any Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be, are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Senior Indenture or Supplemental Subordinate Indenture, as the case may be.

“*President*” or “*President of the Board*” means the president of the Board or such other title as the Board may from time to time assign for such position.

“*Project*” means any and all facilities, improvements and other expenditures related to the Airport System financed in whole or in part with proceeds of a Series of Senior Bonds or Subordinate Bonds.

“*RAIC*” means the Regional Airports Improvement Corporation, a California nonprofit corporation.

“*Rating Agency*” and “*Rating Agencies*” means Fitch, Moody’s or S&P, or any other nationally recognized rating agency of municipal obligations, but only if such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds or the Subordinate Bonds, as the case may be, and such Rating Agencies are then maintaining a rating on any of the Senior Bonds or the Subordinate Bonds, as the case may be.

“*Rating Category*” and “*Rating Categories*” means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier, and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“*Rebate Fund*” means any fund created by the Department pursuant to a Supplemental Senior Indenture or a Supplemental Subordinate Indenture, as the case may be, in connection with the issuance of the Senior Bonds or any Series of Senior Bonds or the Subordinate Bonds or any Series of Subordinate Bonds, as the case may be, for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means, with respect to any Series of Senior Bonds or Subordinate Bonds, as the case may be, the record date as specified in the Supplemental Senior Indenture which provides for the issuance of such Series of Senior Bonds or the Supplemental Subordinate Indenture which provides for the issuance of such Series of Subordinate Bonds, as the case may be. With respect to the Series 2009 Bonds, “*Record Date*” means for a May 15 Interest Payment Date the preceding May 1 and for a November 15 Interest Payment Date the preceding November 1.

“*Refunding Senior Bonds*” means any Senior Bonds issued pursuant to the Master Senior Indenture to refund or defease all or a portion of any series of Outstanding Senior Bonds or any Subordinated Obligation.

“*Refunding Subordinate Bonds*” means any Subordinate Bonds issued pursuant to the Master Subordinate Indenture to refund or defease all or a portion of any Series of Outstanding Subordinate Bonds, any Parity Subordinate Obligations or any Senior Bonds.

“*Regularly Scheduled Swap Payments*” means the regularly scheduled payments under the terms of a Swap which are due absent any termination, default or dispute in connection with such Swap.

“*Released LAX Revenues*” means LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through FIFTH described under the caption APPENDIX C-2—"SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account," or (B) an amount not less than 150% of average Senior Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through FIFTH described under the caption APPENDIX C-2—"SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account," or (B) an amount not less than 150% of the average Senior Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Senior Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of the Master Senior Indenture will not, in and of itself, cause the interest on any Outstanding Senior Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody's (provided such Rating Agencies have been requested by the Department to maintain a rating on the Senior Bonds and such Rating Agencies are then maintaining a rating on any of the Senior Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of the Master Senior Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Senior Bonds.

For purposes of subparagraph (b) above, no Transfer will be taken into account in the computation of Pledged Revenues.

Additionally, the Department will give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Senior Bonds and S&P is then maintaining a rating on any of the Senior Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of the Master Senior Indenture as proved in this definition of "*Released LAX Revenues*."

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Senior Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Senior Indenture pursuant to a Supplemental Senior Indenture.

"*Required Deposits*" means, with respect to any Series of Subordinate Bonds, the amount determined in accordance with the terms of the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued and/or incurred, required to be deposited into funds and accounts created under such Supplemental Subordinate Indenture for the purpose of paying principal and interest on Subordinate Bonds or accumulating funds from which to make such payments and to pay other obligations specifically secured by the Subordinate Pledged Revenues under such Supplemental Subordinate Indenture. On or before the Payment Date, if any, in each month, the Subordinate Trustee will determine the aggregate Required Deposits from the Required Deposits described under each Supplemental Subordinate Indenture.

“*Responsible Officer*” means an officer or assistant officer of the Senior Trustee assigned by the Senior Trustee to administer the Senior Indenture, or an officer or assistant officer of the Subordinate Trustee assigned by the Subordinate Trustee to administer the Subordinate Indenture.

“*S&P*” means Standard & Poor’s Ratings Group, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if such corporation will for any reason no longer perform the functions of a securities rating agency, “*S&P*” will be deemed to refer to any other nationally recognized securities rating agency designated by the Department.

“*Senior Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Senior Annual Debt Service on all Outstanding Senior Bonds and Unissued Senior Program Bonds. For purposes of calculating Senior Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(i) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Senior Bonds, and Unissued Senior Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Senior Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Senior Bonds or Original Issue Discount Senior Bonds maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (ii), (iii) or (iv) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Senior Bonds will be excluded to the extent such payments are to be paid from Senior Capitalized Interest for such Fiscal Year;

(ii) if all or any portion or portions of an Outstanding Series of Senior Bonds, or Unissued Senior Program Bonds constitute Balloon Indebtedness (excluding Senior Program Bonds or Unissued Senior Program Bonds to which subsection (vi) applies), then, for purposes of determining Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Senior Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (iii) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Senior Bonds, Unissued Senior Program Bonds or Senior Program Bonds only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (i) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Senior Program Bonds or Senior Program Bonds or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (i) above or such other provision of this definition as will be applicable;

(iii) any maturity of Senior Bonds which constitutes Balloon Indebtedness as described in provision (ii) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation is made, will be assumed to become due and payable on the stated maturity date and provision (ii) above will not apply thereto unless there is delivered to the entity making the calculation a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such

terms will be used for purposes of calculating Senior Aggregate Annual Debt Service, provided that such assumption will not result in an amortization period longer than or an interest rate lower than that which would be assumed under provision (ii) above;

(iv) if any Outstanding Senior Bonds (including Senior Program Bonds then issued and Outstanding) or any Senior Bonds which are then proposed to be issued constitute Senior Tender Indebtedness (but excluding Senior Program Bonds or Senior Bonds as to which a Senior Qualified Swap is in effect and to which subsection (vi) or (viii) applies), then, for purposes of determining Senior Aggregate Annual Debt Service, Senior Tender Indebtedness will be treated as if the principal amount of such Senior Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Senior Annual Debt Service payments and extending not later than 30 years from the date such Senior Tender Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all principal and interest payments becoming due prior to the year in which such Senior Tender Indebtedness is first subject to tender, such payments will be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (v) or (vi) below, as appropriate;

(v) if any Outstanding Senior Bonds constitute Variable Rate Senior Indebtedness (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Senior Tender Indebtedness or subsection (vi) relating to Synthetic Fixed Rate Debt or (viii) relating to Senior Qualified Swaps applies), the interest rate on such Senior Bonds will be the average rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the 12 months preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for such Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vi) with respect to any Senior Program Bonds or Unissued Senior Program Bonds (other than a Senior Commercial Paper Program) (a) debt service on Senior Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (b) with respect to Unissued Senior Program Bonds, it will be assumed that the full principal amount of such Unissued Senior Program Bonds will be amortized over a term certified by an Authorized Representative at the time the initial Senior Program Bonds of such Senior Program are issued to be the expected duration of such Senior Program or, if such expectations have changed, over a term certified by an Authorized Representative to be the expected duration of such Senior Program at the time of such calculation, but not to exceed 30 years from the date the initial Senior Program Bonds of such Senior Program are issued and it will be assumed that debt service will be paid in substantially level Senior Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vii) debt service on Senior Repayment Obligations, to the extent such obligations constitute Senior Bonds under the Master Senior Indenture, will be calculated as provided in Master Senior Indenture;

(viii) (a) for purposes of computing the Senior Annual Debt Service of Senior Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate as implied by the terms of the swap agreement or the net interest rate payable pursuant to offsetting indices, as applicable;

(b) for purposes of computing Senior Annual Debt Service on all other Senior Bonds with respect to which a Senior Qualified Swap is in effect, such Senior Qualified Swap will be marked to market (that is, treated as if it were being closed-out with an at the market bid) at the time of such calculation and the putative gain or loss thereon under the terms and conditions of the agreement creating such Senior Qualified Swap will be treated as amortized over the remaining term of the Senior Qualified Swap and the annualized gain or loss payment thereunder will be added to or subtracted from Senior Annual Debt Service for such Senior Bonds;

(ix) if moneys or Senior Permitted Investments have been irrevocably deposited with and are held by the Senior Trustee or another fiduciary or Senior Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Senior Bonds, then the principal and/or interest to be paid from such moneys, Senior Permitted Investments, or Senior Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Senior Annual Debt Service; and

(x) with respect to any Senior Commercial Paper Program which has been Implemented and not then terminated or with respect to any Senior Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Senior Authorized Amount of such Senior Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Senior Commercial Paper Program is Implemented and with substantially level Senior Annual Debt Service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by *The Bond Buyer*, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Senior Bonds of a corresponding term issued under the Senior Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Senior Bonds bear interest which is or is not excluded from gross income for federal income tax purposes.

“*Senior Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, in the then current or any future Fiscal Year with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Senior Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Annual Debt Service*” means, with respect to any Senior Bond, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Senior Qualified Swap is in effect for such Senior Bond, plus the amount payable by the Department (or the Senior Trustee) under the Senior Qualified Swap in

accordance with the terms thereof, less any amount to be received by the Department from the Senior Qualified Swap Provider pursuant to the Senior Qualified Swap, calculated using the principles and assumptions set forth in the definition of Senior Aggregate Annual Debt Service.

“*Senior Authorized Amount*” means, when used with respect to Senior Bonds, including Senior Program Bonds, the maximum Senior Principal Amount of Senior Bonds which is then authorized by a resolution or Supplemental Senior Indenture adopted by the Board pursuant to the Master Senior Indenture to be Outstanding at any one time under the terms of such Senior Program or Supplemental Senior Indenture. If the maximum Senior Principal Amount of Senior Bonds or Senior Program Bonds authorized by a preliminary resolution or form of Supplemental Senior Indenture approved by the Board pursuant to the Master Senior Indenture exceeds the maximum Senior Principal Amount of Senior Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Senior Indenture executed and delivered by the Board pursuant to which such Bonds are issued or such Senior Program is established, the Senior Principal Amount of such Senior Bonds or Senior Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Senior Indenture as executed and delivered by the Department will be deemed to be the “*Senior Authorized Amount*.”

“*Senior Bond*” or “*Senior Bonds*” means any debt obligation of the Department issued under and in accordance with the provisions of the Master Senior Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Senior Repayment Obligations to the extent provided in the Master Senior Indenture. The term “*Senior Bond*” or “*Senior Bonds*” does not include any Subordinated Obligation; provided, however, that the Board may provide in a Supplemental Senior Indenture that Subordinated Obligations may be thenceforth issued pursuant to the Master Senior Indenture having the terms applicable to the Senior Bonds, except that such Subordinated Obligations will be junior and subordinate in payment of such Subordinated Obligations from the Pledged Revenues. The term “*Senior Bond*” and “*Senior Bonds*” includes Senior Program Bonds.

“*Senior Capitalized Interest*” means the amount of interest on Senior Bonds, if any, funded from the proceeds of the Senior Bonds or other monies that are deposited with the Senior Trustee upon issuance of Senior Bonds to be used to pay interest on the Senior Bonds.

“*Senior Commercial Paper Program*” means a Senior Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Senior Program.

“*Senior Construction Fund*” means any of the Senior Construction Funds authorized to be created pursuant to the Master Senior Indenture.

“*Senior Debt Service Fund*” or “*Senior Debt Service Funds*” means a Senior Debt Service Fund or any of the Senior Debt Service Funds required to be created by the Master Senior Indenture.

“*Senior Debt Service Reserve Fund*” means any Senior Debt Service Reserve Fund (other than the Senior Reserve Fund) created by the Department pursuant to a Supplemental Senior Indenture in connection with the issuance of any Series of Senior Bonds and that is required to be funded for the purpose of providing additional security for such Series of Senior Bonds and under certain circumstances to provide additional security for such other designated Series of Senior Bonds issued pursuant to the terms of the Master Senior Indenture and as specified in any Supplemental Senior Indenture.

“*Senior Debt Service Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit (other than a Senior Reserve Fund Surety Policy) deposited with the Senior Trustee for the credit of a Senior Debt Service Reserve Fund created for one or more series of Outstanding Senior Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Senior Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term rating categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds at the time such instrument is provided.

“*Senior Designated Debt*” means a specific indebtedness designated by the Department with the intent that the risks associated with such debt be offset with a Swap, such specific indebtedness to include all or any part of a Series of Senior Bonds.

“*Senior Event of Default*” means any occurrence or event specified as a “Senior Event of Default” in the Senior Indenture.

“*Senior Indenture*” means the Master Senior Indenture, together with all Supplemental Senior Indentures.

“*Senior Investment Agreement*” means an investment agreement or guaranteed investment contract (i) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short term rating category (if the term of the Senior Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Senior Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the Senior Bonds and by Moody’s if Moody’s then maintains a rating on any of the Senior Bonds or (ii) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (1) or (2) of the definition of Senior Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (B) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (C) subject to a perfected first lien on behalf of the Senior Trustee, and (D) free and clear from all third-party liens.

“*Senior Maximum Aggregate Annual Debt Service*” means the maximum amount of Senior Aggregate Annual Debt Service with respect to all Senior Bonds, Unissued Senior Program Bonds, the Senior Authorized Amount of all Senior Bonds then proposed to be issued in the then current or any future Fiscal Year.

“*Senior Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Senior Maximum Aggregate Annual Debt Service with respect to all Outstanding Senior Bonds participating in the Senior Reserve Fund or all Outstanding Senior Bonds participating in a separately created Senior Debt Service Reserve Fund, as the case may be, in the then current or any future Fiscal Year with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series, be calculated on the basis of the assumptions set forth in subsection (v) of the definition of Senior Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Senior Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Senior Bonds containing Balloon Indebtedness or Senior Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Senior Notes*” means Senior Bonds issued under the provisions of the Master Senior Indenture which have a maturity of one year or less from their date of original issuance and which are not part of a Senior Commercial Paper Program.

“*Senior Paying Agent*” or “*Senior Paying Agents*” means, with respect to the Senior Bonds or any Series of Senior Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Senior Indenture or a resolution of the Department as the place where such Senior Bonds will be payable.

“*Senior Permitted Investments*” means, to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

- (1) Government Obligations,
- (2) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan

Bank System; Export Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;

(3) Direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody's if Moody's then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;

(4) Direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody's if Moody's then maintains a rating on any of the Senior Bonds and by S&P if S&P then maintains a rating on any of the Senior Bonds;

(5) Interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation ("FDIC") or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (a) continuously and fully insured by FDIC and with banks that are rated at least "P-1" or "Aa" by Moody's if any of the Senior Bonds are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Senior Bonds are then rated by S&P or (b) fully secured by obligations described in item (1) or (2) of this definition of Senior Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee, and (iv) free and clear from all third-party liens;

(6) Long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody's and S&P in either of their two highest rating categories;

(7) Repurchase agreements which are (a) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody's if Moody's then maintains a rating on any of the Senior Bonds and from S&P if S&P then maintains a rating on any of the Senior Bonds and (b) fully secured by investments specified in Section (1) or (2) of this definition of Senior Permitted Investments (i) which are valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements, (ii) held by the Senior Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Senior Trustee, (iii) subject to a perfected first lien in favor of the Senior Trustee and (iv) free and clear from all third-party liens;

(8) Prime commercial paper of a United States corporation, finance company or banking institution rated at least "P-1" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" by S&P if S&P then maintains a rating on any of the Senior Bonds;

(9) Shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (a) a money market fund that has been rated in one of the two highest rating categories by Moody's or S&P or (b) a money market fund or account of the Senior Trustee or any state or federal bank that is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or whose one bank holding company parent is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Senior Bonds and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Senior Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(10) Senior Investment Agreements; and

(11) Any other type of investment consistent with City policy in which the Department directs the Senior Trustee to invest provided that there is delivered to the Senior Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Senior Bonds has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Senior Bonds.

“*Senior Principal Amount*” or “*Senior principal amount*” means, as of any date of calculation, (i) with respect to any Capital Appreciation Senior Bond, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (ii) with respect to any Original Issue Discount Senior Bond, the Accreted Value thereof, unless the Supplemental Senior Indenture under which such Senior Bond was issued will specify a different amount, in which case, the terms of the Supplemental Senior Indenture will control, and (iii) with respect to any other Senior Bonds, the principal amount of such Senior Bond payable at maturity.

“*Senior Program*” means a financing program, including but not limited to a Senior Commercial Paper Program, (i) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Senior Indenture have been filed with the Senior Trustee, (ii) wherein the Board has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Senior Authorized Amount, and (iii) the Senior Authorized Amount of which has met the additional bonds test set forth in Master Senior Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Senior Authorized Amount.

“*Senior Program Bonds*” means Senior Bonds issued and Outstanding pursuant to a Senior Program, other than Unissued Senior Program Bonds.

“*Senior Qualified Swap*” means any Swap (a) whose Senior Designated Debt is all or part of a particular Series of Senior Bonds; (b) which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series of Senior Bonds (including any bond insurer); (c) whose Swap Provider is a Senior Qualified Swap Provider or has been a Senior Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Senior Annual Debt Service or Senior Average Annual Debt Service is being made; (d) which has a term not greater than the term of the Senior Designated Debt or to a specified mandatory tender or redemption of such Senior Designated Debt; (e) which has been designated in writing to the Senior Trustee by the Department as a Senior Qualified Swap with respect to such Senior Bonds; and (f) which has been approved by S&P, if S&P has an outstanding rating on any Senior Bonds, and Moody’s, if Moody’s has an outstanding rating on the Senior Bonds.

“*Senior Qualified Swap Provider*” means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Senior Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least “Aa”, in the case of Moody’s and “AA”, in the case of S&P, or the equivalent thereto in the case of any successor thereto, and (b) acceptable to the Credit Provider for the Senior Designated Debt.

“*Senior Registrar*” means, with respect to the Senior Bonds or any Series of Senior Bonds, the bank, trust company or other entity designated in a Supplemental Senior Indenture or a resolution of the Board to perform the function of Senior Registrar under the Master Senior Indenture or any Supplemental Senior Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Senior Indenture. The Senior Trustee will act as Senior Registrar with respect to the Series 2009 Senior Bonds.

“*Senior Repayment Obligations*” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Senior Bonds or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Senior Bonds.

“*Senior Reserve Fund*” means the trust fund created pursuant to the Master Senior Indenture and that is required to be funded for the purpose of providing additional security for the Outstanding Senior Bonds issued pursuant to the terms of the Senior Indenture and as specified in any Supplemental Senior Indenture as participating in the Senior Reserve Fund. The Department will specify in the Tenth Supplemental Senior Indenture that the Series 2009 Senior Bonds will participate in the Senior Reserve Fund.

“*Senior Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit, deposited with the Senior Trustee for the credit of the Senior Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Senior Reserve Fund Surety Policy will be rated, at the time such instrument is provided, in one of the two highest Rating Categories by both Moody’s if Moody’s is then maintaining a rating on the Senior Bonds and S&P if S&P is then maintaining a rating on the Senior Bonds.

“*Senior Reserve Requirement*” means, except as otherwise provided in a Supplemental Senior Indenture, an amount equal to the least of (i) Senior Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, (ii) ten percent of the principal amount of the Senior Bonds that have been issued and are participating in the Senior Reserve Fund or the Senior Bonds that have been issued and are participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be, less the amount of original issue discount with respect to any Senior Bond if such original issue discount exceeded 2% on such Senior Bond at the time of its original sale and (iii) 125% of the average Senior Aggregate Annual Debt Service For Reserve Requirement for all Series of Senior Bonds participating in the Senior Reserve Fund or for all Series of Senior Bonds participating in a separately created Senior Debt Service Reserve Fund created pursuant to a Supplemental Senior Indenture, as the case may be.

“*Senior Swap Termination Payment*” means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Senior Qualified Swap, to compensate the other party to the Senior Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Senior Qualified Swap.

“*Senior Tender Indebtedness*” means any Senior Bonds or portions of Senior Bonds a feature of which is an option and/or an obligation on the part of the Bondholders, under the terms of such Senior Bonds, to tender all or a portion of such Senior Bonds to the Department, the Senior Trustee, the Senior Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Senior Bonds or portions of Senior Bonds be purchased if properly presented.

“*Senior Trustee*” means The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee until a successor replaces it and, thereafter, means such successor.

“*Serial Senior Bonds*” means Senior Bonds for which no sinking installment payments are provided.

“*Serial Subordinate Bonds*” means Subordinate Bonds for which no sinking installment payments are provided.

“*Series*” or “*series*” means (a) with respect to Senior Bonds, Senior Bonds designated as a separate Series by a Supplemental Senior Indenture and, with respect to Senior Program Bonds or a Senior Commercial Paper Program, means the full Senior Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Senior Indenture, designated as separate Series; and (b) with respect to Subordinate Bonds, Subordinate Bonds designated as a separate Series by a Supplemental Subordinate Indenture and, with respect to Subordinate Program Bonds or a Subordinate Commercial Paper Program, means the full Subordinate Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Subordinate Indenture, designated as a separate Series.

“*Series 2009C Subordinate Bonds*” means the \$307,350,000 original principal amount of Subordinate Bonds issued under the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series C.”

“*Series 2009D Subordinate Bonds*” means the \$31,815,000 original principal amount of Subordinate Bonds issued under the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Revenue Bonds, 2009 Series D.”

“*Series 2009E Subordinate Bonds*” means the \$39,750,000 original principal amount of Subordinate Bonds issued under the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Subordinate Refunding Revenue Bonds, 2009 Series E.”

“*Series 2009 Bonds*” means, collectively, the Series 2009 Senior Bonds and the Series 2009 Subordinate Bonds.

“*Series 2009 Senior Bonds*” means the \$310,410,000 original principal amount of Senior Bonds issued under the Master Senior Indenture and the Tenth Supplemental Senior Indenture and designated “Department of Airports of the City of Los Angeles, California, Los Angeles International Airport, Senior Revenue Bonds, 2009 Series A.”

“*Series 2009 Subordinate Bonds*” means, collectively, the Series 2009C Subordinate Bonds, the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds.

“*Significant Portion*” means, for purposes of the Master Senior Indenture, any LAX Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the Department at the beginning of an annual period which includes the month of commencement of the 12-month period ending on the day of such disposition would have resulted in a reduction in Net Pledged Revenues for such annual period of more than 4% when the actual Net Pledged Revenues for such annual period are decreased by the Pledged Revenues directly attributable to such LAX Airport Facilities and increased by the expenses of the Department directly attributable to such LAX Airport Facilities. The Department will notify Moody’s, if Moody’s then maintains a rating on any of the Senior Bonds, and S&P, if S&P then maintains a rating on any of the Senior Bonds, prior to the selling or disposing of a Significant Portion of any LAX Airport Facilities or portions thereof.

“*Specified LAX Project*” means a Project at Los Angeles International Airport or a group of alternative Projects which are described in a certificate of an Authorized Representative delivered to the Consultant preparing the certificates described in the additional bonds tests under the Master Senior Indenture and the Master Subordinate Indenture, as the case may be, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing the certificate described in the additional bonds tests under the Master Senior Indenture and the Master Subordinate Indenture, as the case may be.

“*State*” means the State of California.

“*Subordinate Aggregate Annual Debt Service*” means for any Fiscal Year the aggregate amount of Subordinate Annual Debt Service on all Outstanding Subordinate Bonds and Unissued Subordinate Program Bonds. For purposes of calculating Subordinate Aggregate Annual Debt Service, the following components of debt service will be computed as follows:

(a) in determining the principal due in each year, payment will (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made on Outstanding Subordinate Bonds and Unissued Subordinate Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Subordinate Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Subordinate

Bonds or Original Issue Discount Subordinate Bonds maturing or scheduled for redemption in such year; in determining the interest due in each year, interest payable at a fixed rate will (except to the extent subsection (b), (c) or (d) of this definition applies) be assumed to be made at such fixed rate and on the required payment dates; provided, however, that interest payable on the Subordinate Bonds will be excluded to the extent such payments are to be paid from Subordinate Capitalized Interest for such Fiscal Year;

(b) if all or any portion or portions of an Outstanding Series of Subordinate Bonds or Unissued Subordinate Program Bonds constitute Balloon Indebtedness, then, for purposes of determining Subordinate Aggregate Annual Debt Service, each maturity which constitutes Balloon Indebtedness will, unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which such Balloon Indebtedness is issued or unless provision (c) of this definition then applies to such maturity, be treated as if it were to be amortized over a term of not more than 30 years and with substantially level annual debt service payments commencing not later than the year following the year in which such Balloon Indebtedness was issued, and extending not later than 30 years from the date such Balloon Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Subordinate Bonds, Unissued Subordinate Program Bonds or Subordinate Program Bonds, only a portion of which constitutes Balloon Indebtedness, the remaining portion will be treated as described in (a) above or such other provision of this definition as will be applicable and, with respect to any Series, Unissued Subordinate Program Bonds or Subordinate Program Bonds, or that portion of a Series thereof which constitutes Balloon Indebtedness, all payments of principal and interest becoming due prior to the year of the stated maturity of the Balloon Indebtedness will be treated as described in (a) above or such other provision of this definition as will be applicable;

(c) any maturity of Subordinate Bonds which constitutes Balloon Indebtedness as described in provision (b) of this definition and for which the stated maturity date occurs within 12 months from the date such calculation of Subordinate Aggregate Annual Debt Service is made, will be assumed to become due and payable on the stated maturity date and provision (b) above will not apply thereto unless there is delivered to the entity making the calculation of Subordinate Aggregate Annual Debt Service a certificate of an Authorized Representative stating that the Department intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Subordinate Aggregate Annual Debt Service, provided that such assumption will not result in an interest rate lower than that which would be assumed under provision (b) above and will be amortized over a term of not more than 30 years from the date of refinancing;

(d) if any Outstanding Subordinate Bonds (including Subordinate Program Bonds) or any Subordinate Bonds which are then proposed to be issued constitute Subordinate Tender Indebtedness (but excluding Subordinate Program Bonds or Subordinate Bonds as to which a Subordinate Qualified Swap is in effect and to which subsection (g) or (h) applies), then, for purposes of determining Subordinate Aggregate Annual Debt Service, Subordinate Tender Indebtedness will be treated as if the principal amount of such Subordinate Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Subordinate Annual Debt Service payments and extending not later than 30 years from the date such Subordinate Tender Indebtedness was originally issued; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a

replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all principal and interest payments becoming due prior to the year in which such Subordinate Tender Indebtedness is first subject to tender, such payments will be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date will be determined as provided in (e) or (f) below, as appropriate;

(e) if any Outstanding Subordinate Bonds constitute Variable Rate Indebtedness, including obligations described in subsection (h)(ii) to the extent it applies (except to the extent subsection (b) or (c) relating to Balloon Indebtedness or (d) relating to Subordinate Tender Indebtedness or subsection (h)(i) relating to Synthetic Fixed Rate Debt applies), the interest rate used for such computation will be the rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(f) with respect to any Subordinate Program Bonds or Unissued Subordinate Program Bonds (other than a Subordinate Commercial Paper Program) (i) debt service on such Subordinate Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (ii) with respect to Unissued Subordinate Program Bonds, it will be assumed that the full principal amount of such Unissued Subordinate Program Bonds will be amortized over a term certified by an Authorized Representative at the time the initial Subordinate Program Bonds of such Subordinate Program are issued to be the expected duration of such Subordinate Program or, if such expectations have changed, over a term certified by an Authorized Representative to the expected duration of such Subordinate Program at the time of such calculation, but not to exceed 30 years from the date of the initial issuance of such Subordinate Program Bonds and it will be assumed that debt service will be paid in substantially level Subordinate Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(g) debt service on Subordinate Repayment Bonds, to the extent such obligations constitute Subordinate Bonds under the Master Subordinate Indenture, will be calculated as provided in the Master Subordinate Indenture;

(h) (i) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon will, if the Department elects, be that rate as provided for by the terms of the Subordinate Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Department fails to elect such rate, then it will be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department;

(ii) for purposes of computing the Subordinate Aggregate Annual Debt Service of Subordinate Bonds with respect to which a Subordinate Swap has been entered into whereby the

Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Bonds to which such Subordinate Swap pertains will be included in the calculation of Subordinate Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Bonds will, if the Department elects, be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Subordinate Swap Provider;

(i) with respect to any Subordinate Commercial Paper Program which has been Implemented and not then terminated or with respect to any Subordinate Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Subordinate Authorized Amount of such Implemented Subordinate Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Subordinate Commercial Paper Program is Implemented and with substantially level annual debt service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Bonds of a corresponding term issued under the Subordinate Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(j) if moneys or Subordinate Permitted Investments have been irrevocably deposited with and are held by the Subordinate Trustee or another fiduciary or Subordinate Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Bonds, then the principal and/or interest to be paid from such moneys, Subordinate Permitted Investments, or Subordinate Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Subordinate Annual Debt Service;

(k) if Passenger Facility Charges, state and/or federal grants or other moneys have been irrevocably committed or are held by the Subordinate Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Bonds, then the principal and/or interest to be paid from such Passenger Facility Charges, state and/or federal grants or other moneys or from earnings thereon will be disregarded (unless such Passenger Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Subordinate Aggregate Annual Debt Service; and

(l) for purposes of computing Subordinate Aggregate Annual Debt Service on the Parity Subordinate Bonds, the preceding subsections of this definition will apply, except that the term "Subordinate Bonds" will be read to mean the Parity Subordinate Bonds and the term "Subordinate Commercial Paper Program" will be read to mean the Parity Subordinate Bonds issued as commercial paper notes.

"Subordinate Aggregate Annual Debt Service For Reserve Requirement" means the computation of Subordinate Aggregate Annual Debt Service for a Subordinate Debt Service Reserve Fund with respect to all Outstanding Subordinate Bonds participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Bonds, the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in a Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Bonds containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Subordinate Annual Debt Service*” means, with respect to any Subordinate Bond or Parity Subordinate Obligation, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Subordinate Qualified Swap is in effect for such Subordinate Bond or Parity Subordinate Obligation, plus the amount payable by the Department (or the Subordinate Trustee) under the Subordinate Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Subordinate Qualified Swap Provider pursuant to the Subordinate Qualified Swap, calculated using the principles and assumptions set forth in the definition of Subordinate Aggregate Annual Debt Service.

“*Subordinate Authorized Amount*” means, when used with respect to Subordinate Bonds, including Subordinate Program Bonds, the maximum Subordinate Principal Amount of Subordinate Bonds which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to the Master Subordinate Indenture to be Outstanding at any one time under the terms of such Subordinate Program or Supplemental Subordinate Indenture. If the maximum Subordinate Principal Amount of Subordinate Bonds or Subordinate Program Bonds authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to the Master Subordinate Indenture exceeds the maximum Subordinate Principal Amount of Subordinate Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such Subordinate Bonds are issued or such Subordinate Program is established, the Subordinate Principal Amount of such Subordinate Bonds or Subordinate Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department will be deemed to be the “Subordinate Authorized Amount.” Notwithstanding the provisions of this definition of “Subordinate Authorized Amount,” in connection with the issuance of additional Subordinate Bonds and the calculation of Subordinate Maximum Annual Debt Service with respect to a Subordinate Commercial Paper Program, “Subordinate Authorized Amount” means the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Subordinate Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Subordinate Commercial Paper Program.

“*Subordinate Bond*” or “*Subordinate Bonds*” means any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of the Master Subordinate Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Subordinate Repayment Obligations to the extent provided in the Master Subordinate Indenture. The terms “Subordinate Bond” and “Subordinate Bonds” include Subordinate Program Bonds.

“*Subordinate Capitalized Interest*” means the amount of interest on Subordinate Bonds, if any, funded from the proceeds of the Subordinate Bonds or other moneys that are deposited with the Subordinate Trustee in the Subordinate Debt Service Fund as will be described in a Supplemental Subordinate Indenture upon issuance of Subordinate Bonds to be used to pay interest on the Subordinate Bonds.

“*Subordinate Commercial Paper Notes*” or “*Parity Subordinate Obligations*” means the commercial paper notes issued on parity with the Subordinate Bonds from time to time under the terms of the Parity Subordinate Indenture, designated the Department of Airports of the City of Los Angeles (Los Angeles International Airport) Commercial Paper Notes, Series A Notes (Tax-Exempt – Governmental), Series B Notes (Tax-Exempt – Private Activity) and Series C Notes (Federally Taxable) which may be issued from time to time pursuant to the Parity Subordinate Indenture in an aggregate principal amount not to exceed \$500,000,000 at any one time.

“*Subordinate Commercial Paper Program*” means a Subordinate Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Subordinate Program.

“*Subordinate Construction Fund*” means any of the Subordinate Construction Funds authorized to be created as provided by the Master Subordinate Indenture.

“*Subordinate Debt Service Fund*” or “*Subordinate Debt Service Funds*” means a Subordinate Debt Service Fund or any of the Subordinate Debt Service Funds required to be created as provided in the Master Subordinate Indenture.

“*Subordinate Debt Service Reserve Fund*” means any Subordinate Debt Service Reserve Fund created by the Department pursuant to a Supplemental Subordinate Indenture in connection with the issuance of any Series of Subordinate Bonds and that is required to be funded for the purpose of providing additional security for such Series of Subordinate Bonds and under certain circumstances to provide additional security for such other designated Series of Subordinate Bonds issued pursuant to the terms of the Master Subordinate Indenture and as specified in any Supplemental Subordinate Indenture.

“*Subordinate Debt Service Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit, deposited with the Subordinate Trustee for the credit of the Subordinate Debt Service Reserve Fund created for one or more Series of Outstanding Subordinate Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Subordinate Debt Service Reserve Fund Surety Policy will be rated in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

“*Subordinate Designated Debt*” means a specific indebtedness designated by the Department in which such debt will be offset with a Swap, such specific indebtedness to include all or any part of a Series or multiple Series of Subordinate Bonds.

“*Subordinated Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Department which ranks junior and subordinate to the Senior Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Senior Bonds whether by maturity, redemption or acceleration have been paid in full and the Department is current on all payments, if any, required to be made to replenish the Senior Reserve Fund and any Senior Debt Service Reserve Fund. “*Subordinated Obligations*” are not Senior Bonds for purposes of the Master Senior Indenture; provided, however, that the Department may henceforth by Supplemental Senior Indenture elect to have the provisions of the Master Senior Indenture applicable to the Senior Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations will be secured on a junior and subordinate basis to the Senior Bonds from the Pledged Revenues. No bond, note or other instrument of indebtedness will be deemed to be a “*Subordinated Obligation*” for purposes of the Master Senior Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Department as a “*Subordinated Obligation*” in a Supplemental Senior Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in, the term “*Subordinated Obligation*” includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Department under each such Swap, as the context requires. The term “*Subordinated Obligations*” also includes a Swap or the obligations of the Department under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term “*Subordinated Obligation*” includes any Senior Swap Termination Payment under a Senior Qualified Swap with respect to any Senior Bonds payable on parity with Subordinated Obligations.

“*Subordinate Event of Default*” means any occurrence or event specified as a “Subordinate Event of Default” in the Subordinate Indenture.

“*Subordinate Indenture*” means the Master Subordinate Indenture, together with all Supplemental Subordinate Indentures.

“*Subordinate Investment Agreement*” means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term Rating Category (if the term of the Subordinate Investment Agreement is less than three years) or in either of the two highest long-term Rating Categories (if the term of the Subordinate Investment Agreement is three years or longer) by one or more of the Rating Agencies, or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in items (a) and (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least

equal to 103% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

“*Subordinate Maximum Aggregate Annual Debt Service*” means the maximum amount of Subordinate Aggregate Annual Debt Service with respect to all Subordinate Bonds, Unissued Subordinate Program Bonds, the Subordinate Authorized Amount of all Subordinate Bonds then proposed to be issued and Parity Subordinate Obligations in the then current or any future Fiscal Year.

“*Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Subordinate Maximum Aggregate Annual Debt Service for a Debt Service Reserve Fund with respect to all Outstanding Subordinate Bonds participating in an identified Subordinate Debt Service Reserve Fund in the then current or any future Fiscal Year, with such modifications in the assumptions thereof as is described in this definition. For purposes of determining the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement for the respective Subordinate Debt Service Reserve Fund, for a Series of Subordinate Bonds the annual debt service with respect to any Variable Rate Indebtedness will, upon the issuance of such Series participating in an identified Subordinate Debt Service Reserve Fund, be calculated on the basis of the assumptions set forth in subsection (e) of the definition of Subordinate Aggregate Annual Debt Service, and the amount so determined will not require adjustment thereafter except as appropriate to reflect reductions in the outstanding principal amount of such Series. For purposes of the Subordinate Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Subordinate Bonds containing Balloon Indebtedness or Subordinate Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Subordinate Notes*” means Subordinate Bonds issued under the provisions of the Master Subordinate Indenture which have a maturity of one year or less from their original date of issue and which are not part of a Subordinate Commercial Paper Program.

“*Subordinate Paying Agent*” or “*Subordinate Paying Agents*” means, with respect to the Subordinate Bonds or any Series of Subordinate Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Subordinate Indenture or a resolution of the Department as the place where such Subordinate Bonds will be payable.

“*Subordinate Permitted Investments*” means to the extent permitted to be invested by the Department by applicable law, the Charter and investment policy of the City, any of the following:

- (a) Government Obligations;
- (b) obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following instrumentalities or agencies of the United States of America: Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Financing Bank; Government National Mortgage Association; Federal National Mortgage Association; Student Loan Marketing Association; Federal Farm Credit Bureau; Farmers Home Administration; Federal Home Loan Mortgage Corporation; and Federal Housing Administration;
- (c) direct and general long-term obligations of any state, which obligations are rated in either of the two highest rating categories by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and by S&P if S&P then maintains a rating on any of the Subordinate Bonds;
- (d) direct and general short-term obligations of any state which obligations are rated in the highest rating category by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and by S&P if S&P then maintains a rating on any of the Subordinate Bonds;

(e) interest-bearing demand or time deposits (including certificates of deposit) or interests in money market portfolios issued by state banks or trust companies or national banking associations that are members of the Federal Deposit Insurance Corporation (“FDIC”) or by savings and loan associations that are members of the FDIC, which deposits or interests must either be (i) continuously and fully insured by FDIC and with banks that are rated at least “P-1” or “Aa” by Moody’s if any of the Subordinate Bonds are then rated by Moody’s and at least “A-1” or “AA” by S&P if any of the Subordinate Bonds are then rated by S&P; or (ii) fully secured by obligations described in item (a) or (b) of this definition of Subordinate Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment; (B) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;

(f) long-term or medium-term corporate debt guaranteed by any corporation that is rated by both Moody’s and S&P in either of their two highest rating categories;

(g) repurchase agreements which are (i) entered into with banks or trust companies organized under state law, national banking associations, insurance companies or government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York and which either are members of the Security Investors Protection Corporation or with a dealer or parent holding company that has an investment grade rating from Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and from S&P if S&P then maintains a rating on any of the Subordinate Bonds; and (ii) fully secured by investments specified in paragraph (a) or (b) of this definition of Subordinate Permitted Investments which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at least equal to the amount invested in the repurchase agreements; (B) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee; (C) subject to a perfected first lien in favor of the Subordinate Trustee; and (D) free and clear from all third-party liens;

(h) prime commercial paper of a United States corporation, finance company or banking institution rated at least “P-1” by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and at least “A-1” by S&P if S&P then maintains a rating on any of the Subordinate Bonds;

(i) shares of a diversified open-end management investment company (as defined in the Investment Company Act of 1940, as amended) or shares in a regulated investment company (as defined in Section 851(a) of the Code) that is (i) a money market fund that has been rated in one of the two highest rating categories by Moody’s or S&P, or (ii) a money market fund or account of the Subordinate Trustee or any state or federal bank that is rated at least “P-1” or “Aa” by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and at least “A-1” or “AA” by S&P if S&P then maintains a rating on any of the Subordinate Bonds or whose one bank holding company parent is rated at least “P-1” or “Aa” by Moody’s if Moody’s then maintains a rating on any of the Subordinate Bonds and “A-1” or “AA” by S&P if S&P then maintains a rating on any of the Subordinate Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(j) Subordinate Investment Agreements; and

(k) any other type of investment consistent with City policy in which the Department directs the Subordinate Trustee to invest; provided that there is delivered to the Subordinate Trustee a certificate of an Authorized Representative stating that each of the rating agencies then maintaining a rating on the Subordinate Bonds has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that such investment will not adversely affect the rating then assigned by such rating agency to any of the Subordinate Bonds.

“*Subordinate Pledged Revenues*” means Pledged Revenues available to pay debt service on the Subordinate Bonds as described under the paragraph labeled THIRD under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account.”

“*Subordinate Principal Amount*” or “*Subordinate principal amount*” means, as of any date of calculation, (a) with respect to any Capital Appreciation Subordinate Bonds, the Accreted Value thereof (the difference between the stated amount to be paid at maturity and the Accreted Value being deemed unearned interest), (b) with respect to any Original Issue Discount Subordinate Bonds, the Accreted Value thereof, unless the Supplemental Subordinate Indenture under which such Subordinate Bond was issued will specify a different amount, in which case, the terms of the Supplemental Subordinate Indenture will control, and (c) with respect to any other Subordinate Bonds, the principal amount of such Subordinate Bond payable at maturity.

“*Subordinate Program*” means a financing program identified in a Supplemental Subordinate Indenture, including but not limited to a Subordinate Commercial Paper Program, (a) which is authorized and the terms thereof approved by a resolution adopted by the Board and the items required under the Master Subordinate Indenture have been filed with the Subordinate Trustee, (b) wherein the Board has authorized the issuance, from time to time, of notes, bonds, commercial paper or other indebtedness in a Subordinate Authorized Amount, and (c) the Subordinate Authorized Amount of which has met the additional bonds test set forth in the Master Subordinate Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Subordinate Authorized Amount.

“*Subordinate Program Bonds*” means Subordinate Bonds issued and Outstanding pursuant to a Subordinate Program, other than Unissued Subordinate Program Bonds.

“*Subordinate Qualified Swap*” means any Swap (a) whose Subordinate Designated Debt is all or part of a particular Series of Subordinate Bonds; (b) whose Swap Provider is a Subordinate Qualified Swap Provider or has been a Subordinate Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Subordinate Annual Debt Service or Subordinate Aggregate Annual Debt Service is being made; (c) which has a term not greater than the term of the Subordinate Designated Debt or to a specified mandatory tender or redemption of such Subordinate Designated Debt; (d) which has been designated in writing to the Subordinate Trustee by the Department as a Subordinate Qualified Swap with respect to such Subordinate Bonds; and (e) which has been approved by S&P, if S&P has an outstanding rating on any Subordinate Bonds, and Moody’s, if Moody’s has an outstanding rating on the Subordinate Bonds.

“*Subordinate Qualified Swap Provider*” means a financial institution (a) whose senior long-term debt obligations, or whose obligations under any Subordinate Qualified Swap are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long-term debt obligations, are rated at least “Aa,” in the case of Moody’s and “AA,” in the case of S&P, or the equivalent thereto in the case of any successor thereto, or (b) whose obligations under a Subordinate Qualified Swap are fully secured by obligations described in items (a) or (b) of the definition of Subordinate Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Subordinate Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Subordinate Trustee, (iii) subject to a perfected first lien on behalf of the Subordinate Trustee, and (iv) free and clear from all third-party liens.

“*Subordinate Registrar*” means, with respect to the Subordinate Bond or any Series of Subordinate Bonds, the bank, trust company or other entity designated in a Supplemental Subordinate Indenture or a resolution of the Board to perform the function of Subordinate Registrar under the Master Subordinate Indenture or any Supplemental Subordinate Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Subordinate Indenture. The Subordinate Trustee will act as the Subordinate Registrar with respect to the Series 2009 Subordinate Bonds.

“*Subordinate Repayment Obligations*” means an obligation arising under a written agreement of the Department and a Credit Provider pursuant to which the Department agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Subordinate Bonds and all other amounts due and owing to a Credit Provider under a Credit Facility, or an obligation arising under a written agreement of the Department and a Liquidity Provider pursuant to which the Department agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Subordinate Bonds and all other amounts due and owing to a Liquidity Provider under a Liquidity Facility.

“*Subordinate Reserve Fund*” means the Subordinate Debt Service Reserve Fund of such designation created under the Fourth Supplemental Subordinate Indenture as security for any Subordinate Bonds which may participate in the Subordinate Reserve Fund as provided in Fourth Supplemental Subordinate Indenture. The Department will specify in the Fifth Supplemental Subordinate Indenture that the Series 2009 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 Bonds participating in the Subordinate Reserve Fund, (b) 10% of the principal amount of the Subordinate Bonds that have been issued and are participating in the Subordinate Reserve Fund, less the amount of original issue discount with respect to such Subordinate Bonds if such original issue discount exceeded 2% on such Subordinate Bonds at the time of their original sale, and (c) 125% of the average Subordinate Aggregate Annual Debt Service for Reserve Requirement for all Subordinate Bonds participating in the Subordinate Reserve Fund.

“*Subordinate Swap Termination Payment*” means an amount payable by the Department or a Qualified Swap Provider, in accordance with a Subordinate Qualified Swap, to compensate the other party to the Subordinate Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Subordinate Qualified Swap.

“*Subordinate Tender Indebtedness*” means any Subordinate Bonds or portions of Subordinate Bonds a feature of which is an option and/or an obligation on the part of the holders, under the terms of such Subordinate Bonds, to tender all or a portion of such Subordinate Bonds to the Department, the Subordinate Trustee, the Subordinate Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Subordinate Bonds or portions of Subordinate Bonds be purchased if properly presented.

“*Subordinate Trustee*” means U.S. Bank National Association, also known as U.S. Bank, N.A., until a successor replaces it and, thereafter, means such successor

“*Supplemental Senior Indenture*” means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Senior Bonds and entered into as provided in the Master Senior Indenture.

“*Supplemental Subordinate Indenture*” means any document supplementing or amending the Master Subordinate Indenture or providing for the issuance of Subordinate Bonds and entered into as provided in the Master Subordinate Indenture.

“*Swap*” means any financial arrangement between the Department and a Swap Provider which provides that (a) each of the parties will pay to the other an amount or amounts calculated as if such amount were interest accruing during the term of the arrangement at a specified rate (whether fixed or a variable rate or measured against some other rate or index) on a Senior Designated Debt or a Designated Debt, as the case may be, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid *after* it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement.

“*Swap Provider*” means a party to a Swap with the Department.

“*Synthetic Fixed Rate Debt*” means indebtedness issued by the Department which: (a) is combined, as Senior Designated Debt or Subordinate Designated Debt, as the case may be, with a Senior Qualified Swap or a Subordinate Qualified Swap, respectively, and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (b) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

“*Tax Compliance Certificate*” means the certificate of the Department prepared by Bond Counsel and delivered by the Department at the time of issuance and delivery of any Series or Senior Bonds or Subordinate Bonds, as the case may be, the interest on which is excluded from gross income for federal income tax purposes pursuant to a favorable opinion of such Bond Counsel, making certifications and representations of the Department as to the status of such Senior Bonds or Subordinate Bonds, as the case may be, under the Code.

“*Tax-Exempt Series 2009 Bonds*” means, collectively, the Series 2009 Senior Bonds, the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds.

“*Tenth Supplemental Senior Indenture*” means the Tenth Supplemental Trust Indenture, to be dated as of December 1, 2009, by and between the Department and the Senior Trustee.

“*Term Senior Bonds*” means Senior Bonds of a series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Senior Indenture for such series for that purpose and calculated to retire the Senior Bonds on or before their specified maturity dates.

“*Term Subordinate Bonds*” means Subordinate Bonds of a Series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Subordinate Indenture for such Series for that purpose and calculated to retire the Subordinate Bonds on or before their specified maturity dates.

“*Transfer*” means for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH described under the caption APPENDIX C-2—“SUMMARY OF THE MASTER SENIOR INDENTURE—Withdrawals from LAX Revenue Account” have been made as of the last day of the immediately preceding Fiscal Year).

“*Treasurer*” means the Treasurer of the City as set forth in the Charter.

“*Unenhanced Subordinate Commercial Paper Program*” will be a Subordinate Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Subordinate Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

“*Unissued Senior Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Senior Program and payable from Pledged Revenues, issuable in an amount up to the Senior Authorized Amount relating to such Senior Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Senior Program the items required pursuant to the Master Senior Indenture have been filed with the Senior Trustee but which have not yet been authenticated and delivered pursuant to the Senior Program documents.

“*Unissued Subordinate Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Subordinate Program and payable from Subordinate Pledged Revenues, issuable in an amount up to the Subordinate Authorized Amount relating to such Subordinate Program, which have been approved for issuance by the Department pursuant to a resolution adopted by the Board and with respect to which Subordinate Program the items required pursuant to the Master Subordinate Indenture have been filed with the Subordinate Trustee but which have not yet been authenticated and delivered pursuant to the Subordinate Program documents.

“*United States Bankruptcy Code*” means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

“*United States Obligations*” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (1) a bank or trust company

acts as custodian and holds the underlying United States Obligations; (2) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (3) the underlying United States Obligations are held in a special account separate from the custodian's general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. "*United States Obligations*" will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

"*Variable Rate Indebtedness*" means any Senior Bond, Senior Bonds, Subordinate Bond or Subordinate Bonds the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

APPENDIX C-2

SUMMARY OF THE MASTER SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2009 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Senior Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Senior Indenture.

Grant to Secure Senior Bonds; Pledge of Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Senior Bonds and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Senior Indenture or contained in the Senior Bonds, the Department has pledged and assigned to the Senior Trustee and granted to the Senior Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Senior Trustee under the Master Senior Indenture, moneys and securities held in the Senior Reserve Fund or any Senior Debt Service Reserve Fund and any Senior Reserve Fund Surety Policy or Senior Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Senior Reserve Requirement, and to the extent provided in any Supplemental Senior Indenture moneys and securities held in any Senior Construction Fund whether or not held by the Senior Trustee, (c) earnings on amounts included in provisions (a) and (b) above (except to the extent excluded from the definition of “Pledged Revenues”), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Senior Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Senior Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Senior Bond over any other Senior Bond or Senior Bonds, except as to the timing of payment of the Senior Bonds. Any security or Credit Facility provided for specific Senior Bonds or a specific Series of Senior Bonds may, as provided by Supplemental Senior Indenture, secure only such specific Senior Bonds or Series of Senior Bonds and, therefore, will not be included as security for all Senior Bonds under the Master Senior Indenture and moneys and securities held in trust as provided in the Master Senior Indenture exclusively for Senior Bonds which have become due and payable and moneys and securities which are held exclusively to pay Senior Bonds which are deemed to have been paid under the Master Senior Indenture will be held solely for the payment of such specific Senior Bonds.

Senior Repayment Obligations Afforded Status of Senior Bonds

If a Credit Provider or Liquidity Provider makes payment of principal of and/or interest on a Senior Bond or advances funds to purchase or provide for the purchase of Senior Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department’s Senior Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Senior Bond issued under the Master Senior Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Senior Bondholder and such Senior Bond will be deemed to have been issued at the time of the original Senior Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Senior Indenture; provided, however, the payment terms of the Senior Bond held by the Credit Provider or Liquidity Provider will be as follows (unless otherwise provided in the Supplemental Senior Indenture pursuant to which the Senior Bonds are issued or in the agreement with the Credit Provider or Liquidity Provider): interest will be due and payable semiannually and principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, (ii)(a) if shorter, a term extending to the maturity date of the enhanced Senior Bonds or (b) if later, the final maturity of the Senior Repayment Obligation under the written agreement, and providing substantially level Senior Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which

would apply to the Senior Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Senior Repayment Obligation. Any amount which comes due on the Senior Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Senior Bond will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of the Senior Bonds and any reserve funds established with respect to the Senior Bonds. This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Senior Indenture. The Senior Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non reimbursement and that such Senior Repayment Obligation is to be afforded the status of a Senior Bond under the Master Senior Indenture.

Obligations Under Qualified Swap; Nonqualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Senior Qualified Swap with respect to a Series of Senior Bonds may be on a parity with the obligation of the Department to make payments with respect to such Series of Senior Bonds and other Senior Bonds under the Master Senior Indenture, except as otherwise provided by in the Master Senior Indenture or a Supplemental Senior Indenture with respect to any Senior Swap Termination Payments. The Department may provide in any Supplemental Senior Indenture that Regularly Scheduled Swap Payments under a Senior Qualified Swap will be secured by a pledge of or lien on the Pledged Revenues on a parity with the Senior Bonds of such Series and all other Senior Bonds, regardless of the principal amount, if any, of the Senior Bonds of such Series remaining Outstanding. The Senior Trustee will take all action consistent with the other provisions hereof as will be requested in writing by the Senior Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Senior Trustee either to exercise the remedies granted in the Master Senior Indenture or to institute any action, suit or proceeding in its own name, the Senior Qualified Swap Provider will provide to the Senior Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Senior Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Senior Qualified Swap, such Senior Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Senior Indenture, constitute an obligation of the Department payable from Pledged Revenues subordinate to its obligations to pay and/or fund the Senior Bonds and any reserve funds established with respect to such Senior Bonds.

Withdrawals from LAX Revenue Account

(a) Subject to the provisions of the Master Senior Indenture, the Department will cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective revenue account within the Airport Revenue Fund. The Department has covenanted and agreed that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Department in the LAX Revenue Account and will, immediately upon receipt thereof, become subject to the lien and pledge of the Master Senior Indenture. The Department has notified the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by the Master Senior Indenture and instructed the Treasurer that all such LAX Revenues, are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Department or the City. If the Treasurer fails to comply with such instructions, the Department will separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board.

Earnings on the various funds and accounts created under any Supplemental Senior Indenture will be deposited as provided in such Supplemental Senior Indenture, except that (i) during the continuation of a Senior

Event of Default earnings on such funds and accounts will be deposited into the Senior Debt Service Funds created under the respective Supplemental Senior Indentures, (ii) earnings on the Senior Construction Funds may, if so provided by Supplemental Senior Indenture, be retained in such Senior Construction Fund, (iii) pursuant to the provisions of the Master Senior Indenture, earnings on the Senior Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Senior Debt Service Reserve Fund may, if so provided by Supplemental Senior Indenture, be retained in such fund.

The sums of Pledged Revenues required by the Master Senior Indenture to be so set aside out of the LAX Revenue Account into the specified accounts will be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. An Authorized Representative will direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this section.

The provisions in the Master Senior Indenture regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and will be so construed.

(b) The amounts of Pledged Revenues credited to the LAX Revenue Account will first be applied as follows and in the order set forth:

FIRST To the payment of amounts required to be deposited in the Senior Debt Service Funds as described in “—Deposits and Withdrawals from the Senior Debt Service Funds” below;

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

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

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

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

FIFTH To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Department pursuant to the Master Senior Indenture;

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

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

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

Notwithstanding the provisions of the Master Senior Indenture, nothing in the Master Senior Indenture will preclude the Department from making the payments described in paragraphs FIRST through SEVENTH above from sources other than Pledged Revenues.

The Department reserves the right to make modifications to the application of funds provided in subsection (c). The Department has covenanted that no such modifications will violate provisions of subsections (a) or (b) above or the provisions of any other contracts or agreements of the Department or any legal requirements otherwise applicable to the use of such moneys.

Deposits and Withdrawals from the Senior Debt Service Funds

Deposits into the Senior Debt Service Funds. So long as any of the Senior Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, as to each Series of Senior Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Senior Trustee for deposit in the Senior Debt Service Funds established in respect of each Series of Outstanding Senior Bonds: (i) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on Senior Bonds of that Series, as it becomes due, will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (ii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Senior Bonds of that Series, will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (iii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Senior Bonds of such Series will be set aside in that Senior Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any Series of Senior Bonds prior to the actual delivery of that Series of Senior Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Senior Bonds, there will be transferred and paid from the LAX Revenue Account to the Senior Debt Service Fund established for that Series of Senior Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Senior Bonds, so that interest due on such Series of Senior Bonds on the first interest payment date to occur after the issuance of such Series of Senior Bonds will be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Senior Bonds, and, if the first principal payment or sinking fund installment of such Series of Senior Bonds is due less than 12 months after the issuance of such Series of Senior Bonds, there will be transferred and paid from the LAX Revenue Account to the Senior Debt Service Fund established for that Series of Senior Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Senior Bonds, so that principal or sinking fund installments of such Series of Senior Bonds due on the first principal payment date to occur after the issuance of such Series of Senior Bonds will be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Senior Bonds. On any day on which the Senior Trustee receives funds from the Treasurer to be used to pay principal of or interest on Senior Bonds, the Senior Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Senior Debt Service Funds for the Series of Senior Bonds for which such payments were made. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from the LAX Revenue Account or otherwise deposited into any Senior Debt Service Fund for any Series of Senior Bonds for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Senior Bonds on the next succeeding Payment Date.

The Department may provide in any Supplemental Senior Indenture that, as to any Series of Senior Bonds Outstanding, any amounts required to be transferred to and paid into a Senior Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Senior Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Senior Indenture, the Department may provide that monies in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Senior Bonds so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Senior Trustee at the principal amount thereof to the next scheduled sinking installment payments on Senior Bonds of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Senior Bonds to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Senior Trustee in writing.

Money set aside and placed in a Senior Debt Service Fund for any Series of Senior Bonds will remain therein until from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Senior Debt Service Fund may be temporarily invested as provided in the Master Senior Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this section to be available in a Senior Debt Service Fund at the time required to meet payments of principal of and interest on Senior Bonds of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Senior Event of Default, such earnings will remain in the Senior Debt Service Funds created under the respective Supplemental Senior Indentures.

Each Senior Debt Service Fund established to pay principal of and interest on any Series of Senior Bonds will be held by the Senior Trustee or any agent of the Senior Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Senior Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Senior Trustee or any agent of the Senior Trustee in the various Senior Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Senior Trustee or such agents as will be provided by Supplemental Senior Indenture.

The moneys in each Senior Debt Service Fund established for any issue or Series will be held in trust and applied as provided herein and in the Supplemental Senior Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Senior Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Senior Bonds of such Series.

Withdrawals From Senior Debt Service Funds. On each Payment Date for any Outstanding Senior Bonds, the Senior Trustee will pay to the Owners of the Senior Bonds of a given Series from the appropriate Senior Debt Service Fund or Senior Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Senior Bonds.

On or before the fifteenth day preceding a mandatory redemption date from sinking installment payments for Term Senior Bonds of a Series of Senior Bonds, the Senior Trustee will transfer from the Senior Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Senior Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Senior Trustee will pay to the Owners of Senior Bonds of such Series from the redemption account for such Series, an amount equal to the amount of interest and the principal amount of Term Senior Bonds of such Series to be mandatorily redeemed on such date.

On each date on which Senior Bonds of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Senior Indenture, the Senior Trustee will pay to the Owners of such Senior Bonds from the redemption account, an amount of interest and principal, and premium, if any, on such Senior Bonds to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Senior Indenture

pursuant to which such Senior Bonds are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposits therein and available for such purpose, is sufficient to pay the redemption price of such Senior Bonds on such redemption date.

The payments made by the Senior Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Senior Debt Service Fund.

All money remaining in a Senior Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Senior Bonds of the Series for which that Senior Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Senior Bonds of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Senior Trustee will, at least 10 Business Days prior to each Payment Date on any Senior Bond, or as otherwise directed in any Supplemental Senior Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Senior Trustee to pay the amount required to be paid on such Payment Date in respect of such Senior Bond, in the event the amount then on deposit in any Senior Debt Service Fund is insufficient to pay the amounts due on any Series of Senior Bonds on such Payment Date. With respect to any Series of Senior Bonds, the Supplemental Senior Indenture under which such Senior Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Senior Indenture will control.

If, on any Payment Date, the Senior Trustee does not have sufficient amounts in the Senior Debt Service Funds (without regard to any amounts which may be available in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) to pay in full with respect to Senior Bonds of all Series all amounts of principal and/or interest due on such date, the Senior Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Senior Reserve Fund or any Senior Debt Service Reserve Fund) as follows: first to the payment of past due interest on Senior Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Senior Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Senior Bonds of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Senior Bonds then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Senior Bonds and, if the amount available will not be sufficient to pay in full all principal on the Senior Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Senior Bonds.

If the Senior Reserve Fund or any Senior Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Senior Bonds secured thereby, then the Department may be required by Supplemental Senior Indenture to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider from Pledged Revenues provided that (a) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Senior Bonds which have become due and payable have been paid in full, (b) the required payments to replenish the Senior Reserve Fund and any Senior Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Senior Reserve Fund or any Senior Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Senior Trustee for such purpose will be allocated among the Senior Reserve Fund and any Senior Debt Service Reserve Fund and the Credit Provider pro rata on the basis of the Outstanding Principal Amount of Senior Bonds secured thereby.

Notwithstanding the foregoing, the Department may, by Supplemental Senior Indenture, provide for different provisions and timing of deposits with the Senior Trustee and different methods of paying principal of or interest on Senior Bonds of any Series depending upon the terms of such Series of Senior Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Senior Debt Service Fund created for the Series of Senior Bonds for which such Credit Facility is provided.

If Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Senior Bonds, the Department may, at its election, pay to the Senior Trustee funds from any available sources with the direction that such funds be deposited into the Senior Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Pledged Revenues and the other security provided in the Granting Clauses of the Master Senior Indenture, secure all Senior Bonds issued under the terms of the Master Senior Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Senior Bonds or Series of Senior Bonds with no obligation to provide such additional security or credit enhancement to other Senior Bonds.

Payment of Principal and Interest

The Department has covenanted and agreed that it will duly and punctually pay or cause to be paid from the Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Senior Bond at the place and on the dates and in the manner set forth the Master Senior Indenture, the Supplemental Senior Indentures and in the Senior Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Senior Indenture and in the Senior Bonds contained, provided that the Department's obligation to make payment of the principal of, premium, if any, and interest on the Senior Bonds will be limited to payment from the Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Senior Indenture and any other source which the Department may specifically provide for such purpose and no Bondholder will have any right to enforce payment from any other funds of the Department.

Subordinated Obligations

The Department may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that:

(1) Any Supplemental Senior Indenture authorizing the issuance of any Subordinated Obligations will specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds; and

(2) Payment of principal of and interest on such Subordinated Obligations will be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

LAX Special Facilities and LAX Special Facility Obligations

The Department is permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this section. The Department may, from time to time, and subject to the terms and conditions set forth below, (1) designate a separately identifiable existing facility or planned facility as an "LAX Special Facility," (2) pursuant to an indenture other than the Senior Indenture and without a pledge of any Pledged Revenues, incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility, (3) provide that the contractual payments derived from such LAX Special Facility, together with other income and revenues available to the Department from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be "LAX Special Facilities Revenue" and not included as Pledged Revenues unless on terms provided in any supplemental indenture, and (4) provide that the debt so incurred will be an "LAX Special Facility Obligation" and the principal of and interest thereon will be payable solely from the LAX Special Facilities Revenue. The Department may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations will be payable as to principal, redemption premium, if any, and interest solely from LAX Special Facilities Revenue, which will include contractual payments derived by the Department under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Department and another person, firm or corporation, either public or private, as will undertake the operation of an LAX Special Facility.

No LAX Special Facility Obligations will be issued by the Department unless there has been filed with the Senior Trustee a certificate of an Authorized Representative stating that:

(1) The estimated LAX Special Facilities Revenue pledged to the payment of obligations relating to the LAX Special Facility will be at least sufficient to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special Facility not paid for by the operator thereof or by a party other than the Department and all sinking fund, reserve or other payments required by the resolution authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an “LAX Special Facility” or “LAX Special Facilities”, the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Senior Event of Default then exists under Master Senior Indenture.

To the extent LAX Special Facilities Revenue received by the Department during any Fiscal Year will exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Department.

Notwithstanding any other provision of this section, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Department from such facility will be included as Pledged Revenues.

Maintenance and Operation of LAX Airport Facilities

Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Subject to the transfer of any LAX Airport Facilities pursuant to the provisions of the Master Senior Indenture, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of Los Angeles International Airport.

Insurance; Application of Insurance Proceeds

Subject, in each case, to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions:

(1) the Department will procure and maintain or cause to be procured and maintained commercial insurance or provide Qualified Self Insurance with respect to the facilities constituting Los Angeles International Airport and public liability insurance in the form of commercial insurance or Qualified Self Insurance and, in each case, in such amounts and against such risks as are, in the judgment of the Department, prudent and reasonable taking into account, but not being controlled by, the amounts and types of insurance or self insured programs provided by similar airports;

(2) the Department will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Financial Officer and on any other employees of the Department who handle or are responsible for funds of the Department; and

(3) the Department will place on file with the Senior Trustee annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Representative containing a summary of all insurance policies and self insured programs then in effect with respect to Los Angeles International Airport and the operations of the Department. The Senior Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required herein or obtained by the Department.

“*Qualified Self Insurance*” will mean insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Department may have a material interest and of which the Department may have control, either singly or with others. Each plan of Qualified Self Insurance will be established in accordance with law, will provide that reserves be established or insurance acquired in amounts adequate to provide coverage which the Department determines to be reasonable to protect against risks assumed under the Qualified Self Insurance plan, including any potential retained liability in the event of the termination of such plan of Qualified Self Insurance, and such self insurance program will be reviewed at least once every 12 months by a Consultant who will deliver to the Department a report on the adequacy of the reserves established thereunder. If the Consultant determines that such reserves are inadequate, he will make a recommendation as to the amount of reserves that should be established and maintained, and the Department will comply with such recommendation unless it can establish to the satisfaction of and receive a certification from a Consultant that a lower amount is reasonable to provide adequate protection to the Department.

If, as a result of any event, any part of an LAX Airport Facility or any LAX Airport Facilities is destroyed or severely damaged, the Department will create within the LAX Revenue Account a special subaccount and will credit the Net Proceeds received as a result of such event of damage or destruction to such subaccount and such Net Proceeds will, within a reasonable period of time taking into account any terms under which insurance proceeds are paid and any insurance restrictions upon the use or timing of the use of insurance proceeds, be used to: (1) repair or replace the LAX Airport Facilities, or portion thereof, which were damaged or destroyed, (2) provide additional revenue producing LAX Airport Facilities, (3) redeem Senior Bonds, or (4) create an escrow fund pledged to pay specified Senior Bonds and thereby cause such Senior Bonds to be deemed to be paid as provided in the Master Senior Indenture; provided, however, that the Department will first deliver to the Senior Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Senior Bonds, the rate covenant set forth in the Master Senior Indenture would, nevertheless, be met.

Transfer of LAX Airport Facility or LAX Airport Facilities.

The Department will not, except as permitted below transfer, sell or otherwise dispose of an LAX Airport Facility or LAX Airport Facilities. For purposes of this section, any transfer of an asset over which the Department retains substantial control in accordance with the terms of such transfer will not, for so long as the Department has such control, be deemed a disposition of an LAX Airport Facility or LAX Airport Facilities.

The Department may transfer, sell or otherwise dispose of LAX Airport Facilities only if such transfer, sale or disposition complies with one or more of the following provisions:

- (a) The property being disposed of is inadequate, obsolete or worn out; or
- (b) The property proposed to be disposed of and all other LAX Airport Facilities disposed of during the 12 month period ending on the day of such transfer (but excluding property disposed of under (a) above), will not, in the aggregate, constitute a Significant Portion, the proceeds are deposited into the LAX Revenue Account to be used as described below and the Department believes that such disposal will not prevent it from fulfilling its obligations under the Senior Indenture; or
- (c) Prior to the disposition of such property, there is delivered to the Senior Trustee a certificate of a Consultant to the effect that notwithstanding such disposition, but taking into account the use of such proceeds in accordance with the expectations of the Department as evidenced by a certificate of an Authorized Representative, the Consultant estimates that Department will be in compliance with the rate covenant set forth in the Master Senior Indenture during each of the five Fiscal Years immediately following such disposition.

LAX Airport Facilities which were financed with the proceeds of obligations the interest on which is then excluded from gross income for federal income tax purposes will not be disposed of, except under the terms of provision (a) above, unless the Department has first received a written opinion of Bond Counsel to the effect that such disposition and the application of any disposition proceeds thereof will not cause the interest on such obligations to become includable in gross income for federal income tax purposes.

No such disposition will be made which would cause the Department to be in default of any other covenant contained in the Master Senior Indenture.

Investments

Moneys held by the Senior Trustee in the funds and accounts created herein and under any Supplemental Senior Indenture will be invested and reinvested as directed by the Department, in Senior Permitted Investments subject to the restrictions set forth in the Master Senior Indenture and such Supplemental Senior Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Senior Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Senior Trustee will, to the extent practicable, invest in Senior Permitted Investments specified in clause (9) of the definition thereof. The Senior Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Senior Permitted Investment is held. The Senior Trustee may buy or sell any Senior Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Senior Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Senior Indenture except for the purposes of payment from moneys or Government Obligations held by the Senior Trustee or a Senior Paying Agent for such purpose. When all Senior Bonds which have been issued under the Master Senior Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Senior Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Senior Trustee, the Senior Registrar and the Senior Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Senior Trustee in and to the Pledged Revenues and the other assets pledged to secure the Senior Bonds under the Master Senior Indenture will thereupon cease, terminate and become void, and thereupon the Senior Trustee will cancel, discharge and release the Master Senior Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence

such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Senior Indenture which may then be in the Senior Trustee's possession, except funds or securities in which such funds are invested and are held by the Senior Trustee or the Senior Paying Agent for the payment of the principal of, premium, if any, and interest on the Senior Bonds.

A Senior Bond will be deemed to be paid within the meaning of the Master Senior Indenture when payment of the principal, interest and premium, if any, either (a) will have been made or caused to be made in accordance with the terms of the Senior Bonds and the Master Senior Indenture or (b) will have been provided for by depositing with the Senior Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Senior Bonds will be deemed to be paid under the Master Senior Indenture, such Senior Bonds will no longer be secured by or entitled to the benefits of the Master Senior Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Senior Bonds. Once such deposit will have been made, the Senior Trustee will notify all holders of the affected Senior Bonds that the deposit required by (b) above has been made with the Senior Trustee and that such Senior Bonds are deemed to have been paid in accordance with the Master Senior Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Senior Indenture under which such Senior Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Senior Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Senior Bonds or the Master Senior Indenture subject to (a) receipt of an approving opinion of nationally recognized Bond Counsel that such action will not adversely affect the tax exemption of any Senior Bond or Senior Bond then outstanding and (b) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Senior Bonds. Notwithstanding anything in this section to the contrary, monies from the trust or escrow established for the defeasance of Senior Bonds may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (a) and (b) above are met prior to or concurrently with any such withdrawal.

Senior Events of Default and Remedies

Senior Events of Default. Each of the following events will constitute and be referred to as a “***Senior Event of Default***”:

- (a) a failure to pay the principal of or premium, if any, on any of the Senior Bonds, except out payments under Senior Qualified Swaps, when the same will become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Senior Bonds when such interest will become due and payable;
- (c) a failure to pay the purchase price of any Senior Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in the Supplemental Senior Indenture;
- (d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Senior Indenture or a Supplemental Senior Indenture, which failure, except for a violation under the rate covenant set forth in the Master Senior Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Senior Trustee, which notice may be given at the discretion of the Senior Trustee and will be given at the written request of holders of 25% or more of the Principal Amount of the Senior Bonds

then Outstanding, unless the Senior Trustee, or the Senior Trustee and holders of Senior Bonds in a Principal Amount not less than the Principal Amount of Senior Bonds the holders of which requested such notice, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Senior Trustee or the Senior Trustee and the holders of such principal amount of Senior Bonds will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 or 11 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Senior Event of Default as is provided in a Supplemental Senior Indenture.

Remedies.

(a) Upon the occurrence and continuance of any Senior Event of Default, the Senior Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Senior Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Senior Bondholders, and require the Department to carry out any agreements with or for the benefit of the Senior Bondholders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of this Indenture;

(ii) bring suit upon the Senior Bonds;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Senior Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Senior Bondholders.

(b) The Senior Trustee will be under no obligation to take any action with respect to any Senior Event of Default unless the Senior Trustee has actual knowledge of the occurrence of such Senior Event of Default.

Senior Bondholders' Right To Direct Proceedings. Anything in the Master Senior Indenture to the contrary notwithstanding, holders of not less than 51% in aggregate Principal Amount of the Senior Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Senior Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Senior Trustee under the Master Senior Indenture to be taken in connection with the enforcement of the terms of the Master Senior Indenture or exercising any trust or power conferred on the Senior Trustee by the Master Senior Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Senior Indenture and that there has been provided to the Senior Trustee security and indemnity satisfactory to the Senior Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Senior Trustee.

Limitation on Right To Institute Proceedings. No Senior Bondholder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power under the

Master Senior Indenture, or any other remedy under the Master Senior Indenture or on such Senior Bonds, unless such Senior Bondholder or Senior Bondholders previously has given to the Senior Trustee written notice of a Senior Event of Default as hereinabove provided and unless also holders of 25% or more of the Principal Amount of the Senior Bonds then Outstanding will have made written request of the Senior Trustee to do so, after the right to institute such suit, action or proceeding under the Master Senior Indenture will have accrued, and will have afforded the Senior Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Senior Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Senior Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Senior Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Senior Bondholders will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Senior Indenture, or to enforce any right under the Master Senior Indenture or under the Senior Bonds, except in the manner provided in the Master Senior Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Senior Indenture and for the equal benefit of all Senior Bondholders.

Application of Moneys. If a Senior Event of Default will occur and be continuing, all amounts then held or any moneys received by the Senior Trustee, by any receiver or by any Senior Bondholder pursuant to any right given or action taken under the provisions of the Master Senior Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Senior Trustee (including attorneys' fees and disbursements), will be applied as follows:

(a) Unless the principal of all the Senior Bonds subject to acceleration have been declared due and payable, all such moneys will be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Senior Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Senior Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Senior Bonds which will have become due with interest on such Senior Bonds at such rate as provided in a Supplemental Senior Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Senior Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Senior Bonds subject to acceleration will have been declared due and payable, all such moneys will be applied to the payment of the principal and interest then due and unpaid upon the Senior Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Bond over any other Senior Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Senior Bonds subject to acceleration will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Master Senior Indenture, then, subject to the provisions of clause (b) above which will be applicable in the event that the principal of all the Senior Bonds will later become due and payable, the moneys will be applied in accordance with the provisions of clause (a) above.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Senior Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Senior Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Senior Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Senior Bondholders and will not be required to make payment to any Senior Bondholder until such Senior Bonds will be presented to the Senior Trustee for appropriate endorsement or for cancellation if fully paid.

The Senior Trustee

Duties. If a Senior Event of Default has occurred and is continuing, the Senior Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Senior Trustee will perform the duties set forth in the Senior Indenture and no implied duties or obligations will be read into the Senior Indenture against the Senior Trustee. Except during the continuance of a Senior Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Senior Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Senior Trustee and conforming to the requirements of the Senior Indenture. However, the Senior Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Senior Indenture.

The Senior Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Senior Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Senior Trustee was negligent in ascertaining the pertinent facts; and (b) the Senior Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Senior Bondholders or the Department in the manner provided in the Senior Indenture.

The Senior Trustee will not, by any provision of the Senior Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (i) a Senior Event of Default has occurred or (ii) an event has occurred which with the giving of notice and/or the lapse of time would be a Senior Event of Default and, with respect to such events for which notice to the Department is required before such events will become Senior Events of Default, such notice has been given, then the Senior Trustee will promptly, after obtaining actual notice of such Senior Event of Default or event described in (ii) above, give notice thereof to each Senior Bondholder. Except in the case of a default in payment or purchase on any Senior Bonds, the Senior Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Senior Bondholders.

Eligibility of Senior Trustee. The Senior Indenture will always have a Senior Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Senior Trustee. The Senior Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The holders of not less than 51% in aggregate Principal Amount of the Senior Bonds may remove the Senior Trustee by notifying the removed

Senior Trustee and may appoint a successor Senior Trustee with the Department's consent. The Department may remove the Senior Trustee, by notice in writing delivered to the Senior Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Senior Trustee during any time when a Senior Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Senior Event of Default.

No resignation or removal of the Senior Trustee will be effective until a new Senior Trustee has taken office and delivered a written acceptance of its appointment to the retiring Senior Trustee and to the Department. Immediately thereafter, the retiring Senior Trustee will transfer all property held by it as Senior Trustee to the successor Senior Trustee, the resignation or removal of the retiring Senior Trustee will then (but only then) become effective and the successor Senior Trustee will have all the rights, powers and duties of the Senior Trustee under the Senior Indenture.

If the Senior Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Senior Indenture, the Department will promptly appoint a successor Senior Trustee.

If a Senior Trustee is not performing its duties under the Senior Indenture and a successor Senior Trustee does not take office within 60 days after the retiring Senior Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Senior Trustee, the Department or the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds may petition any court of competent jurisdiction for the appointment of a successor Senior Trustee.

Amendments and Supplements

Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders. The Department may, from time to time and at any time, without the consent of or notice to the Senior Bondholders, execute and deliver Supplemental Senior Indentures supplementing and/or amending the Master Senior Indenture or any Supplemental Senior Indenture, as follows:

- (a) to provide for the issuance of a Series or multiple Series of Senior Bonds under the provisions of Master Senior Indenture and to set forth the terms of such Senior Bonds and the special provisions which will apply to such Senior Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Senior Indenture or any Supplemental Senior Indenture, provided such supplement or amendment is not materially adverse to the Senior Bondholders;
- (c) to add to the covenants and agreements of the Department in the Master Senior Indenture or any Supplemental Senior Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Senior Bondholders;
- (d) to confirm, as further assurance, any interest of the Senior Trustee in and to the Pledged Revenues or in and to the funds and accounts held by the Senior Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Senior Indenture or to otherwise add additional security for the Senior Bondholders;
- (e) to evidence any change made in the terms of any Series of Senior Bonds if such changes are authorized by the Supplemental Senior Indenture at the time the Series of Senior Bonds is issued and such change is made in accordance with the terms of such Supplemental Senior Indenture;
- (f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended, provided such supplement or amendment is not materially adverse to the Senior Bondholders;

(g) to provide for uncertificated Senior Bonds or for the issuance of coupons and bearer Senior Bonds or Senior Bonds registered only as to principal;

(h) to qualify the Senior Bonds or a Series of Senior Bonds for a rating or ratings by Moody's and/or S&P;

(i) to accommodate the technical, operational and structural features of Senior Bonds which are issued or are proposed to be issued or of a Senior Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Senior Bonds or a specific Series of Senior Bonds, provided such supplement or amendment is not materially adverse to the Senior Bondholders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Senior Bond Counsel, to prevent the federal income taxation of the interest on the Senior Bonds, including, without limitation, the segregation of Pledged Revenues into different funds; or

(l) to modify, alter, amend or supplement this Indenture or any Supplemental Senior Indenture in any other respect which is not materially adverse to the Senior Bondholders.

Before the Department executes, pursuant to this section, any Supplemental Senior Indenture, there will be delivered to the Department and Senior Trustee an opinion of Bond Counsel to the effect that such Supplemental Senior Indenture is authorized or permitted by the Master Senior Indenture, the Charter and, other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Senior Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Senior Indentures Requiring Consent of Senior Bondholders.

(a) Except for any Supplemental Senior Indenture entered into pursuant to the provisions described in “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above and any Supplemental Senior Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this paragraph (a) and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Senior Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Senior Indenture or in a Supplemental Senior Indenture; provided, however, that, unless approved in writing by the holders of all the Senior Bonds then Outstanding or unless such change affects less than all Series of Senior Bonds and the following subsection (b) is applicable, nothing contained in the Master Senior Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Senior Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds or the rate of interest thereon; and provided that nothing contained in the Master Senior Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Senior Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Senior Indenture) upon or pledge of the Pledged Revenues created by the Master Senior Indenture, ranking prior to or on a parity with the claim created by the Master Senior Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Senior Bonds, a preference or priority of any Senior Bond or Senior Bonds over any other Senior Bond or Senior Bonds with respect to the security granted therefor under the Granting Clauses of the Master Senior Indenture, or (v) a reduction in the aggregate Principal Amount of Senior Bonds the consent of the Senior Bondholders of which is required for any such

Supplemental Senior Indenture. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Senior Bondholders of the execution of any Supplemental Senior Indenture as authorized in to “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Senior Indenture which amends the provisions of an earlier Supplemental Senior Indenture under which a Series or multiple Series of Senior Bonds were issued. If such Supplemental Senior Indenture is executed for one of the purposes described under “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above, no notice to or consent of the Senior Bondholders will be required. If such Supplemental Senior Indenture contains provisions which affect the rights and interests of less than all Series of Senior Bonds Outstanding and the provisions described under “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the holders of not less than 51% in aggregate Principal Amount of the Senior Bonds of all Series which are affected by such changes will have the right from time to time to consent to any Supplemental Senior Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Senior Indenture and affecting only the Senior Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Senior Bonds of all the affected Series then Outstanding, nothing contained in the Master Senior Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Senior Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Senior Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Senior Indenture, however, will be construed as making necessary the approval by Senior Bondholders of the adoption of any Supplemental Senior Indenture as authorized pursuant to the provisions as described under “—Supplemental Senior Indentures Not Requiring Consent of Senior Bondholders” above, including the granting, for the benefit of particular Series of Senior Bonds, security in addition to the pledge of the Pledged Revenues.

Rights of Credit Provider

The Master Senior Indenture provides that if a Credit Facility is provided for a Series of Senior Bonds or for specific Senior Bonds, the Department may in the Supplemental Senior Indenture under which such Senior Bonds are issued, provide any or all of the following rights to the Credit Provider as the Department will deem to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Senior Trustee or to otherwise direct proceedings all as provided in the Master Senior Indenture to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds; (b) the right to act in place of the owners of the Senior Bonds which are secured by the Credit Facility for purposes of removing a Senior Trustee or appointing a Senior Trustee under the Senior Indenture; and (c) the right to consent to Supplemental Senior Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Principal Amount of the Outstanding Senior Bonds, entered into pursuant to the provisions described in “—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders” above, except with respect to any amendments described in clauses (a)(i) through (v) and clauses (b)(i) or (ii) described in “—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders” above, which consent of the actual Senior Bondholders will still be required, to the same extent and in place of the owners of the Senior Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Senior Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C-3

SUMMARY OF THE TENTH SUPPLEMENTAL SENIOR INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2009 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Tenth Supplemental Senior Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Tenth Supplemental Senior Indenture.

Terms of the Bonds

The Tenth Supplemental Senior Indenture sets forth the terms of the Series 2009 Senior Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE SERIES 2009 BONDS.”

Establishment of Funds and Accounts

Pursuant to the Tenth Supplemental Senior Indenture the Senior Trustee will establish and maintain the following funds and accounts: the Series 2009A Senior Debt Service Fund (and within the Series 2009A Senior Debt Service Fund an Interest Account, a Principal Account and a Redemption Account), the Series 2009A Senior Construction Fund, the Series 2009A Senior Costs of Issuance Fund, the Series 2009A Senior Reserve Account to be established in the Senior Reserve Fund, and the Series 2009A Senior Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2009 Senior Bonds and from other sources as described in the forepart of this Official Statement under “ESTIMATED SOURCES AND USES OF FUNDS.”

Series 2009A Senior Debt Service Fund. The Senior Trustee will deposit into the Interest Account of the Series 2009A Senior Debt Service Fund a portion of the proceeds of the Series 2009 Senior Bonds representing capitalized interest on the Series 2009 Senior Bonds. Additionally, the Senior Trustee will deposit in the Interest Account of the Series 2009A Senior Debt Service Fund amounts received from the Department, as provided in the Master Senior Indenture, to be used to pay interest on the Series 2009 Senior Bonds. The Senior Trustee will also deposit into the Interest Account of the Series 2009A Senior Debt Service Fund any other amounts deposited with the Senior Trustee for deposit in the Interest Account or transferred from other funds and accounts for deposit therein. Earnings on the Interest Account will be withdrawn and paid to the Department on the Business Day following an Interest Payment Date for deposit into the LAX Revenue Account, unless a Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such account.

The Senior Trustee will deposit into the Principal Account of the Series 2009A Senior Debt Service Fund amounts received from the Department to be used to pay principal of the Series 2009 Senior Bonds at maturity. The Senior Trustee will also deposit into the Principal Account of the Series 2009A Senior Debt Service Fund any other amounts deposited with the Senior Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Account will be withdrawn and paid to the Department on the Business Day following a principal Payment Date for deposit into the LAX Revenue Account, unless a Senior Event of Default exists under the Master Senior Indenture, in which event the earnings will be retained in such account.

The Senior Trustee will deposit into the Redemption Account of the Series 2009A Senior Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on the Series 2009 Senior Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund). Earnings on the Redemption Account will be retained in such account or paid to the Department for deposit into the LAX Revenue Account in accordance with instructions given to the Senior Trustee by an Authorized Representative at the time of such deposit.

The Series 2009A Senior Debt Service Fund will be invested and reinvested in Senior Permitted Investments as directed by an Authorized Representative.

Series 2009A Senior Construction Fund. Amounts in the Series 2009A Senior Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the Series 2009 Project for which the Series 2009 Senior Bonds were issued. While held by the Senior Trustee, amounts in the Series 2009A Senior Construction Fund will not secure the Outstanding Series 2009 Bonds. Amounts in the Series 2009A Senior Construction Fund will be invested and reinvested in Senior Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Series 2009A Senior Costs of Issuance Fund. The proceeds of the Series 2009 Senior Bonds deposited into the Series 2009A Senior Costs of Issuance Fund will be disbursed by the Senior Trustee, from time to time, to pay Costs of Issuance of the Series 2009 Senior Bonds. Amounts in the Series 2009A Senior Costs of Issuance Fund will be invested and reinvested in Senior Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such fund.

Series 2009A Senior Reserve Account. For a description of the Senior Reserve Fund and the Series 2009A Senior Reserve Account, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS—Senior Bonds—Senior Reserve Fund.”

Series 2009A Senior Rebate Fund. The Tenth Supplemental Senior Indenture creates the Series 2009A Senior Rebate Fund for the Series 2009 Senior Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Senior Trustee with respect to the Series 2009 Senior Bonds over the amounts which would have been earned on such funds if such funds earned interest at a rate equal to the yield on the Series 2009 Senior Bonds. Such excess is to be deposited into the Series 2009A Senior Rebate Fund and periodically paid to the United States of America. The Series 2009A Senior Rebate Fund while held by the Senior Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2009 Bonds.

APPENDIX C-4

SUMMARY OF THE MASTER SUBORDINATE INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2009 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Master Subordinate Indenture. Such summary is only a brief description of limited provisions of such document and is qualified in its entirety by reference to the full text of the Master Subordinate Indenture.

Grant to Secure Subordinate Bonds; Pledge of Subordinate Pledged Revenues

To secure the payment of the interest, principal and premium, if any, on the Subordinate Bonds and the performance and observance by the Department of all the covenants, agreements and conditions expressed or implied in the Master Subordinate Indenture or contained in the Subordinate Bonds, the Department has pledged and assigned to the Subordinate Trustee and granted to the Subordinate Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provided that, except with respect to the Parity Subordinate Obligations (which are on parity with the Subordinate Bonds) such lien and security interest will be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Subordinate Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Subordinate Rebate Fund) held from time to time by the Subordinate Trustee under the Subordinate Indenture, and to the extent provided in any Supplemental Subordinate Indenture moneys and securities held in any Subordinate Construction Fund whether or not held by the Subordinate Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause, and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Subordinate Trustee as additional security under the Master Subordinate Indenture, for the equal and proportionate benefit and security of all Subordinate Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, will, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Parity Subordinate Obligation or any Subordinate Bond over any other Parity Subordinate Obligations or Parity Subordinate Obligations or Subordinate Bond or Subordinate Bonds, except as to the timing of payment of the Parity Subordinate Obligations and the Subordinate Bonds. Any Subordinate Debt Service Reserve Fund and any Subordinate Debt Service Reserve Fund Surety Policy, provided at any time in satisfaction of all or a portion of the Subordinate Reserve Requirement and any other security, Liquidity Facility or Credit Facility provided for specific Subordinate Bonds, a specific Series of Subordinate Bonds or one or more Series of Subordinate Bonds may, as provided by a Supplemental Subordinate Indenture, secure only such specific Subordinate Bonds, Series of Subordinate Bonds or one or more Series of Subordinate Bonds and, therefore, will not be included as security for all Subordinate Bonds under the Master Subordinate Indenture unless otherwise provided by a Supplemental Subordinate Indenture and moneys and securities held in trust as provided in the Master Subordinate Indenture exclusively for Subordinate Bonds which have become due and payable and moneys and securities which are held exclusively to pay Subordinate Bonds which are deemed to have been paid under the Master Subordinate Indenture will be held solely for the payment of such specific Subordinate Bonds. All amounts held in the funds and accounts created under the Senior Indenture will not be included as security for any Subordinate Bonds under the Master Subordinate Indenture.

Subordinate Repayment Obligations Afforded Status of Subordinate Bonds

If a Credit Provider or Liquidity Provider makes payment of principal and/or interest on a Subordinate Bond or advances funds to purchase or provide for the purchase of Subordinate Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Department, but is not reimbursed, the Department’s Subordinate Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Subordinate Bond issued under the Master Subordinate Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Holder of such Subordinate Bond, and such Subordinate Bond will be deemed to have been issued at the time of the original Subordinate Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the additional bonds test set forth in the Master Subordinate Indenture; provided, however, the payment terms of the Subordinate Bond held by the

Credit Provider or Liquidity Provider hereunder will be as follows (unless otherwise provided in the Supplemental Subordinate Indenture pursuant to which the Subordinate Bonds are issued or in the agreement with the Credit Provider or Liquidity Provider): (a) interest will be due and payable semiannually and (b) principal will be due and payable not less frequently than annually and in such annual amounts as to amortize the principal amount thereof in (i) 30 years or, if shorter, (ii)(A) a term extending to the maturity date of the enhanced Subordinate Bonds or (B) if later, the final maturity of the Subordinate Repayment Obligation under the written agreement, and providing substantially level annual debt service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Subordinate Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Subordinate Repayment Obligation. Any amount which comes due on the Subordinate Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Bond will be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Bonds and any reserve funds established with respect to Subordinate Bonds (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund). This provision will not defeat or alter the rights of subrogation which any Credit Provider or Liquidity Provider may have under law or under the terms of any Supplemental Subordinate Indenture. The Subordinate Trustee may conclusively rely on a written certification by the Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Subordinate Repayment Obligation is to be afforded the status of a Subordinate Bond under the Master Subordinate Indenture.

Obligations Under Subordinate Qualified Swap; Nonqualified Swap

The obligation of the Department to make Regularly Scheduled Swap Payments under a Subordinate Qualified Swap with respect to a Series of Subordinate Bonds may be on a parity with the obligation of the Department to make payments with respect to such Series of Subordinate Bonds and other Subordinate Bonds under the Master Subordinate Indenture, except as otherwise provided by Supplemental Subordinate Indenture and elsewhere in the Master Subordinate Indenture with respect to any Subordinate Swap Termination Payments. The Department may provide in any Supplemental Subordinate Indenture that Regularly Scheduled Swap Payments under a Subordinate Qualified Swap will be secured by a pledge of or lien on the Subordinate Pledged Revenues on a parity with the Subordinate Bonds of such Series and all other Subordinate Bonds, regardless of the principal amount, if any, of the Subordinate Bonds of such Series remaining Outstanding. The Subordinate Trustee will take all action consistent with the other provisions of the Master Subordinate Indenture as will be requested in writing by the Subordinate Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Department with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence will require the Subordinate Trustee either to exercise the remedies granted in the Master Subordinate Indenture or to institute any action, suit or proceeding in its own name, the Subordinate Qualified Swap Provider will provide to the Subordinate Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

In the event that a Subordinate Swap Termination Payment or any other amounts other than as described in the previous paragraph are due and payable by the Department under a Subordinate Qualified Swap, such Subordinate Swap Termination Payment and any such other amounts will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Bonds and any reserve funds established with respect to Subordinate Bonds (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap will, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund Senior Bonds, any reserve funds established with respect to Senior Bonds (including the Senior Reserve Fund and any Senior Debt Service Reserve Fund), Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations,

Subordinate Bonds and any reserve funds established with respect to Subordinate Bonds (including the Subordinate Reserve Fund and any other Subordinate Debt Service Reserve Fund).

Deposits and Withdrawals from the Subordinate Debt Service Funds

So long as any of the Subordinate Bonds are Outstanding, the Authorized Representative will deliver to the Treasurer, as to each Series of Subordinate Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than the first day of each calendar month, transfer from the LAX Revenue Account to the Subordinate Trustee for deposit in the Subordinate Debt Service Funds established in respect of each Series of Outstanding Subordinate Bonds: (a) sums in equal fractional parts for each one-half year so that at least the full amount required to pay the interest on Subordinate Bonds of that Series, as it becomes due, will be set aside in that Subordinate Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due; (b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Subordinate Bonds of that Series, will be set aside in that Subordinate Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due; and (c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Subordinate Bonds of such Series will be set aside in that Subordinate Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any Series of Subordinate Bonds prior to the actual delivery of that Series of Subordinate Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Subordinate Bonds, there will be transferred and paid from the LAX Revenue Account to the Subordinate Debt Service Fund established for that Series of Subordinate Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Subordinate Bonds, so that interest due on such Series of Subordinate Bonds on the first interest payment date to occur after the issuance of such Series of Subordinate Bonds will be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Subordinate Bonds, and, if the first principal payment or sinking fund installment of such Series of Subordinate Bonds is due less than 12 months after the issuance of such Series of Subordinate Bonds, there will be transferred and paid from the LAX Revenue Account to the Subordinate Debt Service Fund established for that Series of Subordinate Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Subordinate Bonds, so that principal or sinking fund installments of such Series of Subordinate Bonds due on the first principal payment date to occur after the issuance of such Series of Subordinate Bonds will be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Subordinate Bonds. On any day on which the Subordinate Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Bonds, the Subordinate Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Subordinate Debt Service Funds for the Series of Subordinate Bonds for which such payments were made. Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Subordinate Debt Service Fund for any Series of Subordinate Bonds for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Subordinate Bonds on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series of Subordinate Bonds Outstanding, any amounts required to be transferred to and paid into a Subordinate Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Subordinate Debt Service Fund, and in that event any subsequently scheduled monthly transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the redemption account allocable to sinking fund installment payments of a Series may, at the discretion of the Department, be applied to the purchase and cancellation of such Series (a price not greater than par) prior to notice of redemption of such Series. Such Subordinate Bonds so delivered or previously redeemed or purchased at the direction of the Department will be credited by the Subordinate Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Bonds of such Series and any excess over the sinking installment payment deposit required on that date will be credited against future sinking installment

deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Subordinate Bonds to be redeemed by operation of such sinking installment payments will be accordingly modified in such manner as the Department may determine and as specified to the Subordinate Trustee in writing.

Money set aside and placed in a Subordinate Debt Service Fund for any Series of Subordinate Bonds will remain therein from time to time expended for the aforesaid purposes thereof and will not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Subordinate Debt Service Fund may be temporarily invested as provided in the Master Subordinate Indenture, but such investment will not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Subordinate Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Bonds of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of a Subordinate Event of Default, such earnings will remain in the Subordinate Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Subordinate Debt Service Fund established to pay principal of and interest on any Series of Subordinate Bonds will be held by the Subordinate Trustee or any agent of the Subordinate Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Subordinate Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Subordinate Trustee or any agent of the Subordinate Trustee in the various Subordinate Debt Service Funds as requested in writing by the Authorized Representative and will be held by the Subordinate Trustee or such agents as will be provided by the Supplemental Subordinate Indenture.

The moneys in each Subordinate Debt Service Fund established for any issue, Series will be held in trust and applied as provided in the Master Subordinate Indenture and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance with the Master Subordinate Indenture and with the provisions of such Supplemental Subordinate Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Bonds of such Series.

On each Payment Date for any Outstanding Subordinate Bonds, the Subordinate Trustee will pay to the Owners of the Subordinate Bonds of a given Series from the appropriate Subordinate Debt Service Fund or Subordinate Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Subordinate Bonds.

On or before the fifteenth day preceding a mandatory redemption date from sinking installment payments for Term Subordinate Bonds of a Series of Subordinate Bonds, the Subordinate Trustee will transfer from the Subordinate Debt Service Fund to the redemption account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Subordinate Trustee will pay to the Owners of Subordinate Bonds of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Subordinate Bonds of such Series to be mandatorily redeemed on such date.

On each date on which Subordinate Bonds of any Series will otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Subordinate Indenture, the Subordinate Trustee will pay to the Owners of such Subordinate Bonds from the redemption account, an amount of interest and principal, and premium, if any, on such Subordinate Bonds to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Bonds are issued, the Department will have or will have caused to be deposited in the redemption account for such Series, an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Bonds on such redemption date.

The payments made by the Subordinate Trustee in this section will be made solely to the extent that moneys are on deposit in the appropriate Subordinate Debt Service Fund.

All money remaining in a Subordinate Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Bonds of the Series for which that Subordinate Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Bonds of that Series, will be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Subordinate Trustee will, at least 10 Business Days prior to each Payment Date on any Subordinate Bond, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Subordinate Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Bond, in the event the amount then on deposit in any Subordinate Debt Service Fund is insufficient to pay the amounts due on any Series of Subordinate Bonds on such Payment Date. With respect to any Series of Subordinate Bonds, the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Subordinate Indenture will control.

If, on any Payment Date, the Subordinate Trustee does not have sufficient amounts in the Subordinate Debt Service Funds (without regard to any amounts which may be available in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) to pay in full with respect to Subordinate Bonds of all Series all amounts of principal and/or interest due on such date, the Subordinate Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Subordinate Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Subordinate Bonds of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Subordinate Bonds then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Subordinate Bonds and, if the amount available will not be sufficient to pay in full all principal on the Subordinate Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Subordinate Bonds.

If the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Bonds secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Subordinate Bonds which have become due and payable have been paid in full, (b) the required payments to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund or reimburse the Credit Provider will be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Subordinate Reserve Fund or such other Subordinate Debt Service Reserve Fund exceeds the amount available for such purpose, the payments made to the Subordinate Trustee for such purpose will be allocated among the Subordinate Reserve Fund or the various Subordinate Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Bonds secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series of Subordinate Bonds, provide for different provisions and timing of deposits with the Subordinate Trustee and different methods of paying principal of or interest on such Subordinate Bonds depending upon the terms of such Subordinate Bonds and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Subordinate Debt Service Fund created for the Series of Subordinate Bonds for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Bonds, the Department may, at its election, pay to the Subordinate Trustee funds from any available sources with the direction that such funds be deposited into the Subordinate Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Additional Security

The pledge of Subordinate Pledged Revenues and the other security provided in the Granting Clauses of the Master Subordinate Indenture, secure all Subordinate Bonds issued under the terms of the Master Subordinate Indenture on an equal and ratable basis, except as to the timing of such payments. The Department may, however, in its discretion, provide additional security or credit enhancement for specified Subordinate Bonds or Series of Subordinate Bonds with no obligation to provide such additional security or credit enhancement to other Subordinate Bonds.

Payment of Principal and Interest

The Department covenants and agrees that it will duly and punctually pay or cause to be paid from the Subordinate Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Subordinate Bond at the place and on the dates and in the manner set forth herein, and in the Supplemental Subordinate Indentures and in the Subordinate Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements in the Master Subordinate Indenture and in the Subordinate Bonds contained, provided that the Department's obligation to make payments of the principal of, premium, if any, and interest on the Subordinate Bonds will be limited to payment from the Subordinate Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of the Master Subordinate Indenture and any other source which the Department may specifically provide for such purpose and no Holder will have any right to enforce payment from any other funds of the Department.

Junior and Subordinated Obligations

The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Bonds. Such indebtedness will be incurred at such times and upon such terms as the Department will determine, provided that: (a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations will specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Bonds; and (b) payment of principal of and interest on such subordinated obligations will be permitted, provided that all deposits required to be made to the Subordinate Trustee to be used to pay debt service on the Subordinate Bonds or to replenish the Subordinate Reserve Fund or any other Subordinate Debt Service Reserve Fund, if any, are then current in accordance with the Master Subordinate Indenture.

Maintenance and Operation of LAX Airport Facilities

Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department has covenanted that the LAX Airport Facilities will at all times be operated and maintained in good working order and condition and that all lawful orders of any governmental agency or authority having jurisdiction in the premises will be complied with (provided the Department will not be required to comply with any such orders so long as the validity or application thereof will be contested in good faith), and that all licenses and permits necessary to construct or operate any part of the LAX Airport Facilities will be obtained and maintained and that all necessary repairs, improvements and replacements of the LAX Airport Facilities will be made, subject to sound business judgment. Except as otherwise provided in the Master Subordinate Indenture or the Master Senior Indenture with respect to the transfer or disposition of LAX Airport Facilities, the Department will, from time to time, duly pay and discharge, or cause to be paid and discharged, except to the extent the imposition or payment thereof is being contested in good faith by the Department, all taxes (if any), assessments or other governmental charges lawfully imposed upon the LAX Airport Facilities or upon any part thereof, or upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues, when the same will become due, as well as any lawful claim for labor, materials or supplies or other charges which, if unpaid, might by law become a lien or charge upon the LAX Revenues, Pledged Revenues, Net Pledged Revenues or Subordinate Pledged Revenues or LAX Airport Facilities or any part thereof constituting part of the LAX Airport Facilities.

Investments

Moneys held by the Subordinate Trustee in the funds and accounts created in the Master Subordinate Indenture and under any Supplemental Subordinate Indenture will be invested and reinvested as directed by the Department, in Subordinate Permitted Investments subject to the restrictions set forth in the Master Subordinate Indenture and such Supplemental Subordinate Indenture and subject to the investment restrictions imposed upon the Department by the Charter and the laws of the State. The Department will direct such investments by written certificate (upon which the Subordinate Trustee may conclusively rely) of an Authorized Representative or by telephone instruction followed by prompt written confirmation by an Authorized Representative; in the absence of any such instructions, the Subordinate Trustee will, to the extent practicable, invest in Subordinate Permitted Investments specified in (i) of the definition thereof.

The Subordinate Trustee will not be liable for any loss resulting from following the written directions of the Department or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Subordinate Permitted Investment is held.

The Subordinate Trustee may buy or sell any Subordinate Permitted Investment through its own (or any of its affiliates) investment department.

Defeasance

Subordinate Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture except for the purposes of payment from moneys or Government Obligations held by the Subordinate Trustee or a Subordinate Paying Agent for such purpose. When all Subordinate Bonds which have been issued under the Master Subordinate Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master Subordinate Indenture by the Department, including all necessary and proper fees, compensation and expenses of the Subordinate Trustee, the Subordinate Registrar and the Subordinate Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues and the other assets pledged to secure the Subordinate Bonds under the Master Subordinate Indenture will thereupon cease, terminate and become void, and thereupon the Subordinate Trustee will cancel, discharge and release the Master Subordinate Indenture, will execute, acknowledge and deliver to the Department such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Department any property and revenues at the time subject to the Master Subordinate Indenture which may then be in the Subordinate Trustee's possession, except funds or securities in which such funds are invested and are held by the Subordinate Trustee or the Subordinate Paying Agent for the payment of the principal of, premium, if any, and interest on the Subordinate Bonds.

A Subordinate Bond will be deemed to be paid within the meaning of the Master Subordinate Indenture when payment of the principal, interest and premium, if any, either (a) has been made or caused to be made in accordance with the terms of the Subordinate Bonds and the Master Subordinate Indenture or (b) has been provided for by depositing with the Subordinate Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Subordinate Bonds will be deemed to be paid under the Master Subordinate Indenture, such Subordinate Bonds will no longer be secured by or entitled to the benefits of the Master Subordinate Indenture, except for the purposes of payment from such moneys or Government Obligations.

Any deposit under clause (b) of the foregoing paragraph will be deemed a payment of such Subordinate Bonds. Once such deposit has been made, the Subordinate Trustee will notify all Holders of the affected Subordinate Bonds that the deposit required by (b) above has been made with the Subordinate Trustee and that such Subordinate Bonds are deemed to have been paid in accordance with the Master Subordinate Indenture. No notice of redemption will be required at the time of such defeasance or prior to such date as may be required by the Supplemental Subordinate Indenture under which such Subordinate Bonds were issued. The Department may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Subordinate Indenture

under which such Subordinate Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Subordinate Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Subordinate Bonds or the Master Subordinate Indenture subject to (i) receipt of an approving opinion of Bond Counsel that such action will not adversely affect the tax-exemption of any Subordinate Bond or Subordinate Bonds then Outstanding and (ii) receipt of an approving opinion of a nationally recognized accounting firm that there are sufficient moneys and/or Government Obligations to provide for the payment of such Subordinate Bonds. Notwithstanding anything in this section to the contrary, moneys from the trust or escrow established for the defeasance of Subordinate Bonds may be withdrawn and delivered to the Department so long as the requirements of subparagraphs (i) and (ii) above are met prior to or concurrently with any such withdrawal.

Subordinate Events of Default and Remedies

Subordinate Events of Default. Each of the following events will constitute and is referred to as a “*Subordinate Event of Default*”:

(a) a failure to pay the principal of or premium, if any, on any of the Subordinate Bonds, except termination payments under Subordinate Qualified Swaps, when the same will become due and payable at maturity or upon redemption;

(b) a failure to pay any installment of interest on any of the Subordinate Bonds when such interest will become due and payable;

(c) failure to pay the purchase price of any Subordinate Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in a Supplemental Subordinate Indenture;

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) above) that are to be observed or performed by the Department and which are contained in the Master Subordinate Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under the rate covenant set forth in the Master Subordinate Indenture which will be controlled by the provisions set forth therein, will continue for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, will have been given to the Department by the Subordinate Trustee, which notice may be given at the discretion of the Subordinate Trustee and will be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Bonds then Outstanding, unless the Subordinate Trustee, or the Subordinate Trustee and the Holders of Subordinate Bonds in a Principal Amount not less than the Principal Amount of Subordinate Bonds the Holders of which requested such notice, agree in writing to an extension of such period prior to its expiration; provided, however, that the Subordinate Trustee or the Subordinate Trustee and the Holders of such principal amount of Subordinate Bonds will be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of the United States Bankruptcy Code (as the same may from time to time be hereafter amended), or other proceedings for relief under any federal or state bankruptcy law or similar law for the relief of debtors are instituted by or against the Department and, if instituted against the Department, said proceedings are consented to or are not dismissed within 60 days after such institution;

(f) the occurrence of any other Subordinate Event of Default as is provided in a Supplemental Subordinate Indenture; or

(g) a default in the payment of principal of or interest on any Senior Bonds or Parity Subordinate Obligations.

Remedies.

(a) Upon the occurrence and continuance of any Subordinate Event of Default, the Subordinate Trustee in its discretion may, and upon the written direction of the Holders of 25% or more of the Principal Amount of the Subordinate Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Subordinate Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Subordinate Holders, and require the Department to carry out any agreements with or for the benefit of the Subordinate Holders and to perform its or their duties under the Charter or any other law to which it is subject and this Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Subordinate Indenture;

(ii) bring suit upon the Subordinate Bonds;

(iii) commence an action or suit in equity to require the Department to account as if it were the trustee of an express trust for the Subordinate Holders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Subordinate Holders.

(b) The Subordinate Trustee will be under no obligation to take any action with respect to any Subordinate Event of Default unless the Subordinate Trustee has actual knowledge of the occurrence of such Subordinate Event of Default.

(c) In no event, upon the occurrence and continuation of an Subordinate Event of Default, will the Subordinate Trustee, the Subordinate Holders, a Subordinate Credit Provider or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Bonds Outstanding.

Holdings' Right To Direct Proceedings. Anything in the Master Subordinate Indenture to the contrary notwithstanding, Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Subordinate Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Subordinate Trustee under the Master Subordinate Indenture to be taken in connection with the enforcement of the terms of the Master Subordinate Indenture or exercising any trust or power conferred on the Subordinate Trustee by the Master Subordinate Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Subordinate Indenture and that there will have been provided to the Subordinate Trustee security and indemnity satisfactory to the Subordinate Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Subordinate Trustee.

Limitation on Right To Institute Proceedings. No Subordinate Holder will have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy under the Master Subordinate Indenture or on such Subordinate Bonds, unless such Subordinate Holder or Holders previously has given to the Subordinate Trustee written notice of a Subordinate Event of Default as hereinabove provided and unless also Holders of 25% or more of the Principal Amount of the Subordinate Bonds then Outstanding has made written request of the Subordinate Trustee to do so, after the right to institute such suit, action or proceeding under the Master Subordinate Indenture will have accrued, and will have afforded the Subordinate Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Subordinate Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Subordinate Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Subordinate Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Subordinate Holders will have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of the Master Subordinate

Indenture, or to enforce any right under the Master Subordinate Indenture or under the Subordinate Bonds, except in the manner provided in the Master Subordinate Indenture, and that all suits, actions and proceedings at law or in equity will be instituted, had and maintained in the manner provided in the Master Subordinate Indenture and for the equal benefit of all Subordinate Holders.

Application of Moneys. If a Subordinate Event of Default will occur and be continuing, all amounts then held or any moneys received by the Subordinate Trustee, by any receiver or by any Subordinate Holder pursuant to any right given or action taken under the provisions of the Master Subordinate Indenture (which will not include moneys provided through a Credit Facility, which moneys will be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Subordinate Trustee (including attorneys' fees and disbursements), will be applied as follows: (a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Subordinate Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Subordinate Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available will not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (b) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Subordinate Bonds which have become due with interest on such Subordinate Bonds at such rate as provided in a Supplemental Subordinate Indenture from the respective dates upon which they became due and, if the amount available will not be sufficient to pay in full Subordinate Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

Whenever moneys are to be applied pursuant to the provisions of this section, such moneys will be applied at such times, and from time to time, as the Subordinate Trustee will determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Subordinate Trustee will apply such funds, it will fix the date (which will be an interest Payment Date unless it will deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date will cease to accrue. The Subordinate Trustee will give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Subordinate Holders and will not be required to make payment to any Subordinate Holder until such Subordinate Bonds will be presented to the Subordinate Trustee for appropriate endorsement or for cancellation if fully paid.

The Subordinate Trustee

Duties. If a Subordinate Event of Default has occurred and is continuing, the Subordinate Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Subordinate Trustee will perform the duties set forth in the Subordinate Indenture and no implied duties or obligations will be read into the Subordinate Indenture against the Subordinate Trustee. Except during the continuance of a Subordinate Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Subordinate Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Subordinate Trustee and conforming to the requirements of the Master Subordinate Indenture. However, the Subordinate Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Subordinate Indenture.

The Subordinate Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Subordinate Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Subordinate Trustee was negligent in ascertaining the pertinent facts; and (b) the Subordinate Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Subordinate Holders or the Department in the manner provided in the Master Subordinate Indenture.

The Subordinate Trustee will not, by any provision of the Master Subordinate Indenture, be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under

the Master Subordinate Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Notice of Defaults. If (a) a Subordinate Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be a Subordinate Event of Default and, with respect to such events for which notice to the Department is required before such events will become Subordinate Events of Default, such notice has been given, then the Subordinate Trustee will promptly, after obtaining actual notice of such Subordinate Event of Default or event described in (b) above, give notice thereof to each Subordinate Holder. Except in the case of a default in payment or purchase on any Subordinate Bonds, the Subordinate Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Subordinate Holders.

Eligibility of Subordinate Trustee. The Master Subordinate Indenture will always have a Subordinate Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

Replacement of Subordinate Trustee. The Subordinate Trustee may resign by notifying the Department in writing prior to the proposed effective date of the resignation. The Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may remove the Subordinate Trustee by notifying the removed Subordinate Trustee and may appoint a successor Subordinate Trustee with the Department's consent. The Department may remove the Subordinate Trustee, by notice in writing delivered to the Subordinate Trustee at least 60 days prior to the proposed removal date; provided, however, that the Department will have no right to remove the Subordinate Trustee during any time when a Subordinate Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be a Subordinate Event of Default.

No resignation or removal of the Subordinate Trustee will be effective until a new Subordinate Trustee has taken office and delivered a written acceptance of its appointment to the retiring Subordinate Trustee and to the Department. Immediately thereafter, the retiring Subordinate Trustee will transfer all property held by it as Subordinate Trustee to the successor Subordinate Trustee, the resignation or removal of the retiring Subordinate Trustee will then (but only then) become effective and the successor Subordinate Trustee will have all the rights, powers and duties of the Subordinate Trustee under the Subordinate Indenture.

If the Subordinate Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Subordinate Indenture, the Department will promptly appoint a successor Subordinate Trustee.

If a Subordinate Trustee is not performing its duties under the Subordinate Indenture and a successor Subordinate Trustee does not take office within 60 days after the retiring Subordinate Trustee delivers notice of resignation or the Department delivers notice of removal, the retiring Subordinate Trustee, the Department or the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Obligations may petition any court of competent jurisdiction for the appointment of a successor Subordinate Trustee.

Amendments and Supplements

Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders. The Department may, from time to time and at any time, without the consent of or notice to the Subordinate Holders, execute and deliver Supplemental Subordinate Indentures supplementing and/or amending the Master Subordinate Indenture or any Supplemental Subordinate Indenture, as follows:

- (a) to provide for the issuance of a Series or multiple Series of Subordinate Bonds under the provisions of the Master Subordinate Indenture and to set forth the terms of such Subordinate Bonds and the special provisions which will apply to such Subordinate Bonds;

(b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Subordinate Indenture or any Supplemental Subordinate Indenture, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(c) to add to the covenants and agreements of the Department in the Master Subordinate Indenture or any Supplemental Subordinate Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Department, provided such supplement or amendment will not adversely affect the interests of the Subordinate Holders;

(d) to confirm, as further assurance, any interest of the Subordinate Trustee in and to the pledge of Subordinate Pledged Revenues or in and to the funds and accounts held by the Subordinate Trustee or in and to any other moneys, securities or funds of the Department provided pursuant to the Master Subordinate Indenture or to otherwise add additional security for the Subordinate Holders;

(e) to evidence any change made in the terms of any Series of Subordinate Bonds if such changes are authorized by a Supplemental Subordinate Indenture at the time the Series of Subordinate Bonds is issued and such change is made in accordance with the terms of such Supplemental Subordinate Indenture;

(f) to comply with the requirements of the Trust Indenture Act of 1939, as amended from time to time, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(g) to provide for uncertificated Subordinate Obligations or for the issuance of coupons and bearer Subordinate Bonds or Subordinate Bonds registered only as to principal;

(h) to qualify the Subordinate Bonds or a Series of Subordinate Bonds for a rating or ratings from a Rating Agency;

(i) to accommodate the technical, operational and structural features of Subordinate Bonds which are issued or are proposed to be issued or of a Subordinate Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds, swaps or other forms of indebtedness which the Department from time to time deems appropriate to incur;

(j) to accommodate the use of a Credit Facility or Liquidity Facility for specific Subordinate Bonds or a specific Series of Subordinate Bonds, provided such supplement or amendment is not materially adverse to the Subordinate Holders;

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Bonds, including, without limitation, the segregation of Pledged Revenues and Subordinate Pledged Revenues into different funds; and

(l) to modify, alter, amend or supplement the Master Subordinate Indenture or any Supplemental Subordinate Indenture in any other respect which is not materially adverse to the Subordinate Holders.

Before the Department executes, pursuant to this section, any Supplemental Subordinate Indenture, there will be delivered to the Department and Subordinate Trustee an opinion of Bond Counsel to the effect that such Supplemental Subordinate Indenture is authorized or permitted by the Master Subordinate Indenture, the Act and other applicable law, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Department in accordance with its terms and will not cause interest on any of the Subordinate Bonds which is then excluded from gross income of the recipient thereof for federal income tax purposes to be included in gross income for federal income tax purposes.

Supplemental Subordinate Indentures Requiring Consent of Subordinate Bondholders.

(a) Except for any Supplemental Subordinate Indenture entered into pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above and any Supplemental Subordinate Indenture entered into pursuant to (b) below, subject to the terms and provisions contained in this section and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Department of any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Subordinate Indenture or in a Supplemental Subordinate Indenture; provided, however, that, unless approved in writing by the Holders of all the Subordinate Bonds then Outstanding or unless such change affects less than all Series of Subordinate Bonds and the following subsection (b) is applicable, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Bonds or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Bonds or the rate of interest thereon; and provided that nothing contained in the Master Subordinate Indenture, including the provisions of (b) below, will, unless approved in writing by the holders of all the Subordinate Bonds then Outstanding, permit or be construed as permitting (iii) the creation of a lien (except as expressly permitted by the Master Subordinate Indenture) upon or pledge of the Subordinate Pledged Revenues created by the Master Subordinate Indenture, ranking prior to or on a parity with the claim created by the Master Subordinate Indenture, (iv) except with respect to additional security which may be provided for a particular Series of Subordinate Bonds, a preference or priority of any Subordinate Bond or Subordinate Bonds over any other Subordinate Bond or Subordinate Bonds with respect to the security granted therefor under the Granting Clauses of the Master Subordinate Indenture, or (v) a reduction in the aggregate Principal Amount of Subordinate Bonds the consent of the Subordinate Holders of which is required for any such Supplemental Subordinate Indenture. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Subordinate Holders of the execution of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above, including the granting, for the benefit of particular Series of Subordinate Bonds, security in addition to the pledge of the Subordinate Pledged Revenues.

(b) The Department may, from time to time and at any time, execute a Supplemental Subordinate Indenture which amends the provisions of an earlier Supplemental Subordinate Indenture under which a Series or multiple Series of Subordinate Bonds were issued. If such Supplemental Subordinate Indenture is executed for one of the purposes described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above, no notice to or consent of the Subordinate Holders will be required. If such Supplemental Subordinate Indenture contains provisions which affect the rights and interests of less than all Series of Subordinate Bonds Outstanding and the provisions described under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” are not applicable, then this subsection (b) rather than subsection (a) above will control and, subject to the terms and provisions contained in this subsection (b) and not otherwise, the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds of all Series of Subordinate Bonds Outstanding which are affected by such changes will have the right from time to time to consent to any Supplemental Subordinate Indenture deemed necessary or desirable by the Department for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Subordinate Indenture and affecting only the Subordinate Bonds of such Series; provided, however, that, unless approved in writing by the Holders of all the Subordinate Bonds of all the affected Series then Outstanding, nothing contained in the Master Subordinate Indenture will permit, or be construed as permitting, (i) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Subordinate Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Subordinate Bonds of such Series or the rate of interest thereon. Nothing contained in the Master Subordinate Indenture, however, will be construed as making necessary the approval by Holders of the adoption of any Supplemental Subordinate Indenture as authorized pursuant to the provisions described

under “—Supplemental Subordinate Indentures Not Requiring Consent of Subordinate Bondholders” above, including the granting, for the benefit of particular Series of Subordinate Bonds, security in addition to the pledge of the Subordinate Pledged Revenues.

Amendments to the Senior Indenture

The Holders of the Subordinate Bonds have no right to consent to or reject any amendments to the Senior Indenture that require the consent of the holders of the Senior Bonds (as described under “APPENDIX C-2—SUMMARY OF THE MASTER SENIOR INDENTURE—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders”), except for amendments to the flow of funds that require the consent of the holders of the Senior Bonds (as described under “APPENDIX C-2—SUMMARY OF THE MASTER SENIOR INDENTURE—Amendments and Supplements—Supplemental Senior Indentures Requiring Consent of Senior Bondholders”).

Rights of Credit Provider

The Master Subordinate Indenture provides that if a Credit Facility is provided for a Series of Subordinate Bonds or for specific Subordinate Bonds, the Department may in the Supplemental Subordinate Indenture under which such Subordinate Bonds are issued, provide any or all of the following rights to the Credit Provider as the Department deems to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Subordinate Trustee or to otherwise direct proceedings all as provided in the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Subordinate Bonds; (b) the right to act in place of the owners of the Subordinate Bonds which are secured by the Credit Facility for purposes of removing a Subordinate Trustee or appointing a Subordinate Trustee under the Subordinate Indenture; and (c) the right to consent to Supplemental Subordinate Indentures, which would otherwise require the consent of the Holders of not less than 51% in aggregate Principal Amount of the Subordinate Bonds, entered into pursuant to the provisions set forth under the caption “—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Subordinate Bondholders” above, except with respect to any amendments described in subsections (a)(i) through (iv) and (b)(i) or (ii) under the caption “—Amendments and Supplements—Supplemental Subordinate Indentures Requiring Consent of Subordinate Bondholders” above, which consent of the actual Subordinate Holders will still be required, of the Master Subordinate Indenture to the same extent and in place of the owners of the Subordinate Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Holder of such Subordinate Bonds.

APPENDIX C-5

SUMMARY OF THE FIFTH SUPPLEMENTAL SUBORDINATE INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2009 BONDS” and “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS” in the forepart of this Official Statement, the following is a summary of certain provisions of the Fifth 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 Fifth Supplemental Subordinate Indenture.

Terms of the Bonds

The Fifth Supplemental Subordinate Indenture sets forth the terms of the Series 2009 Subordinate Bonds, most of which terms are described in the forepart of this Official Statement under “DESCRIPTION OF THE SERIES 2009 BONDS.”

Establishment of Funds and Accounts

Pursuant to the Fifth Supplemental Subordinate Indenture the Subordinate Trustee will establish and maintain the following funds and accounts: the Series 2009C Subordinate Debt Service Fund, the Series 2009D Subordinate Debt Service Fund and the Series 2009E Subordinate Debt Service Fund (and within each such Subordinate Debt Service Fund, as applicable, an Interest Account, a Principal Account and a Redemption Account), the Series 2009C Subordinate Construction Fund, the Series 2009D Subordinate Construction Fund, the Series 2009 Subordinate Costs of Issuance Fund, the Series 2009C Subordinate Reserve Account and the Series 2009D/E Subordinate Reserve Account to be established in the Subordinate Reserve Fund, the Series 2009C Subordinate Rebate Fund and the Series 2009D/E Subordinate Rebate Fund.

Certain of the funds and accounts will be initially funded with the proceeds of the Series 2009 Subordinate Bonds and from other sources as described in the forepart of this Official Statement under “ESTIMATED SOURCES AND USES OF FUNDS.”

Series 2009 Subordinate Debt Service Funds. The Subordinate Trustee will deposit into the Interest Accounts of the Series 2009C Subordinate Debt Service Fund and the Series 2009D Subordinate Debt Service Fund a portion of the proceeds of the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, respectively, representing capitalized interest on the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds. Additionally, the Subordinate Trustee will deposit in the Interest Accounts of the Series 2009C Subordinate Debt Service Fund, the Series 2009D Subordinate Debt Service Fund and the Series 2009E Subordinate Debt Service Fund amounts received from the Department, as provided in the Master Subordinate Indenture, to be used to pay interest on the respective Series of Series 2009 Subordinate Bonds. The Subordinate Trustee will also deposit into the respective Interest Accounts of the Series 2009 Subordinate Debt Service Funds any other amounts deposited with the Subordinate Trustee for deposit in the respective Interest Accounts or transferred from other funds and accounts for deposit therein. Earnings on the respective Interest Accounts will be withdrawn and paid to the Department on the Business Day following an Interest Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such accounts.

The Subordinate Trustee will deposit into the Principal Accounts of the Series 2009C Subordinate Debt Service Fund, the Series 2009D Subordinate Debt Service Fund and the Series 2009E Subordinate Debt Service Fund amounts received from the Department to be used to pay principal of the respective Series of Series 2009 Subordinate Bonds at maturity. The Subordinate Trustee will also deposit into the Principal Accounts of the Series 2009C Subordinate Debt Service Fund, the Series 2009D Subordinate Debt Service Fund and the Series 2009E Subordinate Debt Service Fund any other amounts deposited with the Subordinate Trustee for deposit into the respective Principal Accounts or transferred from other funds and accounts for deposit therein. Earnings on the respective Principal Accounts will be withdrawn and paid to the Department on the Business Day following an principal Payment Date for deposit into the LAX Revenue Account, unless a Subordinate Event of Default exists under the Master Subordinate Indenture, in which event the earnings will be retained in such accounts.

The Subordinate Trustee will deposit into the Redemption Account of the Series 2009C Subordinate Debt Service Fund amounts received from the Department or from other sources to be used to pay principal of, interest on and premium, if any on the Series 2009C Subordinate Bonds which are to be redeemed in advance of their maturity (except redemptions occurring as a result of the operation of the mandatory sinking fund). Earnings on the Redemption Account will be retained in such 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 2009C Subordinate Debt Service Fund, the Series 2009D Subordinate Debt Service Fund and the Series 2009E Subordinate Debt Service Fund will be invested and reinvested in Subordinate Permitted Investments as directed by an Authorized Representative.

Series 2009 Subordinate Construction Funds. Amounts in the Series 2009C Subordinate Construction Fund and the Series 2009D Subordinate Construction Fund will be disbursed from time to time, upon requisition of the Department, to pay the costs or to reimburse the Department for costs incurred in connection with the portion of the Series 2009 Project for which the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds were issued. While held by the Subordinate Trustee, amounts in the Series 2009C Subordinate Construction Fund and the Series 2009D Subordinate Construction Fund will not secure the Outstanding Series 2009 Bonds. Amounts in the Series 2009C Subordinate Construction Fund and the Series 2009D Subordinate Construction Fund will be invested and reinvested in Subordinate Permitted Investments as directed by the Department and the earnings upon such accounts will be credited to such funds.

Series 2009 Subordinate Costs of Issuance Fund. The proceeds of the Series 2009 Subordinate Bonds deposited into the Series 2009 Subordinate Costs of Issuance Fund will be disbursed by the Subordinate Trustee, from time to time, to pay Costs of Issuance of the Series 2009 Subordinate Bonds. Amounts in the Series 2009 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, Series 2009C Subordinate Reserve Account and Series 2009D/E Subordinate Reserve Account. For a description of the Subordinate Reserve Fund, reference is made to the Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2009 BONDS—Subordinate Obligations—Subordinate Reserve Fund.”

Series 2009C Subordinate Rebate Fund. The Fifth Supplemental Subordinate Indenture creates the Series 2009C Subordinate Rebate Fund for the Series 2009C 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 2009C 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 2009C Subordinate Bonds. Such excess is to be deposited into the Series 2009C Subordinate Rebate Fund and periodically paid to the United States of America. The Series 2009C 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 2009 Bonds.

Series 2009D/E Subordinate Rebate Fund. The Fifth Supplemental Subordinate Indenture creates the Series 2009D/E Subordinate Rebate Fund for the Series 2009D Subordinate Bonds and the Series 2009E 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 2009D Subordinate Bonds and the Series 2009E 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 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds. Such excess is to be deposited into the Series 2009D/E Subordinate Rebate Fund and periodically paid to the United States of America. The Series 2009D/E 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 2009 Bonds.

APPENDIX D-1

AMENDMENTS TO THE MASTER SENIOR INDENTURE

FIFTY-ONE PERCENT MASTER SENIOR INDENTURE AMENDMENTS

The Fifty-One Percent Master Senior Indenture Amendments will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Senior Bonds Outstanding and the consent of the CP Banks and BNP (the “Fifty-One Percent Master Senior Indenture Consent Requirement”). By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Senior Indenture Amendments. At the time of issuance of the Series 2008 Senior Bonds, the owners of more than 51% in aggregate principal amount of all of the Senior Bonds Outstanding will have consented to the Fifty-One Percent Master Senior Indenture Amendments. However, the Department will not receive the consents of the CP Banks or BNP to the Fifty-One Percent Master Senior Indenture Amendments (except BNP will consent to the amendments to Section 5.07 of the Master Senior Indenture) at the time of issuance of the Series 2008 Senior Bonds. At this time there can be no assurance that the Fifty-One Percent Master Senior Indenture Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Senior Indenture” in the forefront of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) Subparagraph (iv) of the definition of “Aggregate Annual Debt Service”

(iv) if any Outstanding Bonds (including Program Bonds then issued and Outstanding) or any Bonds which are then proposed to be issued constitute Tender Indebtedness (~~but excluding Program Bonds or Bonds as to which a Qualified Swap is in effect and to which subsection (vi) or (viii) applies~~), then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if **(a)** the principal amount of such Bonds were to be amortized over a term of not more than 30 years commencing in the year in which such Series is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued, **provided, however, notwithstanding the previous provisions of this clause (a), any principal amortization schedule set forth in a Supplemental Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) shall be applied to determine the principal amortization of such Bonds;** **(b)** the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and **(c)** with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in (i) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (v) or (vi) below, as appropriate;

(b) Subparagraph (v) of the definition of “Aggregate Annual Debt Service”

(v) if any Outstanding Bonds constitute Variable Rate Indebtedness, **including obligations described in subsection (viii)(b) to the extent it applies** (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Tender Indebtedness or subsection ~~(vi-viii)~~(a) relating to Synthetic Fixed Rate ~~Indebtedness or (viii) relating to Qualified Swaps~~ Debt applies), the interest rate ~~on~~ **used for such Bonds computation** shall be the average rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the ~~12 months~~ **last week of the month** preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for ~~such~~ **fixed-rate** Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(c) Subparagraph (viii) of the definition of “Aggregate Annual Debt Service”

(viii) (a) for purposes of computing the **Aggregate** Annual Debt Service of Bonds which constitute Synthetic Fixed Rate Debt, the interest payable thereon **shall, if the Board elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Board does not elect such rate, then it** shall be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate ~~as implied by the terms of the Swap Agreement or the net interest rate payable pursuant to offsetting indices, as applicable~~ **determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;**

(b) for purposes of computing ~~the~~ **Aggregate** Annual Debt Service ~~on all other of~~ Bonds with respect to which a Qualified Swap is in effect, such Qualified Swap shall be marked to market (that is, treated as if it were being closed out with an at the market bid) at the time of such calculation and the putative gain or loss thereon under the terms and conditions of the agreement creating such Qualified Swap shall be treated as amortized over the remaining term of the Qualified Swap and the annualized gain or loss payment thereunder shall be added to or subtracted from Annual Debt Service for such Bonds **Swap has been entered into whereby the Board has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Bonds to which such Swap pertains shall be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Bonds shall be the sum of that rate as determined in accordance with subsection (v) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;**

(d) Subparagraph (ix) of the definition of “Aggregate Annual Debt Service”

(ix) if moneys ~~or~~ Permitted Investments **or any other amounts not included in Pledged Revenues have been used to pay or** have been irrevocably deposited with and are held by the Trustee or another fiduciary **to pay** or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments, **other amounts not included in Pledged**

Revenues or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating Aggregate Annual Debt Service; ~~and~~

- (e) Subparagraph (xi) of the definition of “Aggregate Annual Debt Service”

(xi) if Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys not included in Pledged Revenues or from earnings thereon shall be disregarded (unless such Passenger Facility Charges, Customer Facility Charges, state and/or federal grants or other moneys are included in the definition of Pledged Revenues) and not included in calculating Aggregate Annual Debt Service.

- (f) The definition of “Authorized Amount”

“Authorized Amount” shall mean, when used with respect to Bonds, including Program Bonds, the maximum Principal Amount of Bonds which is then authorized by a resolution or Supplemental Indenture adopted by the Board pursuant to Section 2.09 hereof to be Outstanding at any one time under the terms of such Program or Supplemental Indenture. If the maximum Principal Amount of Bonds or Program Bonds authorized by a preliminary resolution or form of Supplemental Indenture approved by the Board pursuant to Section 2.09 of this Indenture exceeds the maximum Principal Amount of Bonds set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Indenture executed and delivered by the Board pursuant to which such Bonds are issued or such Program is established, the Principal Amount of such Bonds or Program Bonds as is set forth in said final resolution of sale or in the definitive Supplemental Indenture as executed and delivered by the Board shall be deemed to be the “Authorized Amount.” Notwithstanding the provisions of this definition of “Authorized Amount,” in connection with Section 2.11(a) and (b) and the calculation of Maximum Aggregate Annual Debt Service and Aggregate Annual Debt Service with respect to a Commercial Paper Program, “Authorized Amount” shall mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.

- (g) The definition of “Costs” or “Costs of a Project”

“Costs” or “Costs of a Project” shall mean all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and shall include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, the Reserve Fund, any Debt Service Reserve Fund (other than the Reserve Fund), Trustee’s fees and expenses; (6) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series

of Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. **Costs of a Project shall also include the acquisition or refunding of outstanding revenue bonds and obligations of the Department, RAIC bonds and California Statewide Communities Development Authority bonds, including any financing costs with respect thereto.**

- (h) The definition of “Customer Facility Charge”

“Customer Facility Charges” shall mean all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

- (i) The definition of “Debt Service Reserve Fund Surety Policy”

“Debt Service Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit (other than a Reserve Fund Surety Policy) deposited with the Trustee for the credit of a Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. **The Except as otherwise provided in a Supplemental Indenture, the** entity providing such Debt Service Reserve Fund Surety Policy shall be rated, **at the time such instrument is provided,** in one of the two highest long-term ~~rating~~ **Rating** Categories by both Moody’s if Moody’s is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds ~~at the time such instrument is provided.~~

- (j) The definition of “Estimated Completion Date”

~~“Estimated Completion Date” shall mean the estimated date upon which a Specified LAX Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a Specified LAX Project is expected to have been acquired and payment therefor made, in each case, as that date shall be set forth in a certificate of an Authorized Board Representative delivered to the Trustee at or prior to the time of issuance of the Bonds which are issued to finance such Project.~~

- (k) The definition of “LAX Special Facility Obligations”

“LAX Special Facility Obligations” shall mean bonds or other debt instruments issued pursuant to an indenture other than this Indenture to finance LAX Special Facilities and which, **except as otherwise provided in Section 5.07 hereof,** are not secured by nor payable from a lien on and pledge of the Pledged Revenues but which are secured by revenues derived from LAX Special Facilities located at Los Angeles International Airport.

- (l) The definition of “Pledged Revenues”

“Pledged Revenues” shall mean, except to the extent specifically excluded herein or under the terms of any Supplemental Indenture (only with respect to the Series of Bonds issued pursuant to such Supplemental Indenture), LAX Revenues. “Pledged Revenues” shall also include such additional revenues, if any, as are designated as “Pledged Revenues” under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of “LAX Revenues” which are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other

proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from “Pledged Revenues,” unless designated as “Pledged Revenues” under the terms of a Supplemental Indenture: (a) any Swap Termination Payments paid to the Board pursuant to a Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture, **(d) Customer Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture** (provided that only ~~Passenger~~ **Customer** Facility Charges in respect of LAX may be so pledged), ~~(e g)~~ unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and ~~(e f)~~ Released LAX Revenues. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from “Pledged Revenues,” unless otherwise provided for in such Supplemental Indenture.

- (m) The definition of “Qualified Swap”

“Qualified Swap” shall mean any Swap (a) whose Designated Debt is all or part of a particular Series of Bonds; (b) ~~which has been approved in writing by any Credit Provider securing payment of principal of and interest on such Series of Bonds (including any bond insurer);~~ (c) whose Swap Provider is a Qualified Swap Provider or has been a Qualified Swap Provider within the 60 day period preceding the date on which the calculation of Annual Debt Service or ~~Average~~ **Aggregate** Annual Debt Service is being made; ~~(d e)~~ which has a term not greater than the term of the Designated Debt or to a specified mandatory tender or redemption of such Designated Debt; ~~(e d)~~ which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Bonds; and ~~(f e)~~ which has been approved by S&P, if S&P has an outstanding rating on any Bonds, and Moody’s, if Moody’s has an outstanding rating on the Bonds.

- (n) The definition of “Qualified Swap Provider”

“Qualified Swap Provider” shall mean a financial institution (a) whose senior long -term debt obligations, or whose obligations under any Qualified Swap, are guaranteed by a financial institution, or subsidiary of a financial institution, whose senior long -term debt obligations, are rated at least “Aa” in the case of Moody’s and “AA” in the case of S&P, or the equivalent thereto in the case of any successor thereto, and ~~(b) acceptable to the Credit Provider for the Designated Debtor~~ **(b) whose obligations under any Qualified Swap are fully secured by obligations described in items (1) or (2) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who shall not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.**

- (o) The definition of “Unenhanced Commercial Paper Program”

“Unenhanced Commercial Paper Program” shall be a Commercial Paper Program that is authorized to be issued without the support of a Credit Facility, provided such Commercial Paper Program has received at least an investment grade short-term rating from the Rating Agencies.

Section 2.09

Clause (e) of Section 2.09 is to be amended to read as follows:

(e) a certificate of the Authorized Board Representative stating that ~~(i)(A)~~ none of the Events of Default set forth in Section 8.01 of this Indenture ~~have occurred and remain uncured and~~ **has occurred and remains uncured or (B) that upon issuance of such Series of Bonds, all Events of Default set forth in Section 8.01 of this Indenture that have occurred and are continuing, shall be cured, and (ii)** that the Board is in full compliance with the terms of Section 5.04 herein;

Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Tests for Issuance of Bonds. Subject to the provisions under subsection (i), (ii) or ~~(# iii)~~ of the last paragraph of this Section ~~2.11~~ and excepting ~~the~~ Initial Bonds, as a condition to the issuance of any Series of Bonds, there shall first be delivered to the Trustee either:

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

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

(1) the Net Pledged Revenues, ~~(as calculated by said Consultant) for any 12 consecutive months out of the 24 consecutive months immediately preceding the date~~ **together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 18 consecutive months immediately preceding the date** of issuance of the proposed Series of Bonds or the establishment of a Program, were at least equal to 125% of ~~Maximum~~ **the sum of the Aggregate Annual Debt Service; due and payable with respect to all Outstanding Bonds (not including the proposed Series of Bonds or the proposed Program Bonds) for such Fiscal Year or other applicable period; and**

(2) ~~for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Board Representative, the Consultant estimates that the Board will be in compliance with Section 5.04(a) and (b) of this Indenture; and~~

~~(3)~~ **(2) for the period from and including the first full Fiscal Year following the issuance of such proposed Series of Bonds during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Series of Bonds, or (B) the third full Fiscal Year during which no interest on such Series of Bonds is expected to be paid from the proceeds thereof**, the estimated Net Pledged Revenues for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an

~~Authorized Board Representative, together with any estimated Transfer, for each such Fiscal Year,~~ will be at least equal to 125% of ~~Maximum~~ the Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Bonds, Unissued Program Bonds and the proposed Series of Bonds (calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (as applicable) were then Outstanding).

For purposes of subparagraphs (a) and (b) above, ~~no~~ the amount of any Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Board Representative or the Consultant taken into account shall not exceed 25% of the Aggregate Annual Debt Service on the Outstanding Bonds, Unissued Program Bonds, the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds, as applicable, for such applicable Fiscal Year or such other applicable period.

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

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

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(ii) if the Bonds being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Board Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Pledged Revenues for any 12 consecutive months out of the ~~18~~ most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Board Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the ~~Department~~ Board will be in compliance with Section 5.04 (a) and (b) of this Indenture; or

(iii) if the Bonds being issued are to pay costs of completing a Specified LAX Project for which Bonds have previously been issued and the principal amount of such Bonds being issued for completion purposes does not exceed an amount equal to 15% of the principal amount of the Bonds originally issued for such Specified LAX Project and reasonably allocable to the Specified LAX Project to be completed as shown in a written certificate of an Authorized Board Representative and there is delivered to the Trustee (1) a Consultant's certificate stating that the nature and purpose of such Specified LAX Project has not materially changed and (2) a certificate of an Authorized Board Representative to the effect that (x) all of the proceeds (including investment earnings on amounts in the Construction Fund allocable to such Specified LAX Project) of the original Bonds issued to finance such Specified LAX Project have been or will be used to pay Costs of the Specified LAX Project, (y) the then estimated Costs of the Specified LAX Project exceed the sum of the Costs of the Specified LAX Project already paid plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Bonds previously issued for such purpose), and (z) the proceeds to be received from the issuance of such Bonds plus moneys available in the Construction Fund established for the Specified LAX Project (including unspent proceeds of the Bonds previously issued for such purpose) will be sufficient to pay the remaining estimated Costs of the Specified LAX Project.

Section 4.13

Section 4.13 is to be amended to read as follows:

Section 4.13. Creation of Debt Service Reserve Fund; Additional Funds and Accounts. Notwithstanding Section 4.07 hereof, instead of making or causing a deposit to be made to the Reserve Fund, the Board may, at the time of issuance of any Series of Bonds, ~~except for such Series of Bonds designated as Variable Rate Indebtedness,~~ provide by Supplemental Indenture for the creation of a Debt Service Reserve Fund as additional security for such Series of Bonds, and in its discretion reserving the right to allow a future Series of Bonds to participate in such Debt Service Reserve Fund, or provide that such Series of Bonds participate in a Debt Service Reserve Fund previously created for an Outstanding Series of Bonds. Any Debt Service Reserve Fund established under a Supplemental Indenture shall be funded, at the time of issuance of such Series of Bonds or over such other period of time as set forth in a Supplemental Indenture, in an amount equal to the Reserve Requirement with respect to the Bonds participating in such Debt Service Reserve Fund. The Board shall, by such Supplemental Indenture, provide for the manner of funding and replenishing of such Debt Service Reserve Fund and shall establish such other terms with respect to such Debt Service Reserve Fund as the Board may deem to be appropriate, including providing a Credit Facility in lieu thereof. ~~In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.~~

Notwithstanding either Section 4.07 hereof or this Section, at the time of issuance of any Series of Bonds, the Board may provide pursuant to a Supplemental Indenture that neither a deposit to the Reserve Fund nor a deposit to a Debt Service Reserve Fund shall be required and that such Series of Bonds shall not be secured by the Reserve Fund or a Debt Service Reserve Fund.

In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds.

Section 5.04(c)

Section 5.04(c) is to be amended to read as follows:

(c) If the Board violates either covenant set forth in subsection (a) or (b) above, such violation shall not be a default under this Indenture and shall not give rise to a declaration of an Event of

Default if, within ~~420~~ 180 days after the date such violation is discovered, the Board revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce Pledged Revenues to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent fiscal year succeeding the date such violation is discovered, an Event of Default may be declared under Section 8.01(d) hereof. The Board may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Board into compliance with said covenants.

Section 5.07

Section 5.07 is to be amended to read as follows:

Section 5.07. LAX Special Facilities and LAX Special Facility Obligations. The Board shall be permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities as permitted in this Section 5.07. The Board may, from time to time, and subject to the terms and conditions of this Section 5.07, (~~4~~ i) designate a separately identifiable existing facility or improvement or planned facility or improvement as an “LAX Special Facility,” (~~2~~ ii) pursuant to an indenture other than this Indenture and without a pledge of any Pledged Revenues (except as otherwise provided in (iv) below), incur debt primarily for the purpose of acquiring, constructing, renovating or improving or providing financing or refinancing to a third party to acquire, construct, renovate or improve, such facility or improvement, (~~3~~ iii) provide that the contractual payments derived from or related to such LAX Special Facility, together with other income and revenues available to the Board from such LAX Special Facility to the extent necessary to make the payments required by clause (1) of the second succeeding paragraph, be “LAX Special Facilities Revenue” and not included as Pledged Revenues, unless ~~on terms~~ otherwise provided in any supplemental indenture, and (~~4~~ iv) provide that the debt so incurred shall be an “LAX Special Facility Obligation” and the principal of and interest thereon shall be payable solely from the LAX Special Facilities Revenue and the proceeds of such LAX Special Facility Obligation set aside exclusively to pay debt service on such LAX Special Facility Obligation (except the Board may, in its sole discretion, determine to make Pledged Revenues or such other moneys not included in Pledged Revenues available (through a specific pledge or otherwise and subject to any covenants or other provisions of this Indenture (including, but not limited to, Sections 2.09, 2.11 and 5.04 hereof) or such other indentures or agreements of the Board) to the payment of the principal of and interest on such LAX Special Facility Obligation in such amounts and at such times as may be agreed to by the Board). The Board may from time to time refinance any such LAX Special Facility Obligations with other LAX Special Facility Obligations.

LAX Special Facility Obligations shall be payable as to principal, redemption premium, if any, and interest solely from (a) LAX Special Facilities Revenue, which shall include contractual payments derived by the Board under and pursuant to a contract (which may be in the form of a lease) relating to an LAX Special Facility by and between the Board and another person, firm or corporation, either public or private, as shall undertake the operation of an LAX Special Facility, (b) proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and (c) such Pledged Revenues or other moneys not included in Pledged Revenues made available by the Board as provided in clause (iv) of the previous paragraph, if any.

No LAX Special Facility Obligations shall be issued by the Board unless there shall have been filed with the Trustee a certificate of an Authorized Board Representative stating that:

(1) The estimated LAX Special Facilities Revenue pledged to the payment of ~~obligations relating to the LAX Special Facility~~ Obligations, the proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, if any, and such Pledged Revenues or other moneys made available by the Board pursuant to clause (iv) of the first paragraph of this Section 5.07, if any, will be at least sufficient, to pay the principal of and interest on such LAX Special Facility Obligations as and when the same become due and payable, all costs of operating and maintaining such LAX Special

Facility not paid for by the operator thereof or by a party other than the Board and all sinking fund, reserve or other payments required by the resolution or indenture authorizing the LAX Special Facility Obligations as the same become due; and

(2) With respect to the designation of any separately identifiable existing LAX Airport Facilities or LAX Airport Facility as an “LAX Special Facility” or “LAX Special Facilities”, the estimated Pledged Revenues and Net Pledged Revenues, calculated without including the new LAX Special Facilities Revenue, the proceeds of any LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations or any Pledged Revenues or other moneys made available by the Board pursuant to clause (iv) of the first paragraph of this Section 5.07, if any, and without including any operation and maintenance expenses of the LAX Special Facility as LAX Maintenance and Operation Expenses, will be sufficient so that the Board will be in compliance with Section 5.04(a) and (b) of this Indenture during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(3) No Event of Default then exists under Article VIII of this Indenture.

To the extent LAX Special Facilities Revenue received by the Board during any Fiscal Year shall exceed the amounts required to be paid pursuant to clause (1) of the immediately preceding paragraph for such Fiscal Year, such excess LAX Special Facilities Revenue, to the extent not otherwise encumbered or restricted, may constitute Pledged Revenues as determined by the Board.

Notwithstanding any other provision of this Section 5.07, at such time as the LAX Special Facility Obligations issued for an LAX Special Facility including LAX Special Facility Obligations issued to refinance LAX Special Facility Obligations are fully paid or otherwise discharged, all revenues of the Board from such facility shall be included as Pledged Revenues.

Section 8.01

(a) Clause (a) of Section 8.01 is to be amended to read as follows:

(a) a failure to pay the principal of or premium, if any, on any of the Bonds, ~~except out payments under Qualified Swaps~~, when the same shall become due and payable at maturity or upon redemption;

(b) Clause (d) of Section 8.01 is to be amended to read as follows:

(d) a failure by the Board to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this Section 8.01) that are to be observed or performed by the Board and which are contained in this Indenture or a Supplemental Indenture, which failure, except for a violation under Section 5.04 which shall be controlled by the provisions set forth therein, shall continue for a period of ~~60~~ 90 days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Board by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of holders of 25% or more of the Principal Amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and holders of Bonds in a Principal Amount not less than the Principal Amount of Bonds the holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Board within such period and is being diligently pursued until such failure is corrected;

Section 8.02

Clause (c) of Section 8.02 is to be amended to read as follows:

(c) Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider, in no event, upon the occurrence and continuation of an Event of Default described in Section 8.01 hereof, shall the Trustee, the Holders, a Credit Provider, a Liquidity Provider or any other party have the right to accelerate the payment of principal of and interest on the Bonds Outstanding.

Section 8.10

Section 8.10 is to be amended to read as follows:

Section 8.10. Application of Moneys. If an Event of Default shall occur and be continuing, all amounts then held or any moneys received by the Trustee, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of this Article VIII (which shall not include moneys provided through a Credit Facility, which moneys shall be restricted to the specific use for which such moneys were provided), after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee (including attorneys' fees and disbursements), shall be applied as follows: (i a) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum as provided in any Supplemental Indenture, as the case may be, in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii b) second, to the payment to the persons entitled thereto of the unpaid principal amount of any of the Bonds which shall have become due with interest on such Bonds at such rate as provided in a Supplemental Indenture from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full Bonds on any particular date determined to be the payment date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

~~(b) If the principal of all the Bonds subject to acceleration shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.~~

~~(c) If the principal of all the Bonds subject to acceleration shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of Section 8.02(b) and Section 8.03 hereof, then, subject to the provisions of clause (b) of this Section 8.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of clause (a) of this Section 8.10.~~

Whenever moneys are to be applied pursuant to the provisions of this Section 8.10, such moneys shall be applied at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal and interest to be paid on such date shall cease to accrue. The Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date by Mail to all Bondholders and shall not be required to make

payment to any Bondholder until such Bonds shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

ONE-HUNDRED PERCENT MASTER SENIOR INDENTURE AMENDMENTS

Senior Pledge Change Amendment

The Senior Pledge Change Amendment will not become effective until (a) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds, the Subordinate Bonds and the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks and BNP (the “Senior Pledge Change Consent Requirement”) and (b) the Subordinate Pledge Change Consent Requirement has been met. By the purchase and acceptance of the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds, the owners of the Series 2008 Senior Bonds and the Series 2008 Subordinate Bonds, respectively, will be deemed to have irrevocably consented to the Senior Pledge Change Amendment. At the time of issuance of the Series 2008 Bonds, the owners of approximately 84% of the Outstanding Senior Bonds and the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the Senior Pledge Change Amendment; but the Department will not receive the consent of any of the owners of the Outstanding Subordinate Commercial Paper Notes or the consents of the CP Banks and BNP to the Senior Pledge Change Amendment at the time of issuance of the Series 2008 Senior Bonds and the Subordinate Pledge Change Consent Requirement will not be met.

At this time there can be no assurance that the Senior Pledge Change Consent Requirement or the Subordinate Pledge Change Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~. The Other Master Senior Indenture Amendments as described in “—OTHER MASTER SENIOR INDENTURE AMENDMENTS” are assumed to become effective prior to the Senior Pledge Change Amendment and therefore are incorporated in the description of the Senior Pledge Change Amendment described below.

WHEREAS CLAUSES

The eighth and ninth WHEREAS clauses will be amended to read as follows:

WHEREAS, the Board has determined that it is necessary and advisable to issue bonds from time to time for the purposes set forth in the Resolution and that such bonds be payable from and secured by the **Net** Pledged Revenues (as hereinafter defined); and

WHEREAS, the Board wishes to provide in this Indenture for the issuance and payment of certain bonds and the pledge of the **Net** Pledged Revenues thereto, and the Trustee is willing to accept the trusts provided in this Indenture;

GRANTING CLAUSE

The GRANTING CLAUSE will be amended to read as follows:

GRANTING CLAUSE

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Board of all the covenants, agreements and conditions expressed or implied herein or contained in the Bonds, the Board hereby pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the **Net** Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under this Indenture, moneys and securities held in the Reserve Fund or any Debt Service Reserve Fund and any Reserve Fund Surety Policy or Debt Service Reserve Fund Surety Policy, as

hereinafter defined, provided at any time in satisfaction of all or a portion of the Reserve Requirement, and to the extent provided in any Supplemental Indenture, moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause (except to the extent excluded from the definition of “Pledged Revenues” by this Indenture), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any security or Credit Facility provided for specific Bonds or a specific Series of Bonds may, as provided by Supplemental Indenture, secure only such specific Bonds or Series of Bonds and, therefore, shall not be included as security for all Bonds under this Indenture and moneys and securities held in trust as provided in Section 4.10 exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under Article VII hereof shall be held solely for the payment of such specific Bonds.

ARTICLE I – Definitions

The following definitions are to be amended to read as follows:

- (a) The definition of “Bond” or “Bonds”

“Bond” or “Bonds” shall mean any debt obligation of the Department issued under and in accordance with the provisions of Article II of this Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in Section 2.13 of this Indenture. The term “Bond” or “Bonds” herein does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Indenture to this Indenture that Subordinated Obligations or Third Lien Obligations may be issued thenceforth pursuant to this Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations or Third Lien Obligations shall be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Net Pledged Revenues. The term “Bond” and “Bonds” includes Program Bonds.

- (b) The definition of “Released LAX Revenues”

“Released LAX Revenues” shall mean LAX Revenues in respect of which the following have been filed with the Trustee:

- (a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

- (b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs ~~SECOND through EIGHTH~~ ~~FIRST through SEVENTH~~ of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by

the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs ~~SECOND through EIGHTH~~ ~~FIRST through SEVENTH~~ of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of this Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of Fitch and Moody's (provided such Rating Agencies have been requested by the Department to maintain a rating on the Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds) to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of this Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Bonds.

For purposes of subparagraph (b) above, no Transfer shall be taken into account in the computation of Net Pledged Revenues.

Additionally, the Department shall give written notice to S&P (provided S&P has been requested by the Department to maintain a rating on the Bonds and S&P is then maintaining a rating on any of the Bonds) at least 15 days prior to any specific identifiable portion of LAX Revenues being excluded from the pledge and lien of this Indenture as proved in this definition of "Released LAX Revenues."

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board shall no longer be included in Pledged Revenues and shall be excluded from the pledge and lien of this Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of this Indenture pursuant to a Supplemental Indenture.

(c) The definition of "Subordinated Obligation"

"Subordinated Obligation" shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all LAX Maintenance and Operation Expenses and amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund and any Debt Service Reserve Fund. "Subordinated Obligations" are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations shall be secured on a junior and subordinate basis to the Bonds from the Net Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a "Subordinated Obligation" for purposes of this Indenture and payable on a subordinated basis from Net Pledged Revenues unless specifically designated by the Board as a "Subordinated Obligation" in a Supplemental Indenture or other written instrument. In connection with any Subordinated Obligation with respect to which a Swap is in effect or proposes to be in effect, the term "Subordinated Obligation" includes, collectively, both such Subordinated Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term "Subordinated Obligations" also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Subordinated Obligation, as the context requires, although none of the Subordinated Obligations with respect to which such Swap was entered into remain outstanding. The term "Subordinated Obligation" includes any Swap Termination Payment under a Qualified Swap with respect to any Bonds payable on parity with Subordinated Obligations.

(d) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all **LAX Maintenance and Operation Expenses and** amounts of principal and interest which have become due and payable on the Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund, any Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “Third Lien Obligations” are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations shall be secured on a junior and subordinate basis to the Bonds and the Subordinated Obligations from the **Net** Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a “Third Lien Obligation” for purposes of this Indenture and payable on a subordinated basis from **Net** Pledged Revenues unless specifically designated by the Board as a “Third Lien Obligation” in a Supplemental Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “Third Lien Obligation” includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term “Third Lien Obligations” also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term “Third Lien Obligation” includes any Swap Termination Payment under a Qualified Swap with respect to any Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

(e) The definition of “Unissued Program Bonds”

“Unissued Program Bonds” shall mean the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from **Net** Pledged Revenues, issuable in an amount up to the Authorized Amount relating to such Program, which have been approved for issuance by the Board pursuant to a resolution adopted by the Board and with respect to which Program the items described in Section 2.09(a) through (g) have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the Program documents.

Section 2.01

The third paragraph of Section 2.01 is to be amended to read as follows:

All Bonds shall contain a statement to the following effect:

Neither the faith and the credit nor the taxing power of The City of Los Angeles, the State of California or any public agency, other than the Department of Airports of The City of Los Angeles to the extent of the **Net** Pledged Revenues, is pledged to the payment of the principal of, premium, if any, or interest on, this Bond. None of the properties of the Airport System are subject to any mortgage or other lien for the benefit of the owners of the Bonds. The Department has no power of taxation.

Section 2.02

The first paragraph of Section 2.02 is to be amended to read as follows:

Section 2.02. Terms, Medium and Place of Payment. The Bonds shall be issued in the principal amount, shall bear interest at a rate or rates, including a rate of 0% and including variable or adjustable rates or rates set by auction, or by such other methods as the Board may from time to time determine, and

such interest may be payable periodically, in whole or in part, or may be accumulated and paid at maturity or at such other time or times as the Board shall determine. Bonds shall mature and shall be subject to redemption prior to their respective maturities, all as shall be set forth in a Supplemental Indenture. The Bonds of each Series shall state that they are issued under and are secured by this Indenture and the Net Pledged Revenues and state that regardless of the form thereof, they are “Bonds” issued hereunder and within the meaning of this Indenture.

Section 2.13

The third sentence of Section 2.13 is to be amended to read as follows:

Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond shall be payable from Net Pledged Revenues on a basis subordinate to the payment and/or funding of the Bonds and any reserve funds established with respect to the Bonds.

Section 2.14

Section 2.14 is to be amended to read as follows:

Section 2.14. Obligations Under Qualified Swap; Nonqualified Swap.

(a) The obligation of the Board to make Regularly Scheduled Swap Payments under a Qualified Swap with respect to a Series of Bonds may be on a parity with the obligation of the Board to make payments with respect to such Series of Bonds and other Bonds under this Indenture, except as otherwise provided by Supplemental Indenture and elsewhere herein with respect to any Swap Termination Payments. The Board may provide in any Supplemental Indenture that Regularly Scheduled Swap Payments under a Qualified Swap shall be secured by a pledge of or lien on the Net Pledged Revenues on a parity with the Bonds of such Series and all other Bonds, regardless of the principal amount, if any, of the Bonds of such Series remaining Outstanding. The Trustee shall take all action consistent with the other provisions hereof as shall be requested in writing by the Qualified Swap Provider necessary to preserve and protect such pledge, lien and assignment and to enforce the obligations of the Board with respect thereto. In the event the action requested to be taken pursuant to the preceding sentence shall require the Trustee either to exercise the remedies granted in this Indenture or to institute any action, suit or proceeding in its own name, the Qualified Swap Provider shall provide to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection therewith.

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the Board under a Qualified Swap, such Swap Termination Payment and any such other amounts shall, unless otherwise provided in a Supplemental Indenture, constitute an obligation of the Board payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Bonds and any reserve funds established with respect to such Bonds.

(c) Obligations of the Board to make payments, including termination payments, under a Nonqualified Swap shall, unless otherwise provided in a Supplemental Indenture, constitute an obligation of the Board payable from Pledged Revenues subordinate to its obligations to pay and/or fund LAX Maintenance and Operation Expenses, the Bonds and any reserve funds established with respect to such Bonds.

Section 4.01

Section 4.01 is to be amended to read as follows:

Section 4.01. Bonds Secured by Lien on Net Pledged Revenues. The Bonds authorized and issued under the provisions of this Indenture shall be secured as provided in the Granting Clauses of this Indenture. The Board hereby represents and states that it has not previously created any charge or lien on or any security interest in the Net Pledged Revenues and the Board covenants that, until all the Bonds authorized and issued under the provisions of this Indenture and the interest thereon shall have been paid or are deemed to have been paid, it will not, except as specifically provided in this Indenture, grant any prior or parity pledge of or any security interest in the Net Pledged Revenues or any of the other security which is pledged pursuant to the Granting Clauses of this Indenture, or create or permit to be created any charge or lien thereon or any security interest therein ranking prior to or on a parity with the charge or lien of the Bonds (including Additional Bonds) from time to time Outstanding under this Indenture. The Board may, as provided in Section 5.06 hereof, grant a lien on or security interest in the Net Pledged Revenues to secure Subordinated Obligations and Third Lien Obligations.

Section 4.04(b)

Section 4.04(b) is to be amended to read as follows:

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

FIRST ~~To the payment of amounts required to be deposited in the Debt Service Funds pursuant to Section 4.05;~~
FIRST **To the payment of LAX Maintenance and Operation Expenses of the Airport System which are payable from LAX Revenues, which include payment to the City for services provided by it to LAX;**

~~**SECOND**~~ ~~To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07, and any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;~~

~~**THIRD**~~ ~~To the payment of debt service on any indebtedness (other than Outstanding Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;~~

~~**FOURTH**~~ ~~To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Third Lien Obligations), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;~~

~~**FIFTH**~~ ~~To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;~~

~~**SIXTH**~~ ~~To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;~~

~~**SEVENTH**~~ ~~To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;~~

~~**EIGHTH SEVENTH**~~ To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Board pursuant to Section 4.08 hereof;

~~**EIGHTH**~~ ~~—————~~ To the payment of LAX Maintenance and Operation Expenses of the Airport System which are payable from LAX Revenues, which include payment to the City for services provided by it to LAX;

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

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

Notwithstanding the provisions of this Indenture, nothing herein shall preclude the Board from making the payments described in paragraphs FIRST through NINTH above from sources other than Pledged Revenues.

Section 4.06

The eighth and tenth paragraphs of Section 4.06 are to be amended to read as follows:

If the Reserve Fund or any Debt Service Reserve Fund (or a Credit Facility provided in lieu thereof) have been used to make payments on the Bonds secured thereby, then the Board may be required by Supplemental Indenture to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the Credit Provider from **Net** Pledged Revenues provided that (a) no amount from **Net** Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full, (b) the required payments to replenish the Reserve Fund and any Debt Service Reserve Fund or reimburse the Credit Provider shall be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the Credit Provider exceeds the amount available for such purposes, the payments made to the Trustee for such purpose shall be allocated among the Reserve Fund and any Debt Service Reserve Fund and the Credit Provider pro rata on the basis of the Outstanding Principal Amount of Bonds secured thereby.

If **Net** Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Bonds, the Board may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

Section 4.07

Section 4.07(a)(i) is to be amended to read as follows:

(a) (i) Except as otherwise provided herein, each Supplemental Indenture providing for the issuance of Bonds shall require as a condition of issuance that an amount be deposited in the Reserve

Fund so that, together with any Reserve Fund Surety Policy provided pursuant to (b) below, the amount on deposit in the Reserve Fund will be equal to the Reserve Requirement with respect to the Bonds participating in the Reserve Fund. Any cash to be deposited in the Reserve Fund may be derived from proceeds of Bonds or any other legally available source of funds. In the event that federal tax law in the opinion of Bond Counsel would prohibit the Reserve Requirement with respect to the Bonds participating in the Reserve Fund or any portion thereof from being paid from the proceeds of any issue of Bonds, the Board shall be permitted to pay the portion of the Reserve Requirement with respect to the Bonds participating in the Reserve Fund not permitted to be paid from Bond proceeds from Net Pledged Revenues, to the extent permissible under federal tax laws, in equal monthly installments within 60 months from the date of issuance of said series of Bonds.

Section 4.12

Section 4.12 is to be amended to read as follows:

Section 4.12. Additional Security. The pledge of Net Pledged Revenues and the other security provided in the Granting Clauses hereof, secure all Bonds issued under the terms of this Indenture on an equal and ratable basis, except as to the timing of such payments. The Board may, however, in its discretion, provide additional security or credit enhancement for specified Bonds or Series of Bonds with no obligation to provide such additional security or credit enhancement to other Bonds.

Section 5.01

Section 5.01 is to be amended to read as follows:

Section 5.01. Payment of Principal and Interest. The Board covenants and agrees that it will duly and punctually pay or cause to be paid from the Net Pledged Revenues and to the extent thereof the principal of, premium, if any, and interest on every Bond at the place and on the dates and in the manner herein, in the Supplemental Indentures and in the Bonds specified, according to the true intent and meaning thereof, and that it will faithfully do and perform all covenants and agreements herein and in the Bonds contained, provided that the Board's obligation to make payment of the principal of, premium, if any, and interest on the Bonds shall be limited to payment from the Net Pledged Revenues, the funds and accounts pledged therefor in the Granting Clauses of this Indenture and any other source which the Board may specifically provide for such purpose and no Bondholder shall have any right to enforce payment from any other funds of the Board.

Section 5.02

Section 5.02 is to be amended to read as follows:

Section 5.02. Performance of Covenants by Board; Authority; Due Execution. The Board covenants that it will faithfully perform at all times any and all covenants and agreements contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder and in all of its proceedings pertaining hereto. The Board covenants that it is duly authorized under the Constitution and laws of the State and the Charter to issue the Bonds and pledge and grant a security interest in the Net Pledged Revenues and other security pledged thereto or in which a security interest is granted and that the Board has not previously pledged such Net Pledged Revenues or other assets to secure other obligations.

Section 5.03

Section 5.03 is to be amended to read as follows:

Section 5.03. Senior Lien Obligations Prohibited. The Board hereby agrees that so long as any Bonds are Outstanding under this Indenture, it (i) will not adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue

any additional bonds or other obligations with a lien on or security interest granted in Net Pledged Revenues which is senior to the Bonds. Notwithstanding the previous sentence, nothing in this Indenture prohibits the Board from entering into agreements that provide for the granting of Facilities Construction Credits by the Board.

Section 5.05

Section 5.05 is to be amended to read as follows:

Section 5.05. No Inconsistent Contract Provisions. The Board covenants that no contract or contracts will be entered into or any action taken by the Board which shall be inconsistent with the provisions of this Indenture. The Board covenants that it will not take any action which, in the Board's judgment at the time of such action, will substantially impair or materially adversely affect the Net Pledged Revenues, or will substantially impair or materially adversely affect in any manner the pledge of, lien on or security interest granted in the Net Pledged Revenues herein or the rights of the holders of the Bonds. The Board shall be unconditionally and irrevocably obligated, so long as any of the Bonds are Outstanding and unpaid, to take all lawful action necessary or required to pay from the Net Pledged Revenues the principal of and interest on the Bonds and to make the other payments provided for herein.

Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Subordinated Obligations and Third Lien Obligations.

(a) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Subordinated Obligations shall specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Bonds; and

(ii) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses and the Trustee to be used to pay debt service on the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

(b) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and any Subordinated Obligations and which indebtedness is, in this Indenture, referred to as Third Lien Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

(i) Any Supplemental Indenture authorizing the issuance of any Third Lien Obligations shall specifically state that such lien on or security interest granted in the Net Pledged Revenues is junior and subordinate to the lien on and security interest in such Net Pledged Revenues and other assets granted to secure the Bonds and the Subordinated Obligations; and

(ii) Payment of principal of and interest on such Third Lien Obligations shall be permitted, provided that all deposits required to be made to pay LAX Maintenance and Operation Expenses, to the Trustee to be used to pay debt service on

the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund, and ~~all deposits required to be made to the trustee or paying agent for the Subordinated Obligations~~ to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with Section 4.04 of this Indenture.

Article VII

The first paragraph of Article VII is to be amended to read as follows:

Bonds or portions thereof (such portions to be in integral multiples of the authorized denomination) which have been paid in full or which are deemed to have been paid in full shall no longer be secured by or entitled to the benefits of this Indenture except for the purposes of payment from moneys or Government Obligations held by the Trustee or a Paying Agent for such purpose. When all Bonds which have been issued under this Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable hereunder by the Board, including all necessary and proper fees, compensation and expenses of the Trustee, the Registrar and the Paying Agent, have been paid or are duly provided for, then the right, title and interest of the Trustee in and to the Net Pledged Revenues and the other assets pledged to secure the Bonds hereunder shall thereupon cease, terminate and become void, and thereupon the Trustee shall cancel, discharge and release this Indenture, shall execute, acknowledge and deliver to the Board such instruments as shall be requisite to evidence such cancellation, discharge and release and shall assign and deliver to the Board any property and revenues at the time subject to this Indenture which may then be in the Trustee's possession, except funds or securities in which such funds are invested and are held by the Trustee or the Paying Agent for the payment of the principal of, premium, if any, and interest on the Bonds.

Section 8.06

Section 8.06 is to be amended to read as follows:

Section 8.06. No Impairment of Right To Enforce Payment. Notwithstanding any other provision in this Indenture, the right of any Bondholder to receive payment of the principal of and interest on such Bond or the purchase price thereof, on or after the respective due dates expressed therein and to the extent of the Net Pledged Revenues and other security provided for the Bonds, or to institute suit for the enforcement of any such payment on or after such respective date, shall not be impaired or affected without the consent of such Bondholder.

Section 9.15(c)

Section 9.15(c) is to be amended to read as follows:

(c) The Trustee shall annually, within a reasonable period after the end of the Fiscal Year, furnish to the Board and to each Bondholder who shall have filed his name and address with the Trustee for such purpose (at such Bondholder's cost) a statement (which need not be audited) covering receipts, disbursements, allocation and application of Bond proceeds, Net Pledged Revenues and any other moneys in any of the funds and accounts established by it pursuant to this Indenture or any Supplemental Indenture for the preceding year.

Section 10.02

Section 10.02(d) is to be amended to read as follows:

(d) to confirm, as further assurance, any interest of the Trustee in and to the Net Pledged Revenues or in and to the funds and accounts held by the Trustee or in and to any other moneys, securities

or funds of the Board provided pursuant to this Indenture or to otherwise add additional security for the Bondholders;

Section 10.02(k) is to be amended to read as follows:

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Bonds, including, without limitation, the segregation of Pledged Revenues **and Net Pledge Revenues** into different funds; or

Senior Debt Service Deposit Amendment

The Senior Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Senior Bonds (the “Senior Debt Service Deposit Consent Requirement”). By the purchase and acceptance of the Series 2008 Senior Bonds, the owners of the Series 2008 Senior Bonds will be deemed to have irrevocably consented to the Senior Debt Service Deposit Amendment. At the time of issuance of the Series 2008 Senior Bonds, the owners of approximately 84% of the Outstanding Senior Bonds will have consented to the Senior Debt Service Deposit Amendment. At this time there can be no assurance that the Senior Debt Service Deposit Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

Section 4.05

Section 4.05 is to be amended to read as follows:

“Section 4.05. Deposits Into ~~and Withdrawals From~~ the Debt Service Funds. **The Trustee shall, at least fifteen (15) Business Days prior to each Payment Date on any Bond, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Capitalized Interest, if any, on deposit in the Debt Service Funds, required to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture shall control.**

So long as any of the Bonds are Outstanding, the Authorized Board Representative shall deliver to the Treasurer, **at least ten (10) Business Days prior to each Payment Date**, as to each Series of Bonds Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than ~~the first day of each calendar month~~ **five (5) Business Days prior to each Payment Date**, transfer from the LAX Revenue Account to the Trustee for deposit in the Debt Service Funds established in respect of each Series of Outstanding Bonds: ~~(i) sums in equal fractional parts for each one half year so that at least the full amount required to pay the interest on Bonds of that Series, as it becomes due, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (ii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Bonds of that Series, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (iii) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Bonds of such Series shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment~~

~~becomes due. No such transfer need be made in respect of any Series of Bonds prior to the actual delivery of that Series of Bonds to the purchasers thereof; provided, however, that subsequent to the issuance of such Series of Bonds, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series of Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Bonds, so that interest due on such Series of Bonds on the first interest payment date to occur after the issuance of such Series of Bonds shall be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series of Bonds, and, if the first principal payment or sinking fund installment of such Series of Bonds is due less than 12 months after the issuance of such Series of Bonds, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series of Bonds, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series of Bonds, so that principal or sinking fund installments of such Series of Bonds due on the first principal payment date to occur after the issuance of such Series of Bonds shall be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series of Bonds.~~ **principal of and/or interest on Bonds due on that Series due on such Payment Date.**

On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Bonds, the Trustee shall, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Debt Service Funds for the Series of Bonds for which such payments were made **and any excess funds shall be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates.** Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from the LAX Revenue Account or otherwise deposited into any Debt Service Fund for any Series of Bonds for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Bonds on the next succeeding Payment Date.

The Board may provide in any Supplemental Indenture that, as to any Series of Bonds Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled ~~monthly~~ transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Indenture, the Board may provide that monies in the Redemption Account allocable to sinking fund installment payments of a Series may, at the discretion of the Board, be applied to the purchase and cancellation of such Series (at a price not greater than par) prior to notice of redemption of such Series. Such Bonds so delivered or previously redeemed or purchased at the direction of the Board shall be credited by the Trustee at the principal amount thereof to the next scheduled sinking installment payments on Bonds of such Series and any excess over the sinking installment payment deposit required on that date shall be credited against future sinking installment deposits in such manner and order as the Board may determine in its discretion, and the scheduled principal amount of the Bonds to be redeemed by operation of such sinking installment payments shall be accordingly modified in such manner as the Board may determine and as specified to the Trustee in writing.

Money set aside and placed in a Debt Service Fund for any Series of Bonds shall remain therein until from time to time expended for the aforesaid purposes thereof and shall not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Debt Service Fund may be temporarily invested as provided in Article VI hereof, but such investment shall not affect the obligation of the Board to cause the full amount required by the terms of this Section to be available in a Debt Service Fund at the time required to meet payments of principal of and interest on Bonds of the Series for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Event of Default, such earnings shall remain in the Debt Service Funds created under the respective Supplemental Indentures.

Each Debt Service Fund established to pay principal of and interest on any Series of Bonds shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Board Representative and shall be held by the Trustee or such agents as shall be provided by Supplemental Indenture.

The moneys in each Debt Service Fund established for any issue or Series shall be held in trust and applied as provided herein and in the Supplemental Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Indenture shall be subject to a lien on and security interest in favor of the holders of the Outstanding Bonds of such Series.

Section 4.06

The second paragraph of Section 4.06 is to be amended to read as follows:

On or before ~~the fifteenth day preceding~~ a mandatory redemption date from sinking installment payments for Term Bonds of a Series of Bonds, the Trustee shall transfer from the Debt Service Fund to the Redemption Account for such Series an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Bonds of a Series are to be mandatorily redeemed from sinking installment payments, the Trustee shall pay to the Owners of Bonds of such Series from the Redemption Account for such Series, an amount equal to the amount of interest and the principal amount of Term Bonds of such Series to be mandatorily redeemed on such date.

The six paragraph of Section 4.06 is to be amended to read as follows:

The Trustee shall, at least ~~40~~ two (2) Business Days prior to each Payment Date on any Bond, or as otherwise directed in any Supplemental Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Trustee to pay the amount required to be paid on such Payment Date in respect of such Bond, in the event the amount then on deposit in any Debt Service Fund is insufficient to pay the amounts due on any Series of Bonds on such Payment Date. With respect to any Series of Bonds, the Supplemental Indenture under which such Bonds are issued may provide for different times and methods of notifying the Board of payment dates and amounts to accommodate the specific provisions of such Series and, in such event, the terms of such Supplemental Indenture shall control.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

OTHER MASTER SENIOR INDENTURE AMENDMENTS

The Other Master Senior Indenture Amendments do not require the consent of the owners of the Senior Bonds, however, certain of the Other Master Senior Indenture Amendments require the consent of the CP Banks (which the Department will not receive at the time of issuance of the Series 2008 Bonds) and BNP (which the Department will receive at the time of issuance of the Series 2008 Bonds). The Other Master Senior Indenture Amendments that require the consent of the CP Banks and BNP are described below. At this time there can be no assurance that the Other Master Senior Indenture Amendments that require the consent of the CP Banks and BNP will become effective within any definite time frame. See “INTRODUCTION—Amendments to Master Senior Indenture” in the forepart of this Official Statement.

Additions to the Master Senior Indenture are shown in **bold and double underline** and deletions are shown in ~~strike through~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) The definition of “Bond” or “Bonds”

“Bond” or “Bonds” shall mean any debt obligation of the Department issued under and in accordance with the provisions of Article II of this Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in Section 2.13 of this Indenture. The term “Bond” or “Bonds” herein does not include any Subordinated Obligation or Third Lien Obligation; provided, however, that the Board may provide in a Supplemental Indenture to this Indenture that Subordinated Obligations or Third Lien Obligations may be ~~issued~~ issued thenceforth ~~issued~~ pursuant to this Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations or Third Lien Obligations shall be junior and subordinate in payment of such Subordinated Obligations or Third Lien Obligations from the Pledged Revenues. The term “Bond” and “Bonds” includes Program Bonds.

- (b) The definition of “Refunding Bonds”

“Refunding Bonds” shall mean any Bonds issued pursuant to Section 2.10 hereof to refund or defease all or a portion of any series of Outstanding Bonds or, any Subordinated Obligation or any Third Lien Obligation.

- (c) Clause (b) of the definition of “Released LAX Revenues”

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through ~~FIFTH~~ SEVENTH of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs

FIRST through ~~FIFTH~~ SEVENTH of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(d) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and the Subordinated Obligations and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds and the Subordinated Obligations whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund, any Debt Service Reserve Fund and any debt service reserve fund(s) established for the Subordinated Obligations. “Third Lien Obligations” are not Bonds for purposes of this Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of this Indenture applicable to the Bonds apply to the Third Lien Obligations issued thereunder, except that such Third Lien Obligations shall be secured on a junior and subordinate basis to the Bonds and the Subordinated Obligations from the Pledged Revenues. No bond, note or other instrument of indebtedness shall be deemed to be a “Third Lien Obligation” for purposes of this Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Board as a “Third Lien Obligation” in a Supplemental Indenture or other written instrument. In connection with any Third Lien Obligation with respect to which a Swap is in effect or proposes to be in effect, the term “Third Lien Obligation” includes, collectively, both such Third Lien Obligation and either such Swap or the obligations of the Board under each such Swap, as the context requires. The term “Third Lien Obligations” also includes a Swap or the obligations of the Board under such Swap which has been entered into in connection with a Third Lien Obligation, as the context requires, although none of the Third Lien Obligations with respect to which such Swap was entered into remain outstanding. The term “Third Lien Obligation” includes any Swap Termination Payment under a Qualified Swap with respect to any Bonds or Subordinated Obligations payable on parity with Third Lien Obligations.

(e) The definition of “Transfer”

“Transfer” shall mean for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through ~~SEVENTH~~ NINTH of Section 4.04 hereof have been made as of the last day of the immediately preceding Fiscal Year).

Section 4.01

The last sentence of Section 4.01 is to be amended to read as follows:

The Board may, as provided in Section 5.06 hereof, grant a lien on or security interest in the Pledged Revenues to secure Subordinated Obligations and Third Lien Obligations.

Section 4.04

Section 4.04 is to be amended to read as follows:

Section 4.04. Receipt and Deposit of LAX Revenues LAX Revenue Account. Subject to the provisions of Section 4.11 of this Indenture:

(a) The Board shall cause the Treasurer to separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board and to deposit all the revenues for each individual airport within the Airport System which are received pursuant to the Charter, in its respective

revenue account within the Airport Revenue Fund. The Board covenants and agrees that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Board pursuant to this Section 4.04 in the LAX Revenue Account and shall, immediately upon receipt thereof, become subject to the lien and pledge of this Indenture. The Board will notify the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by this Indenture and will instruct the Treasurer that all such LAX Revenues, shall be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Board or the City. If the Treasurer fails to comply with such instructions, the Department shall separately account for all of the revenues and expenses of each airport under the jurisdiction of the Board.

Earnings on the various funds and accounts created under any Supplemental Indenture shall be deposited as provided in such Supplemental Indenture, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Indentures, (ii) earnings on the Construction Funds may, if so provided by Supplemental Indenture, be retained in such Construction Fund, (iii) pursuant to Section 4.07(d) of this Indenture, earnings on the Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on any Debt Service Reserve Fund may, if so provided by Supplemental Indenture, be retained in such fund.

The sums of Pledged Revenues required by this Section 4.04 to be so set aside out of the LAX Revenue Account into the specified accounts shall be set aside out of said LAX Revenue Account and not out of any other funds or revenues of the Department or the City, except as expressly authorized or permitted by the Department or the City. The Authorized Board Representative shall direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of this Section 4.04.

The provisions herein regarding the use of the LAX Revenue Account and the establishment of certain accounts therein are made pursuant to Section 635 of the Charter and are intended to be in full compliance therewith and shall be so construed.

(b) ~~The amounts of~~ Pledged Revenues credited to the LAX Revenue Account shall ~~first~~ be applied as follows and in the order set forth below:

FIRST To the payment of amounts required to be deposited in the Debt Service Funds pursuant to Section 4.05;

SECOND To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07, ~~or~~ **and** any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;

~~(c) After application of moneys as provided in (b) above, Pledged Revenues shall then be applied as follows and in the order set forth below:~~

THIRD To the payment of debt service on any indebtedness (other than Outstanding Bonds **or Third Lien Obligations**), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness;

FOURTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds **or Third Lien Obligations**), including Subordinated Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness;

FIFTH **To the payment of debt service on any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any,**

but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of debt service on such indebtedness:

SIXTH To the payment of any reserve requirement for debt service for any indebtedness (other than Outstanding Bonds or Subordinated Obligations), including Third Lien Obligations, if any, but only to the extent a specific pledge of Pledged Revenues has been made in writing to the payment of any such reserve requirement on such indebtedness:

SEVENTH To the payment of the amounts required to be deposited in the LAX Maintenance and Operation Reserve Account which are payable from LAX Revenues as determined by the Board pursuant to Section 4.08 hereof;

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

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

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

Notwithstanding the provisions of this Indenture, nothing herein shall preclude the Board from making the payments described in paragraphs FIRST through ~~SEVENTH NINTH~~ above from sources other than Pledged Revenues.

~~The Board reserves the right to make modifications to the application of funds provided in subsection (c). The Board covenants that no such modifications will violate provisions of subsections (a) or (b) above or the provisions of any other contracts or agreements of the Board or any legal requirements otherwise applicable to the use of such moneys.~~

Section 5.03

Section 5.03 is to be amended to read as follows:

Section 5.03. Senior Lien Obligations Prohibited. The Board hereby agrees that so long as any Bonds are Outstanding under this Indenture, it (i) will not adopt a resolution determining that Pledged Revenues be used to pay general obligation bonds of the City on a senior lien basis, and (ii) will not issue any additional bonds or other obligations with a lien on or security interest granted in Pledged Revenues which is senior to the Bonds. **Notwithstanding the previous sentence, nothing in this Indenture prohibits the Board from entering into agreements that provide for the granting of Facilities Construction Credits by the Board.**

Section 5.04

Clause (a) of Section 5.04 is to be amended to read as follows:

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

~~(1) payments required for such Fiscal Year pursuant to paragraphs FIRST and SECOND of Section 4.04(b) hereof; and~~

~~(2) payments required for such Fiscal Year pursuant to Section 4.04(c) paragraphs THIRD, FOURTH, FIFTH AND SIXTH hereof.;~~ **SECOND, THIRD, FOURTH, FIFTH, SIXTH, SEVENTH and EIGHTH of Section 4.04(b) hereof.**

Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Subordinated Obligations **and Third Lien Obligations.**

(a) The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in this Indenture, referred to as Subordinated Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:

~~(i)~~ **(1)** Any Supplemental Indenture authorizing the issuance of any ~~Subordinate Obligations~~ **Subordinated Obligations** shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds; and

~~(2)~~ **(ii)** Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds ~~or~~ **and** to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

(b) **The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and any Subordinated Obligations and which indebtedness is, in this Indenture, referred to as Third Lien Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Board shall determine, provided that:**

(i) **Any Supplemental Indenture authorizing the issuance of any Third Lien Obligations shall specifically state that such lien on or security interest granted in the Pledged Revenues is junior and subordinate to the lien on and security interest in such Pledged Revenues and other assets granted to secure the Bonds and the Subordinated Obligations; and**

(ii) **Payment of principal of and interest on such Third Lien Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds and to replenish the Reserve Fund or a Debt Service Reserve Fund, and all deposits required to be made to the**

trustee or paying agent for the Subordinated Obligations to pay debt service on the Subordinated Obligations and to replenish any debt service reserve fund established for the Subordinated Obligations are then current in accordance with Section 4.04 of this Indenture.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D-2

AMENDMENTS TO THE MASTER SUBORDINATE INDENTURE

FIFTY-ONE PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS

The Fifty-One Percent Master Subordinate Indenture Amendments will not become effective until the Department has received the consent of the owners of at least 51% in aggregate principal amount of all of the Subordinate Bonds Outstanding and the consent of BNP (the “Fifty-One Percent Master Subordinate Indenture Consent Requirement”). By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Fifty-One Percent Master Subordinate Indenture Amendments. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of more than 51% in aggregate principal amount of all of the Subordinate Bonds Outstanding will have consented to the Fifty-One Percent Master Subordinate Indenture Amendments. However, the Department will not receive the consent of BNP to the Fifty-One Percent Master Subordinate Indenture Amendments at the time of issuance of the Series 2008 Subordinate Bonds. At this time there can be no assurance that the Fifty-One Percent Master Subordinate Indenture Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are show in **bold and double underline** and deletions are shown in ~~strikethrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

(a) Subparagraph (d) of the definition of “Aggregate Annual Debt Service”

(d) if any Outstanding Subordinate Obligations (including Subordinate Program Obligations) or any Subordinate Obligations which are then proposed to be issued constitute Tender Indebtedness ~~(but excluding Subordinate Program Obligations or Subordinate Obligations as to which a Qualified Swap is in effect and to which subsection (g) or (h) applies)~~, then, for purposes of determining Aggregate Annual Debt Service, Tender Indebtedness shall be treated as if **(i)** the principal amount of such Subordinate Obligations were to be amortized over a term of not more than 30 years commencing in the year in which such Series or Subseries is first subject to tender and with substantially level Annual Debt Service payments and extending not later than 30 years from the date such Tender Indebtedness was originally issued, **provided, however, notwithstanding the previous provisions of this clause (i), any principal amortization schedule set forth in a Supplemental Subordinate Indenture (including, but not limited to, any mandatory sinking fund redemption schedule) shall be applied to determine the principal amortization of such Subordinate Obligations;** **(ii)** the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes; and **(iii)** with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments shall be treated as described in (a) above unless the interest during that period is subject to fluctuation, in which case the interest becoming due prior to such first tender date shall be determined as provided in (e) or (f) below, as appropriate;

(b) Subparagraph (h) of the definition of “Aggregate Annual Debt Service”

(i) for purposes of computing the Aggregate Annual Debt Service of Subordinate Obligations which constitute Synthetic Fixed Rate Debt, the interest payable thereon shall, if the Department elects, be that rate as provided for by the terms of the Swap or the net interest rate payable pursuant to offsetting indices, as applicable, or if the Department ~~fails to~~ **does not** elect such rate, then it shall be deemed to be the fixed interest rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, **or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Subordinate Obligations of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Subordinate Obligations bear interest which is or is not excluded from gross income for federal income tax purposes;**

(ii) for purposes of computing the Aggregate Annual Debt Service of Subordinate Obligations with respect to which a Swap has been entered into whereby the Department has agreed to pay the floating variable rate thereunder, no fixed interest rate amounts payable on the Subordinate Obligations to which such Swap pertains shall be included in the calculation of Aggregate Annual Debt Service, and the interest rate with respect to such Subordinate Obligations shall, ~~if the Department elects,~~ be the sum of that rate as determined in accordance with subsection (e) relating to Variable Rate Indebtedness plus the difference between the interest rate on the Designated Debt and the rate received from the Swap Provider;

(c) Subparagraph (j) of the definition of “Aggregate Annual Debt Service”

(j) if moneys ~~or~~, Permitted Investments **or any other amounts not included in Subordinate Pledged Revenues have been used to pay or** have been irrevocably deposited with and are held by the Trustee or another fiduciary **to pay** or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such moneys, Permitted Investments, **other amounts not included in Subordinate Pledged Revenues** or Capitalized Interest or from the earnings thereon shall be disregarded and not included in calculating **Aggregate** Annual Debt Service;

(d) Subparagraph (k) of the definition of “Aggregate Annual Debt Service”

(k) if Passenger Facility Charges, **Customer Facility Charges**, state and/or federal grants or other moneys **not included in Subordinate Pledged Revenues** have been irrevocably committed or are held by the Trustee or another fiduciary and are to be set aside exclusively to be used to pay principal and/or interest on specified Subordinate Obligations, then the principal and/or interest to be paid from such Passenger Facility Charges, **Customer Facility Charges**, state and/or federal grants or other moneys **not included in Subordinate Pledged Revenues** or from earnings thereon shall be disregarded (unless such Passenger Facility Charges, **Customer Facility Charges**, state and/or federal grants or other moneys are included in ~~the definition of Pledged Revenues~~) and not included in calculating Aggregate Annual Debt Service; and

(e) The definition of “Authorized Amount”

“Authorized Amount” shall mean, when used with respect to Subordinate Obligations, including Subordinate Program Obligations, the maximum Principal Amount of Subordinate Obligations which is then authorized by a resolution or Supplemental Subordinate Indenture adopted by the Board pursuant to Section 2.09 hereof to be Outstanding at any one time under the terms of such Program or Supplemental Subordinate Indenture. If the maximum Principal Amount of Subordinate Obligations or Subordinate Program Obligations authorized by a preliminary resolution or form of Supplemental Subordinate Indenture approved by the Board pursuant to Section 2.09 of this Indenture exceeds the maximum Principal

Amount of Subordinate Obligations set forth in the final resolution of sale adopted by the Board or in the definitive Supplemental Subordinate Indenture executed and delivered by the Department pursuant to which such Subordinate Obligations are issued or such Program is established, the Principal Amount of such Subordinate Obligations or Subordinate Program Obligations as is set forth in said final resolution of sale or in the definitive Supplemental Subordinate Indenture as executed and delivered by the Department shall be deemed to be the “Authorized Amount.” Notwithstanding the provisions of this definition of “Authorized Amount,” in connection with Section 2.11(a) and (b) and the calculation of Maximum Aggregate Annual Debt Service **and Aggregate Annual Debt Service** with respect to a Commercial Paper Program, “Authorized Amount” shall mean the total amount available (utilized and unutilized, if applicable) under a Credit Facility entered into with respect to such Commercial Paper Program and the total amount of Commercial Paper Notes that may be issued pursuant to an Unenhanced Commercial Paper Program.

(f) The definition of “Costs” or “Costs of a Project”

“Costs” or “Costs of a Project” shall mean all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and shall include, but not be limited to the following: (a) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (b) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (c) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the Department or Consultant; (d) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (e) financing expenses, including costs related to issuance of and securing of Subordinate Obligations, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, a Debt Service Reserve Fund, if any, Trustee’s fees and expenses; (f) any Swap Termination Payments due in connection with a Series or Subseries of Subordinate Obligations or the failure to issue such Series or Subseries of Subordinate Obligations, and (g) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department. **Costs of a Project shall also include the acquisition or refunding of outstanding revenue bonds and obligations of the Department, RAIC bonds and California Statewide Communities Development Authority bonds, including any financing costs with respect thereto.**

(g) The definition of “Customer Facility Charge”

“Customer Facility Charges” shall mean all amounts received by the Department from the payment of any customer facility fees or charges by customers of automobile rental companies pursuant to the authority granted by Section 1936 of the California Civil Code, as amended from time to time, or any other applicable State law, including all interest, profits or other income derived from the deposit or investment therefor.

(h) The definition of “Debt Service Reserve Fund Surety Policy”

“Debt Service Reserve Fund Surety Policy” shall mean an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Debt Service Reserve Fund created for one or more Series or Subseries of Outstanding Subordinate Obligations in lieu of or partial substitution for cash or securities on deposit therein. **The Except as otherwise provided in a Supplemental Subordinate Indenture, the** entity providing such Debt Service Reserve Fund Surety Policy shall be rated, **at the time such instrument is provided,** in one of the two highest long-term Rating Categories by one or more of the Rating Agencies.

- (i) The definition of “Estimated Completion Date”

~~“Estimated Completion Date” shall mean the estimated date upon which a specified Project will have been substantially completed in accordance with the plans and specifications applicable thereto or the estimated date upon which a specified Project is expected to have been acquired and payment therefor made, in each case, as that date shall be set forth in a certificate of an Authorized Representative delivered to the Trustee at or prior to the time of issuance of the Subordinate Obligations which are issued to finance such specified Project.~~

Section 2.09

Clause (f) of Section 2.09 is to be amended to read as follows:

(f) a certificate of the Authorized Representative stating that ~~(i)(A)~~ none of the Events of Default set forth in Section 8.01(a), (b), (c), (e), (f) and (g) of this Indenture have occurred and remain uncured, that none of the events of default set forth in Section 5.01(a), (c), (d) and (e) of the Parity Subordinate Indenture have occurred and remain uncured, and that none of the events of default set forth in the Senior Lien Trust Indenture have occurred and remain uncured, ~~and~~ or (B) that upon the issuance of such Series or Subseries of Subordinate Obligations all the Events of Default set forth in Section 8.01(a), (b), (c), (e), (f) and (g) of this Indenture that have occurred and are continuing, that all of the events of default set forth in Section 5.01(a), (c), (d) and (e) of the Parity Subordinate Indenture that have occurred and are continuing, and that all of the events of default set forth in the Senior Lien Trust Indenture that have occurred and are continuing, shall be cured, and (ii) that the Department is in full compliance with the terms of Sections 5.04 and 5.05 hereof, Section 4.04 of the Parity Subordinate Indenture and Section 5.04 of the Senior Lien Trust Indenture;

Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Test for Issuance of Subordinate Obligations. In addition to the certificate required by Section 2.11 of the Parity Subordinate Indenture (which certificate shall not be required on and after the earlier to occur of (y) the date the Parity Subordinate Indenture is discharged pursuant to Article VIII of the Parity Subordinate Indenture, or (z) the date the Department amends Section 2.11 of the Parity Subordinate Indenture, and such amendments become effective, so that the provisions of Section 2.11 of the Parity Subordinate Indenture will be substantially similar to the provisions of this Section 2.11), and subject to the provisions under subsections (a ~~1~~), (b ~~2~~) or (c ~~3~~) of the last paragraph of this Section 2.11 ~~and excepting the Initial Subordinate Obligations~~, as a condition to the issuance of any Series or Subseries of Subordinate Obligations in excess of the Initial Subordinate Obligations, there shall first be delivered to the Trustee and the Parity Subordinate Issuing and Paying Agent either:

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

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

(i) the Net Subordinate Pledged Revenues (~~as calculated by said Consultant~~), together with any Transfer, for the last audited Fiscal Year or for any 12 consecutive months out of the most recent 24 18 consecutive months immediately preceding the date of issuance of the proposed Series or Subseries of Subordinate Obligations or the establishment of a Program, were at least equal to 115% of ~~Maximum~~ the sum of the Aggregate Annual Debt Service due and payable with respect to all Outstanding Subordinate Obligations, ~~Unissued (not including the proposed Series or Subseries of Subordinate Obligations or the proposed~~ Subordinate Program Obligations) and Parity Subordinate Obligations for such Fiscal Year or other applicable period; and

(ii) ~~for each Fiscal Year during the period from the date of delivery of such certificate until the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative, the Consultant estimates that the Department will be in compliance with Section 5.04(a) and (b) of this Indenture; and~~

(ii) ~~(iii)~~ for the period from and including the first full Fiscal Year following the issuance of such proposed Series or Subseries of Subordinate Obligations during which no interest on such Series or Subseries of Subordinate Obligations is expected to be paid from the proceeds thereof through and including the later of: (A) the fifth full Fiscal Year following the issuance of such Series or Subseries of Subordinate Obligations, or (B) the third full Fiscal Year during which no interest on such Series or Subseries of Subordinate Obligations is expected to be paid from the proceeds thereof, the estimated Net Subordinate Pledged Revenues ~~for each of the first three complete Fiscal Years immediately following the last Estimated Completion Date, as certified to the Consultant by an Authorized Representative,~~ together with any estimated Transfer, for each such Fiscal Year, will be at least equal to 115% of ~~Maximum~~ the Aggregate Annual Debt Service for each such Fiscal Year with respect to all Outstanding Subordinate Obligations, Unissued Subordinate Program Obligations, Parity Subordinate Obligations and the proposed Series or Subseries of Subordinate Obligations calculated as if the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding.

For purposes of subparagraphs (a) and (b) above, ~~no~~ the amount of any Transfer shall be taken into account in the computation of Pledged Revenues by the Authorized Representative or the Consultant taken into account shall not exceed 15% of the Aggregate Annual Debt Service on the Outstanding Subordinate Obligations, Unissued Program Subordinate Obligations, Parity Subordinate Obligations, the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations, as applicable, for such applicable Fiscal Year or such other applicable period.

For purposes of subsections (b)(ii) ~~and (iii)~~ above, in estimating Net Subordinate Pledged Revenues, the Consultant may take into account (1) Pledged Revenues from Specified LAX Projects or LAX Airport Facilities reasonably expected to become available during the period for which the estimates are provided, (2) any increase in fees, rates, charges, rentals or other sources of Pledged Revenues which have been approved by the Board and will be in effect during the period for which the estimates are provided, (3) any other increases in Pledged Revenues which the Consultant believes to be a reasonable assumption for such period. With respect to LAX Maintenance and Operation Expenses, the Consultant shall use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors,

including inflation and changing operations or policies of the Board, as the Consultant believes to be appropriate. The Consultant shall include in the certificate or in a separate accompanying report a description of the assumptions used and the calculations made in determining the estimated Net Subordinate Pledged Revenues and shall also set forth the calculations of ~~Maximum~~ Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

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

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(b) (2) if the Subordinate Obligations being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the Net Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Department will be in compliance with Section 5.04(a) and (b) of this Indenture; or

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

Section 5.04

Clauses (c), (d) and (e) of Section 5.04 is to be amended to read as follows:

(c) ~~The Department covenants that if Net~~ **If the Department violates either covenant set forth in subsection (a) or (b) above, such violation shall not be a default under this Indenture and shall not give rise to a declaration of an Event of Default if, within 180 days after the date such violation is discovered, the Department revises the schedule of rates, tolls, fees, rentals and charges insofar as practicable and revises any LAX Maintenance and Operation Expenses insofar as practicable and takes such other actions as are necessary so as to produce** Subordinate Pledged Revenues, together with any Transfer (only as applied in (b) above), in any Fiscal Year are less than the amount specified in paragraph (a) or (b) of this Section 5.04, the Department will retain and direct a Consultant to make recommendations as to the revision of the Department's business operations and its schedule of rentals, rates, fees and charges for the use of LAX and for services rendered by the Department in connection with LAX, and after receiving such recommendations or giving reasonable opportunity for such recommendations to be made, the Department shall take all lawful measures to revise the schedule of rentals, rates, fees and charges as may be necessary to produce Net Subordinate Pledged Revenues, together with any Transfer (only as applied in (b) above), in the amount specified in paragraph (a) or (b) of this Section 5.04 in the next succeeding Fiscal Year. **to cure such violation for future compliance; provided, however, that if the Department does not cure such violation by the end of the second subsequent fiscal year succeeding the date such violation is discovered, an Event of Default may be declared under Section 8.01(d) hereof. The Department may obtain such recommendations from a Consultant as it deems necessary or appropriate to bring the Department into compliance with said covenants.**

(d) — In the event that Net Subordinate Pledged Revenues for any Fiscal Year are less than the amount specified in paragraph (a) or (b) of this Section 5.04, but the Department promptly has taken prior to or during the next succeeding Fiscal Year all lawful measures to revise the schedule of rentals, rates, fees and charges as required by paragraph (c) of this Section 5.04, such deficiency in Net Subordinate Pledged Revenues shall not constitute an Event of Default under the provisions of Section 8.01(d). Nevertheless, if after taking the measures required by paragraph (c) of this Section 5.04 to revise the schedule of rentals, rates, fees and charges, Net Subordinate Pledged Revenues in the next succeeding Fiscal Year (as evidenced by the audited financial statements of the Department for such Fiscal Year) are less than the amount specified in paragraph (a) or (b) of this Section 5.04, such deficiency in Net Subordinate Pledged Revenues shall constitute an Event of Default under the provisions of Section 8.01(d).

~~(d)~~ — (e) In addition to the covenants set forth in (a) and (b) above, the Department covenants to continue to comply with Section 4.04 of the Parity Subordinate Indenture, as long as such Section is applicable.

Section 5.14

Section 5.14 is to be amended to read as follows:

Section 5.14. LAX Special Facilities and LAX Special Facility Obligations. Subject to the terms and provisions of Section 5.07 of the Senior Lien Trust Indenture, ~~as such section exists on the date of execution of this Indenture~~, the Department shall be permitted to designate and provide that certain of the contractual payments derived or relating to a LAX Special Facility (as such term is defined in the Senior Lien Trust Indenture) together with other income and revenues available to the Department from such LAX Special Facility, be "LAX Special Facilities Revenue" (as defined in the Senior Lien Trust Indenture) and not included as Pledged Revenues or, Net Pledged Revenues **or Subordinate Pledged Revenues**. Subject to the terms of Section 5.07 of the Senior Lien Trust Indenture, the Department will be permitted to issue "LAX Special Facility Obligations" (as defined in the Senior Lien Trust Indenture) payable solely from LAX Special Facilities Revenue, **proceeds of such LAX Special Facility Obligations set aside exclusively to pay debt service on such LAX Special Facility Obligations, and such Pledged Revenues**

or other moneys not included in Pledged Revenues made available by the Department as provided in Section 5.07 of the Senior Lien Trust Indenture.

Section 8.01

(a) Clause (a) of Section 8.01 is to be amended to read as follows:

(a) a failure to pay the principal of or premium, if any, on any of the Subordinate Obligations, ~~except termination payments under Qualified Swaps~~, when the same shall become due and payable at maturity or upon redemption;

(b) Clause (d) of Section 8.01 is to be amended to read as follows:

(d) a failure by the Department to observe and perform any covenant, condition, agreement or provision (other than as specified in paragraphs (a), (b) and (c) of this Section 8.01) that are to be observed or performed by the Department and which are contained in this Indenture or a Supplemental Subordinate Indenture, which failure, except for a violation under Section 5.04 which shall be controlled by the provisions set forth therein, shall continue for a period of ~~60~~ **90** days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Department by the Trustee, which notice may be given at the discretion of the Trustee and shall be given at the written request of Holders of 25% or more of the Principal Amount of the Subordinate Obligations then Outstanding, unless the Trustee, or the Trustee and the Holders of Subordinate Obligations in a Principal Amount not less than the Principal Amount of Subordinate Obligations the Holders of which requested such notice, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the Holders of such principal amount of Subordinate Obligations shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Department within such period and is being diligently pursued until such failure is corrected;

Section 8.02

Clause (c) of Section 8.02 is to be amended to read as follows:

(c) ~~It~~ **Except with respect to a Credit Provider or a Liquidity Provider as provided in a Supplemental Subordinate Indenture or a written agreement between the Department and a Credit Provider or a Liquidity Provider (subject to the prior lien on Pledged Revenues granted to the Senior Lien Revenue Bonds pursuant to the Senior Lien Trust Indenture), in** no event, upon the occurrence and continuation of an Event of Default described in Section 8.01 hereof, shall the Trustee, the Holders, a Credit Provider, **a Liquidity Provider** or any other party have the right to accelerate the payment of principal of and interest on the Subordinate Obligations Outstanding.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

ONE-HUNDRED PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS

Subordinate Pledge Change Amendment

The Subordinate Pledge Change Amendment will not become effective until (a) the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds then Outstanding and the consent of BNP, and the Department has made similar conforming amendments to the Parity Subordinate Indenture (which amendments will require the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks) (collectively, the “Subordinate Pledge Change Consent Requirement”), and (b) the Senior Pledge Change Consent Requirement has been met. By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Subordinate Pledge Change Amendment. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the Subordinate Pledge Change Amendment; but the Department will not receive the consent of BNP, the Department will not have made similar amendments to the Parity Subordinate Indenture (or received the consent of the owners of 100% in aggregate principal amount of the Subordinate Commercial Paper Notes then Outstanding and the consent of the CP Banks for such amendments) and the Senior Pledge Change Consent Requirement will not be met.

At this time there can be no assurance that the Subordinate Pledge Change Consent Requirement or the Senior Pledge Change Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are show in bold and double underline and deletions are shown in ~~strike through~~. The Fifty-One Percent Master Subordinate Indenture Amendments described in “—FIFTY-ONE PERCENT MASTER SUBORDINATE INDENTURE AMENDMENTS” above the Other Master Subordinate Indenture Amendments as described in “—OTHER MASTER SUBORDINATE INDENTURE AMENDMENTS” below are assumed to become effective prior to the Subordinate Pledge Change Amendment and therefore are incorporated in the description of the Subordinate Pledge Change Amendment described below.

WHEREAS CLAUSES

The fourth, fifth and tenth WHEREAS clauses will be amended to read as follows:

WHEREAS, pursuant to Resolution No. 19050, adopted by the Board on January 30, 1995, and the Master Trust Indenture, dated as of April 1, 1995 (the “Senior Lien Trust Indenture”), by and between the Department and BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee thereunder (the “Senior Lien Trustee”), as amended and supplemented, the Department authorized and provided for the issuance of Bonds (as defined in the Senior Lien Trust Indenture) secured by and payable from a pledge of Net Pledged Revenues (as defined in the Senior Lien Trust Indenture); and

WHEREAS, under the terms of the Senior Lien Trust Indenture, the Board may create a charge or lien on the Net Pledged Revenues ranking junior and subordinate to the charge or lien of the obligations issued pursuant to the Senior Lien Trust Indenture; and

WHEREAS, the Department hereby declares and provides that, with respect to the Net Pledged Revenues, the pledge and lien provided in this Indenture are subordinate to the lien created by the Senior Lien Trust Indenture and obligations issued hereunder will be subordinate to obligations to be issued under the Senior Lien Trust Indenture with respect to payment from the Net Pledged Revenues and shall be payable from the Net Pledged Revenues only when and to the extent the Net Pledged Revenues are released under the Senior Lien Trust Indenture in accordance with its terms; and

ARTICLE I – Definitions

The following definitions are to be amended to read as follows:

- (a) The definition of “Net Subordinate Pledged Revenues”

~~“Net Subordinate Pledged Revenues” shall mean for any given period, the Pledged Revenues for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Aggregate Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture) on the Outstanding (as such term is defined in the Senior Lien Trust Indenture) Senior Lien Revenue Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Section 4.04(b) SECOND of the Senior Lien Trust Indenture.~~

- (b) The definition of “Subordinate Pledged Revenues”

“Subordinate Pledged Revenues” shall mean for any given period, the Pledged Revenues available to pay debt service on the Subordinate Obligations for such period less, for such period, the LAX Maintenance and Operation Expenses, less, for such period, the Aggregate Annual Debt Service (as such term is defined in the Senior Lien Trust Indenture) on the Outstanding (as such term is defined in the Senior Lien Trust Indenture) Senior Lien Revenue Bonds, less, for such period, deposits to any reserve fund or account required pursuant to Section 4.04(e)~~(b)~~ THIRD of the Senior Lien Trust Indenture.

Section 2.01

The last paragraph of Section 2.01 is to be amended to read as follows:

In addition, each Subordinate Obligation shall contain an express statement that such obligation and the interest thereon are junior and subordinate in all respects to the Senior Lien Revenue Bonds as to lien on and source and security for payment from the Net Pledged Revenues.

Section 2.11

Section 2.11 is to be amended to read as follows:

Section 2.11. Test for Issuance of Subordinate Obligations. In addition to the certificate required by Section 2.11 of the Parity Subordinate Indenture (which certificate shall not be required on and after the earlier to occur of (y) the date the Parity Subordinate Indenture is discharged pursuant to Article VIII of the Parity Subordinate Indenture, or (z) the date the Department amends Section 2.11 of the Parity Subordinate Indenture, and such amendments become effective, so that the provisions of Section 2.11 of the Parity Subordinate Indenture will be substantially similar to the provisions of this Section 2.11), and subject to the provisions under subsections (1), (2) or (3) of the last paragraph of this Section 2.11, as a condition to the issuance of any Series or Subseries of Subordinate Obligations in excess of the Initial Subordinate Obligations, there shall first be delivered to the Trustee and the Parity Subordinate Issuing and Paying Agent either:

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

Obligations, calculated as if the proposed Series or Subseries of Subordinate Obligations and the full Authorized Amount of such proposed Subordinate Program Obligations (as applicable) were then Outstanding; or

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

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

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

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

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

For purposes of preparing the certificate or certificates described above, the Consultant or Consultants or the Authorized Representative may rely upon financial statements prepared by the

Department which have not been subject to audit by an independent certified public accountant if audited financial statements for the Fiscal Year or period are not available; provided, however, that an Authorized Representative shall certify as to their accuracy and that such financial statements were prepared substantially in accordance with generally accepted accounting principles, subject to year-end adjustments.

Neither of the certificates described above under Section 2.11(a) or (b) shall be required:

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

(2) if the Subordinate Obligations being issued constitute Notes and there is delivered to the Trustee, instead, a certificate prepared by an Authorized Representative showing that the principal amount of the proposed Notes being issued, together with the principal amount of any Notes then Outstanding, does not exceed 10% of the ~~Net~~ Subordinate Pledged Revenues for any 12 consecutive months out of the most recent 24 months immediately preceding the issuance of the proposed Notes and there is delivered to the Trustee a certificate of an Authorized Representative setting forth calculations showing that for each of the Fiscal Years during which the Notes will be Outstanding, and taking into account the debt service becoming due on such Notes, the Department will be in compliance with Section 5.04(a) and (b) of this Indenture; or

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

Section 2.12

The third sentence of Section 2.12 is to be amended to read as follows:

Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Subordinate Obligation shall be payable from Pledged Revenues on a basis subordinate to the payment and/or funding of **LAX Maintenance and Operation Expenses**, Senior Lien Revenue Bonds, any reserve funds established with respect to Senior Lien Revenue Bonds, Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

Section 2.13

Clauses (b) and (c) of Section 2.13 is to be amended to read as follows:

(b) In the event that a Swap Termination Payment or any other amounts other than as described in clause (a) above are due and payable by the Department under a Qualified Swap, such Swap Termination Payment and any such other amounts shall, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund **LAX Maintenance and Operation Expenses**, Senior Lien Revenue Bonds, any reserve funds established with respect to Senior Lien Revenue Bonds, Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

(c) Obligations of the Department to make payments, including termination payments, under a Nonqualified Swap shall, unless otherwise provided in a Supplemental Subordinate Indenture, constitute an obligation of the Department payable from Pledged Revenues after its obligations to pay and/or fund **LAX Maintenance and Operation Expenses**, Senior Lien Revenue Bonds, any reserve funds established with respect to Senior Lien Revenue Bonds, Parity Subordinate Obligations, any reserve funds established with respect to Parity Subordinate Obligations, Subordinate Obligations and any reserve funds established with respect to Subordinate Obligations.

Section 5.04

Clauses (a) and (b) of Section 5.04 is to be amended to read as follows:

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

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

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

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

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

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

(b) The Department further agrees that it will establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that

during each Fiscal Year the ~~Net~~ Subordinate Pledged Revenues, together with any Transfer, will be equal to at least 115% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations and the outstanding Parity Subordinate Obligations. For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 15% of Aggregate Annual Debt Service on the Outstanding Subordinate Obligations and the outstanding Parity Subordinate Obligations in such Fiscal Year.

Section 10.02

Clause (k) of Section 10.02 is to be amended to read as follows:

(k) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Subordinate Obligations, including, without limitation, the segregation of Pledged Revenues, Net Pledged Revenues and Subordinate Pledged Revenues into different funds; and

Subordinate Debt Service Deposit Amendment

The Subordinate Debt Service Deposit Amendment will not become effective until the Department has received the consent of the owners of 100% in aggregate principal amount of all of the Subordinate Bonds (the “Subordinate Debt Service Deposit Consent Requirement”). By the purchase and acceptance of the Series 2008 Subordinate Bonds, the owners of the Series 2008 Subordinate Bonds will be deemed to have irrevocably consented to the Subordinate Debt Service Deposit Amendment. At the time of issuance of the Series 2008 Subordinate Bonds, the owners of approximately 75% of the Outstanding Subordinate Bonds will have consented to the Subordinate Debt Service Deposit Amendment. At this time there can be no assurance that the Subordinate Debt Service Deposit Consent Requirement will be met within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are show in bold and double underline and deletions are shown in ~~strikethrough~~.

Section 4.03

Section 4.03 is to be amended to read as follows:

Section 4.03. Creation and Funding of Debt Service Funds. The Department shall, at the time of issuance of each Series or Subseries of Subordinate Obligations create a Debt Service Fund for such Series or Subseries, which Debt Service Fund shall be designated “Los Angeles International Airport Subordinate Revenue [Obligations/Bonds/Commercial Paper Notes] Debt Service Fund [Series/Subseries] _____”, (each, respectively, a “Debt Service Fund”) which Debt Service Fund and all Subaccounts shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series or Subseries, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created in the various Debt Service Funds and shall be held by the Trustee or such agents as shall be provided by Supplemental Subordinate Indenture. In addition, to provide for the redemption of any Subordinate Obligations which are subject to optional or mandatory redemption, including mandatory sinking fund redemption, the Department may establish within each Debt Service Fund an account designated the “Redemption Account.”

The Trustee shall, at least fifteen (15) Business Days prior to each Payment Date on any Subordinate Obligation, give the Department notice by telephone, promptly confirmed in writing, of the amount after taking account Capitalized Interest, if any, on deposit in the Debt Service Funds, required to be deposited with the Trustee to make each required payment of principal and interest due on such Payment Date. With respect to any Series or Subseries of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may

provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series or Subseries and, in such event, the terms of such Supplemental Subordinate Indenture shall control.

So long as any of the Subordinate Obligations are Outstanding, the Authorized Representative shall deliver to the Treasurer, **at least ten (10) Business Days prior to each Payment Date**, as to each Series and Subseries of Subordinate Obligations Outstanding, a written demand authenticated by the signature of the Chief Financial Officer requesting that the Treasurer, not later than ~~the first day of each calendar month~~ **five (5) Business Days prior to each Payment Date**, transfer from the LAX Revenue Account to the Trustee for deposit in the Debt Service Funds established in respect of each Series ~~or~~ **and** Subseries of Outstanding Subordinate Obligations: ~~(a) sums in equal fractional parts for each one half year so that at least the full amount required to pay the~~ **principal of and/or** interest on Subordinate Obligations of that Series or Subseries, as it becomes due, shall be set aside in that Debt Service Fund by not later than ~~the first Business Day of the month prior to the date each installment of interest becomes due;~~ ~~(b) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due at maturity, the Principal Amount of Subordinate Obligations of that Series or Subseries, shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due;~~ and ~~(c) sums in equal fractional parts for each year so that at least the full amount required to pay, as it becomes due, the sinking installment payment, if any, due with respect to Term Subordinate Obligations of such Series or Subseries shall be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due.~~ No such transfer need be made in respect of any Series or Subseries of Subordinate Obligations prior to the actual delivery of that Series or Subseries of Subordinate Obligations to the purchasers thereof; provided, however, that subsequent to the issuance of such Series or Subseries of Subordinate Obligations, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series or Subseries of Subordinate Obligations, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series or Subseries of Subordinate Obligations, so that interest due on such Series or Subseries of Subordinate Obligations on the first interest payment date to occur after the issuance of such Series or Subseries of Subordinate Obligations shall be fully funded at least one (1) Business Day prior to the date the first installment of interest is due on such Series or Subseries of Subordinate Obligations, and, if the first principal payment or sinking fund installment of such Series or Subseries of Subordinate Obligations is due less than 12 months after the issuance of such Series or Subseries of Subordinate Obligations, there shall be transferred and paid from the LAX Revenue Account to the Debt Service Fund established for that Series or Subseries of Subordinate Obligations, equal monthly sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of such Series or Subseries of Subordinate Obligations, so that principal or sinking fund installments of such Series or Subseries of Subordinate Obligations due on the first principal payment date to occur after the issuance of such Series or Subseries of Subordinate Obligations shall be fully funded at least one (1) Business Day prior to the date the first principal payment or sinking fund installment is due on such Series or Subseries of Subordinate Obligations. **due on such Payment Date.**

On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Subordinate Obligations, the Trustee shall, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Debt Service Funds for the Series or Subseries of Subordinate Obligations for which such payments were made **and any excess funds shall be applied to pay all amounts of principal and interest becoming due on any subsequent Payment Dates.** Notwithstanding any of the foregoing provisions of this paragraph, no amount need be transferred from LAX Revenue Account or otherwise deposited into any Debt Service Fund for any Series or Subseries of Subordinate Obligations for the payment of principal or interest, respectively, if the amount already on deposit therein and available for such purpose is sufficient to pay in full the amount of principal and/or interest, respectively, coming due on such Subordinate Obligations on the next succeeding Payment Date.

The Department may provide in any Supplemental Subordinate Indenture that, as to any Series or Subseries of Subordinate Obligations Outstanding, any amounts required to be transferred to and paid into a Debt Service Fund may be prepaid, in whole or in part, by being earlier transferred to and paid into that Debt Service Fund, and in that event any subsequently scheduled ~~monthly~~ transfer, or any part thereof, which has been so prepaid need not be made at the time appointed therefor. In any Supplemental Subordinate Indenture, the Department may provide that moneys in the Redemption Account allocable to sinking fund installment payments of a Series or Subseries may, at the discretion of the Department, be applied to the purchase and cancellation of such Series or Subseries (a price not greater than par) prior to notice of redemption of such Series or Subseries. Such Subordinate Obligations so delivered or previously redeemed or purchased at the direction of the Department shall be credited by the Trustee at the principal amount thereof to the next scheduled sinking installment payments on Subordinate Obligations of such Series or Subseries and any excess over the sinking installment payment deposit required on that date shall be credited against future sinking installment deposits in such manner and order as the Department may determine in its discretion, and the scheduled principal amount of the Subordinate Obligations to be redeemed by operation of such sinking installment payments shall be accordingly modified in such manner as the Department may determine and as specified to the Trustee in writing.

Money set aside and placed in a Debt Service Fund for any Series or Subseries of Subordinate Obligations shall remain therein from time to time expended for the aforesaid purposes thereof and shall not be used for any other purpose whatsoever, except that any such money so set aside and placed in a Debt Service Fund may be temporarily invested as provided in Article VI hereof, but such investment shall not affect the obligation of the Department to cause the full amount required by the terms of this Section to be available in a Debt Service Fund at the time required to meet payments of principal of and interest on Subordinate Obligations of the Series or Subseries for which it is accumulated. Earnings on such investments upon written request of the Department may be transferred into the LAX Revenue Account, except that during the continuation of an Event of Default, such earnings shall remain in the Debt Service Funds created under the respective Supplemental Subordinate Indentures.

Each Debt Service Fund established to pay principal of and interest on any Series or Subseries of Subordinate Obligations shall be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series or Subseries, as received by the Trustee or its agent, shall be deposited therein and used for such purpose. Accounts and subaccounts shall be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Representative and shall be held by the Trustee or such agents as shall be provided by the Supplemental Subordinate Indenture.

The moneys in each Debt Service Fund established for any issue, Series or Subseries shall be held in trust and applied as provided herein and in the Supplemental Subordinate Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Subordinate Indenture shall be subject to a lien on and security interest in favor of the holders of the Outstanding Subordinate Obligations of such Series or Subseries.

On each Payment Date for any Outstanding Subordinate Obligations, the Trustee shall pay to the Owners of the Subordinate Obligations of a given Series or Subseries from the appropriate Debt Service Fund or Debt Service Funds, an amount equal to the principal and interest becoming due on such Series or Subseries of Subordinate Obligations.

On or before ~~the fifteenth day preceding~~ a mandatory redemption date from sinking installment payments for Term Subordinate Obligations of a Series or Subseries of Subordinate Obligations, the Trustee shall transfer from the Debt Service Fund to the Redemption Account for such Series or Subseries an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to make the sinking installment payment due on such mandatory redemption date. On each date on which Term Subordinate Obligations of a Series or Subseries are to be mandatorily redeemed from sinking installment payments, the Trustee shall pay to the Owners of Subordinate Obligations of such Series or Subseries from the Redemption Account for such Series or Subseries, an amount equal to the amount of

interest and the principal amount of Term Subordinate Obligations of such Series or Subseries to be mandatorily redeemed on such date.

On each date on which Subordinate Obligations of any Series or Subseries shall otherwise become subject to optional or mandatory redemption (other than from sinking installment payments) in accordance with the provisions of any Supplemental Subordinate Indenture, the Trustee shall pay to the Owners of such Subordinate Obligations from the Redemption Account, an amount of interest and principal, and premium, if any, on such Subordinate Obligations to be mandatorily or optionally redeemed on said date. On or before such redemption date, in accordance with the Supplemental Subordinate Indenture pursuant to which such Subordinate Obligations are issued, the Department shall have or shall have caused to be deposited in the Redemption Account for such Series or Subseries, an amount which, together with amounts on deposit therein and available for such purpose, is sufficient to pay the redemption price of such Subordinate Obligations on such redemption date.

The payments made by the Trustee in this Section shall be made solely to the extent that moneys are on deposit in the appropriate Debt Service Fund.

All money remaining in a Debt Service Fund on the final Payment Date, in excess of the amount required to make provisions for the payment in full of the interest and/or the principal of the Subordinate Obligations of the Series or Subseries for which that Debt Service Fund was established or the payment of amounts required to be rebated, pursuant to the Code, to the United States of America with respect to Subordinate Obligations of that Series or Subseries, shall be returned to the Department and deposited by the Department in the LAX Revenue Account.

The Trustee shall, at least ~~10~~ two (2) Business Days prior to each Payment Date on any Subordinate Obligation, or as otherwise directed in any Supplemental Subordinate Indenture, give the Chief Financial Officer notice by telephone, promptly confirmed in writing, of any additional amount required to be deposited with the Trustee to pay the amount required to be paid on such Payment Date in respect of such Subordinate Obligation, in the event the amount then on deposit in any Debt Service Fund is insufficient to pay the amounts due on any Series or Subseries of Subordinate Obligations on such Payment Date. With respect to any Series or Subseries of Subordinate Obligations, the Supplemental Subordinate Indenture under which such Subordinate Obligations are issued may provide for different times and methods of notifying the Department of payment dates and amounts to accommodate the specific provisions of such Series or Subseries and, in such event, the terms of such Supplemental Subordinate Indenture shall control.

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in a Debt Service Reserve Fund) to pay in full with respect to Subordinate Obligations of all Series or Subseries all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day (without regard to any amounts in a Debt Service Reserve Fund) as follows: first, to the payment of past due interest on Subordinate Obligations of any Series or Subseries, in the order in which such interest came due, then to the payment of past due principal on Subordinate Obligations of any Series or Subseries, in the order in which such principal came due, then to the payment of interest then due and payable on the Subordinate Obligations of each Series or Subseries due on such Payment Date and, if the amount available shall not be sufficient to pay in full all interest on the Subordinate Obligations then due, then pro rata among the Series or Subseries according to the amount of interest then due and second to the payment of principal then due on the Subordinate Obligations and, if the amount available shall not be sufficient to pay in full all principal on the Subordinate Obligations then due, then pro rata among the Series or Subseries according to the Principal Amount then due on the Subordinate Obligations.

If a Debt Service Reserve Fund or Debt Service Reserve Funds (or a Credit Facility provided in lieu thereof) have been used to make payments on Subordinate Obligations secured thereby, then the Department may be required by a Supplemental Subordinate Indenture to replenish such Debt Service Reserve Fund or Debt Service Reserve Funds or reimburse the Credit Provider from Subordinate Pledged Revenues provided that (a) no amount from Subordinate Pledged Revenues may be used for such purpose

until all payments of principal of and interest on all Subordinate Obligations which have become due and payable shall have been paid in full, (b) the required payments to replenish any such Debt Service Reserve Fund or Debt Service Reserve Funds or reimburse the Credit Provider shall be due in no more than twelve (12) substantially equal monthly installments commencing in the month following any such withdrawal and (c) if the aggregate amount of payments due on any date to replenish the Debt Service Reserve Fund or Debt Service Reserve Funds exceeds the amount available for such purpose, the payments made to the Trustee for such purpose shall be allocated among the various Debt Service Reserve Funds pro rata on the basis of the Outstanding Principal Amount of Subordinate Obligations secured thereby.

Notwithstanding the foregoing, the Department may, in the Supplemental Subordinate Indenture authorizing such Series or Subseries of Subordinate Obligations, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on such Subordinate Obligations depending upon the terms of such Subordinate Obligations and may provide for payment through a Credit Facility with reimbursement to the Credit Provider from the respective Debt Service Fund created for the Series or Subseries of Subordinate Obligations for which such Credit Facility is provided.

If the Subordinate Pledged Revenues are at any time insufficient to make the deposits required to make payments on the Subordinate Obligations, the Department may, at its election, pay to the Trustee funds from any available sources with the direction that such funds be deposited into the Debt Service Funds or into a specified account or accounts or subaccount or subaccounts therein.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

OTHER MASTER SUBORDINATE INDENTURE AMENDMENTS

The Other Master Subordinate Indenture Amendments do not require the consent of the owners of the Subordinate Bonds, however, certain of the Other Master Subordinate Indenture Amendments will not become effective until the Other Master Senior Indenture Amendments described under APPENDIX D-1—“PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE—OTHER MASTER SENIOR INDENTURE AMENDMENTS” become effective. The Other Master Subordinate Indenture Amendments that will not become effective until the Other Master Senior Indenture Amendments described under APPENDIX D-1—“PROPOSED AMENDMENTS TO THE MASTER SENIOR INDENTURE—OTHER MASTER SENIOR INDENTURE AMENDMENTS” become effective are described below. At this time there can be no assurance that the Other Master Subordinate Indenture Amendments described below will become effective within any definite time frame. See “INTRODUCTION—Amendments to Master Subordinate Indenture” in the forepart of this Official Statement.

Additions to the Master Subordinate Indenture are show in **bold and double underline** and deletions are shown in ~~striketrough~~.

ARTICLE I – Definitions

The following definitions are to be amended or added to read as follows:

- (a) The definition of “Refunding Subordinate Obligations”

“Refunding Subordinate Obligations” shall mean any Subordinate Obligations issued pursuant to Section 2.10 hereof to refund or defease all or a portion of any Series or Subseries of Outstanding Subordinate Obligations, any Parity Subordinate Obligations or, any Senior Lien Revenue Bonds **or any Third Lien Obligations.**

- (b) The definition of “Subordinate Obligation” or “Subordinate Obligations”

“Subordinate Obligation” or “Subordinate Obligations” shall mean any debt obligation of the Department issued as a taxable or tax-exempt obligation under and in accordance with the provisions of Article II of this Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in Section 2.12 of this Indenture. **The terms “Subordinate Obligation” and “Subordinate Obligations” herein do not include any Third Lien Obligation; provided, however, the Department may provide in a Supplemental Subordinate Indenture that Third Lien Obligations may be issued thenceforth pursuant to this Indenture having the terms applicable to the Subordinate Obligations, except that such Third Lien Obligations shall be junior and subordinate in payment of such Third Lien Obligations from the Subordinate Pledged Revenues.** The terms “Subordinate Obligation” and “Subordinate Obligations” include Subordinate Program Obligations.

- (c) The definition of “Third Lien Obligation”

“Third Lien Obligation” shall have the meaning provided in Article I of the Senior Lien Trust Indenture, or as may be amended or supplemented pursuant to Article X of the Senior Lien Trust Indenture.

- (d) The definition of “Transfer”

“Transfer” shall mean for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue

Account (after all deposits and payments required by paragraphs FIRST through ~~SEVENTH~~ NINTH of Section 4.04 of the Senior Lien Trust Indenture have been made as of the last day of the immediately preceding Fiscal Year).

Section 4.02

The last sentence of Section 4.02 is to be amended to read as follows:

Notwithstanding this provision, no Construction Fund shall be required for a given Series or Subseries of Subordinate Obligations if all of the proceeds thereof (except those deposited into any Debt Service Reserve Fund or a Debt Service Fund) are spent at the time of issuance of such Series or Subseries or are used to refund Senior Lien Revenue Bonds, ~~or Parity~~ Subordinate Obligations ~~or otherwise~~, Subordinate Obligations or Third Lien Obligations or the Department otherwise determines that there is no need to create a Construction Fund for such Series or Subseries.

Section 5.06

Section 5.06 is to be amended to read as follows:

Section 5.06. Junior and Subordinated Obligations. The Department may, from time to time, incur indebtedness with a lien on Subordinate Pledged Revenues ranking junior and subordinate to the lien of the Subordinate Obligations. Such indebtedness shall be incurred at such times and upon such terms as the Department shall determine, provided that:

(a) any resolution or indenture of the Department authorizing the issuance of any subordinate obligations (including, but not limited to, Third Lien Obligations) shall specifically state that such lien on or security interest granted in the Subordinate Pledged Revenues is junior and subordinate to the lien on and security interest in such Subordinate Pledged Revenues and other assets granted to secure the Subordinate Obligations; and

(b) payment of principal of and interest on such subordinated obligations (including, but not limited to, Third Lien Obligations) shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Subordinate Obligations ~~or and~~ to replenish ~~the any~~ Debt Service Reserve Fund, ~~if any~~, are then current in accordance with Section 4.03 and 4.04 of this Indenture.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

PROPOSED FORMS OF CO-BOND COUNSELS' OPINIONS

[Closing Date]

Department of Airports of the City of Los Angeles
Los Angeles, California

\$310,410,000
Department of Airports of the City of Los Angeles, California
Los Angeles International Airport
Senior Revenue Bonds
2009 Series A

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the Department of Airports of the City of Los Angeles, California (the "Department"), acting through the Board of Airport Commissioners of the City of Los Angeles, California (the "Board"), of \$310,410,000 aggregate principal amount of its Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the "Series 2009 Senior Bonds"). The Series 2009 Senior Bonds are being issued under the terms of the Charter of the City of Los Angeles, relevant ordinances of the City of Los Angeles, and the Los Angeles Administrative Code (collectively, the "Charter"), the Master Trust Indenture, dated as of April 1, 1995, as amended (the "Master Senior Indenture"), by and between the Department, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee (the "Senior Trustee"), and the Tenth Supplemental Trust Indenture, dated as of December 1, 2009 (the "Tenth Supplemental Senior Indenture"), by and between the Department, acting through the Board, and the Senior Trustee. Issuance of the Series 2009 Senior Bonds has been authorized by Resolution No. 23876, adopted by the Board on August 17, 2009, and approved by the City Council of the City of Los Angeles on September 11, 2009, and Resolution No. 23920, adopted by the Board on October 19, 2009 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Senior Indenture and the Tenth Supplemental Senior Indenture.

In connection with the issuance of the Series 2009 Senior Bonds, we have examined the following:

- (a) a copy of the Charter;
- (b) certified copies of the Resolutions;
- (c) an executed counterpart of the Master Senior Indenture;
- (d) an executed counterpart of the Tenth Supplemental Senior Indenture;
- (e) certifications of the Department and others;
- (f) an executed copy of the Tax Compliance Certificate dated this date relating to the Series 2009 Senior Bonds and other matters (the "Tax Certificate");
- (g) an opinion of the City Attorney; and
- (h) such other documents, opinions and matters as we deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Department validly exists as a department of the City of Los Angeles (the “City”), duly organized and operating pursuant to the Charter and has the power to issue the Series 2009 Senior Bonds.

2. The Master Senior Indenture and the Tenth Supplemental Senior Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Senior Trustee, represent valid and binding agreements of the Department enforceable in accordance with their terms.

3. The Series 2009 Senior Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Senior Indenture and the Tenth Supplemental Senior Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2009 Senior Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Senior Trustee of the Pledged Revenues and certain funds and accounts created under the Master Senior Indenture and the Tenth Supplemental Senior Indenture, and not out of any other fund or moneys of the Department or the City. Neither the faith and credit nor the taxing power of the City, the State of California or any public agency, other than the Department to the extent of the Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2009 Senior Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2009 Senior Bonds is excluded from gross income for federal income tax purposes, except that such exclusion does not apply with respect to interest on any Series 2009 Senior Bond for any period during which such Series 2009 Senior Bond is held by a person who is a “substantial user” of the facilities financed or refinanced by the Series 2009 Senior Bonds or a “related person” to such substantial user within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the “Code”). Interest on the Series 2009 Senior Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2009 Senior Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 4 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Senior Indenture, the Tenth Supplemental Senior Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2009 Senior Bonds to be included in gross income retroactive to the date of issue of the Series 2009 Senior Bonds. Although we are of the opinion that interest on the Series 2009 Senior Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2009 Senior Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient’s particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

The obligations of the Department and the security provided therefore, as contained in the Series 2009 Senior Bonds, the Master Senior Indenture and the Tenth Supplemental Senior Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect and to the limitations on legal remedies against cities in the State of California. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated November 18, 2009, or any other offering material relating to the Series 2009 Senior Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2009 Senior Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

[Closing Date]

Department of Airports of the City of Los Angeles
Los Angeles, California

\$307,350,000	\$31,815,000
Department of Airports of the City of Los Angeles, California Los Angeles International Airport Subordinate Revenue Bonds 2009 Series C	Department of Airports of the City of Los Angeles, California Los Angeles International Airport Subordinate Revenue Bonds 2009 Series D

\$39,750,000
Department of Airports
of the City of Los Angeles, California
Los Angeles International Airport
Subordinate Refunding Revenue Bonds
2009 Series E

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the Department of Airports of the City of Los Angeles, California (the "Department") of \$307,350,000 aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series C (the "Series 2009C Subordinate Bonds"), \$31,815,000 aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series D (the "Series 2009D Subordinate Bonds"), and \$39,750,000 aggregate principal amount of its Los Angeles International Airport Subordinate Refunding Revenue Bonds, 2009 Series E (the "Series 2009E Subordinate Bonds," and collectively with the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, the "Series 2009 Subordinate Bonds"). The Series 2009 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 Fifth Supplemental Subordinate Trust Indenture, dated as of December 1, 2009 (the "Fifth Supplemental Subordinate Indenture"), by and between the Department and the Subordinate Trustee. Issuance of the Series 2009 Subordinate Bonds has been authorized by Resolution No. 23876, adopted by the Board of Airport Commissioners of the City of Los Angeles, California (the "Board") on August 17, 2009, and approved by the City Council of the City of Los Angeles on September 11, 2009, and Resolution No. 23920, adopted by the Board on October 19, 2009 (collectively, the "Resolutions"). Capitalized terms not otherwise defined herein shall have the meanings set forth in the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture.

In connection with the issuance of the Series 2009 Subordinate Bonds, we have examined the following:

- (a) a copy of the Charter;
- (b) certified copies of the Resolutions;
- (c) an executed counterpart of the Master Subordinate Indenture;
- (d) an executed counterpart of the Fifth Supplemental Subordinate Indenture;
- (e) certifications of the Department and others;

(f) an executed copy of the Tax Compliance Certificate dated this date relating to the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds and other matters (the “Series 2009D/E Subordinate Tax Certificate”);

(g) an opinion of the City Attorney; and

(h) such other documents, opinions and matters as we deemed relevant and necessary in rendering this opinion.

From such examination, we are of the opinion that:

1. The Department validly exists as a department of the City of Los Angeles (the “City”), duly organized and operating pursuant to the Charter and has the power to issue the Series 2009 Subordinate Bonds.

2. The Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Subordinate Trustee, represent valid and binding agreements of the Department enforceable in accordance with their terms.

3. The Series 2009 Subordinate Bonds have been validly authorized and issued in accordance with the Charter, the Resolutions, the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture and represent valid and binding limited obligations of the Department. The principal of and interest on the Series 2009 Subordinate Bonds shall be payable solely from and are secured by a pledge and assignment by the Department to the Subordinate Trustee of the Subordinate Pledged Revenues and certain funds and accounts created under the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture, and not out of any other fund or moneys of the Department or the City. Neither the faith and credit nor the taxing power of the City, the State of California or any public agency, other than the Department to the extent of the Subordinate Pledged Revenues, is pledged to the payment of the principal of or interest on the Series 2009 Subordinate Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds is excluded from gross income for federal income tax purposes. Interest on the Series 2009D Subordinate Bonds is not a specific preference item nor included in adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2009E Subordinate Bonds is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is included in the federal alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporation over the federal alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2009 Subordinate Bonds is exempt from present State of California personal income tax.

The opinions set forth in the first sentence of paragraph 4 regarding the exclusion of interest on the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Subordinate Indenture, the Fifth Supplemental Subordinate Indenture and the Series 2009D/E Subordinate Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds to be included in gross income retroactive to the date of issue of the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds. Although we are of the opinion that interest on the Series 2009D Subordinate Bonds and the Series 2009E Subordinate Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2009D Subordinate Bonds and the Series 2009E 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.

Interest on the Series 2009C Subordinate Bonds is not excludable from gross income for federal income tax purposes. Other than as expressly described in paragraph 5 above, we express no opinion regarding the tax consequences relating to the ownership of, receipt of interest on or disposition of the Series 2009C Subordinate Bonds. The tax discussion regarding the Series 2009C Subordinate Bonds was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The discussion was written in connection with the promotion or marketing of the Series 2009C Subordinate Bonds (within the meaning of United States Treasury Circular 230). Taxpayers should seek advice based on their particular circumstances from an independent tax advisor.

The obligations of the Department and the security provided therefore, as contained in the Series 2009 Subordinate Bonds, the Master Subordinate Indenture and the Fifth Supplemental Subordinate Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect and to the limitations on legal remedies against cities in the State of California. We have not undertaken any responsibility for the accuracy, completeness or fairness of the Official Statement dated November 18, 2009, or any other offering material relating to the Series 2009 Subordinate Bonds and express no opinion relating thereto. Our engagement with respect to the Series 2009 Subordinate Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

BOOK-ENTRY ONLY SYSTEM

Introduction

Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. Neither the City nor the Department make any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2009 Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.

NEITHER THE CITY, THE SENIOR TRUSTEE NOR THE SUBORDINATE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2009 BONDS UNDER THE SENIOR INDENTURE OR THE SUBORDINATE INDENTURE, AS APPLICABLE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2009 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 2009 BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2009 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 2009 Bonds. The Series 2009 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 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of Series 2009 Bond certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC 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 websites as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned websites.

Purchases of the Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009 Bonds on DTC’s records. The ownership interest of each actual

purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009 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 2009 Bonds, except in the event that use of the book–entry system for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 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 2009 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2009 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 2009 Bonds are in the book–entry–only system, redemption notices shall be sent to DTC. If less than all of the Series 2009 Bonds within an issue are being redeemed, DTC’s practice is to determine by lot (unless otherwise instructed) 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 2009 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 2009 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 2009 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the Department or the Trustee, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2009 Bonds held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Direct and Indirect Participant and not of DTC, the Department, or the Trustee, subject to any statutory, or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2009 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. To the extent permitted by law, the Department may decide to discontinue use of the system of book–entry transfers through DTC (or to the extent permitted by law, a successor Bonds depository). In that event, bond certificates will be printed and delivered.

No Assurance Regarding DTC Practices

The foregoing information in this section concerning DTC and DTC’s book–entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2009 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS

OF THE SERIES 2009 BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2009 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 2009 Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2009 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 2009 Bonds will be governed by the provisions of the Senior Indenture or the Subordinate Indenture, as applicable.

Risks of Book-Entry System

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2009 Bonds.

In addition, Beneficial Owners of the Series 2009 Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2009 Bonds since such distributions will be forwarded by the Department to DTC and DTC will credit such distributions to the accounts of the Direct Participants which will thereafter credit them to the accounts of the Beneficial Owners either directly or through Indirect Participants.

Since transactions in the Series 2009 Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2009 Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2009 Bonds, may be limited due to lack of a physical certificate. Beneficial Owners will not be recognized by the Department as registered owners of the Series 2009 Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Certificate”) is executed and delivered by the Department of Airports of the City of Los Angeles, California (the “Issuer”) acting through the Board of Airport Commissioners of the City of Los Angeles, California (the “Board”), in connection with the issuance by the Issuer of its (a) Los Angeles International Airport Senior Revenue Bonds, 2009 Series A (the “Series 2009 Senior Bonds”) pursuant to a Master Trust Indenture, dated as of April 1, 1995, as amended (the “Master Senior Indenture”), by and between the Issuer, acting through the Board, and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A., as successor in interest to BNY Western Trust Company, as successor in interest to U.S. Trust Company of California, N.A., as trustee (the “Senior Trustee”), and a Tenth Supplemental Trust Indenture, dated as of December 1, 2009 (the “Tenth Supplemental Senior Indenture,” and together with the Master Senior Indenture and all supplements thereto, the “Senior Indenture”), by and between the Issuer, acting through the Board, and the Senior Trustee; and (b) Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series C (the “Series 2009C Subordinate Bonds”), the Los Angeles International Airport Subordinate Revenue Bonds, 2009 Series D (the “Series 2009D Subordinate Bonds”) and the Los Angeles International Airport Subordinate Refunding Revenue Bonds, 2009 Series E (the “Series 2009E Subordinate Bonds” and together with the Series 2009C Subordinate Bonds and the Series 2009D Subordinate Bonds, the “Series 2009 Subordinate Bonds” and together with the Series 2009 Senior Bonds, the “Series 2009 Bonds”) pursuant to a Master Subordinate Trust Indenture, dated as of December 1, 2002, as amended (the “Master Subordinate Indenture”), by and between the Issuer and U.S. Bank National Association, also known as U.S. Bank, N.A., as trustee (the “Subordinate Trustee”), and a Fifth Supplemental Subordinate Trust Indenture, dated as of December 1, 2009, between the Issuer and the Subordinate Trustee (together with the Master Subordinate Indenture, and all supplements thereto, the “Subordinate Indenture”). The Issuer covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Senior Indenture and the Subordinate Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Information” shall mean any Annual Information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Beneficial Owner” shall have the meaning set forth in Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Issuer, with notice of such selection or change in fiscal year to be provided as set forth herein.

“GAAP” shall mean generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, as in effect from time to time in the United States.

“Holder” shall mean either the registered owners and any Beneficial Owner of the Series 2009 Bonds, or, if the Series 2009 Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as the same may be amended from time to time or any other entity designated or authorized by the SEC to receive continuing disclosure filings pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB currently located at <http://emma.msrb.org>.

“Participating Underwriter” shall mean any of the original underwriters of the Series 2009 Bonds required to comply with the Rule in connection with offering of the Series 2009 Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) 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 United States Securities and Exchange Commission.

“State” shall mean the State of California.

Section 2. Purpose of this Certificate. This Certificate is being executed and delivered by the Issuer pursuant to the Rule for the benefit of the Holders of the Series 2009 Bonds and in order to assist the Participating Underwriters in complying with the Rule.

Section 3. Obligation to Provide Continuing Disclosure.

(a) The Issuer hereby undertakes, for the benefit of the Holders, to provide or cause to be provided to the MSRB, in an electronic format and accompanied by such identifying information as prescribed by the MSRB and/or the Rule:

(i) no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2010, the Annual Information relating to the prior Fiscal Year;

(ii) if not submitted as part of the Annual Information, audited financial statements of the Issuer for each Fiscal Year when and if they become available;

(iii) in a timely manner, notice of any of the following events with respect to the Series 2009 Bonds, if material:

(A) principal and interest payment delinquencies;

(B) non-payment related defaults;

(C) unscheduled draws on debt service reserves relating to financial difficulties;

(D) unscheduled draws on credit enhancements reflecting financial difficulties;

(E) substitution of credit or liquidity providers, or their failure to perform;

(F) adverse tax opinions or events affecting the tax-exempt status of the Series 2009 Bonds;

(G) modifications to the rights of security holders;

(H) Bond calls;

(I) defeasances;

(J) release, substitution or sale of property securing repayment of the Series 2009 Bonds; and

(K) rating changes; and

(iv) in a timely manner, notice of a failure to provide any Annual Information required by clause (a)(i) of this Section 3.

(b) Nothing herein shall be deemed to prevent the Issuer from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the Issuer disseminates any such additional information, the Issuer shall have no obligation to update such information or include it in any future materials disseminated hereunder.

(c) The Annual Information may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 hereof.

Section 4. Annual Information.

(a) The required Annual Information shall contain or incorporate by reference the following, updated to incorporate information for the most recent Fiscal Year or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the Series 2009 Bonds):

(i) If available at the time of providing of the Annual Information pursuant to Section 3(a) hereof, the financial statements of the Issuer for the most recently ended Fiscal Year, prepared in accordance with the provisions of Section 5 hereof. If the Issuer's audited financial

statements are not available by the time the Annual Information is required to be filed pursuant to Section 3(a), the Annual Information shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be provided in the same manner as the Annual Information when they become available;

(ii) Historical financial and operating data for Los Angeles International Airport of the types shown in the following tables:

- (A) Table 1 – “Existing Senior Bonds”;
- (B) Table 2 – “Existing Subordinate Bonds and Subordinate Commercial Paper Notes”;
- (C) Table 3 – “Senior Bonds and Subordinate Bonds Debt Service Requirements” (only if such information changes);
- (D) Table 6 – “Air Carriers Serving LAX” (as of the first day of the current Fiscal Year);
- (E) Table 8 – “Revenue Operations and Passenger Traffic Data”;
- (F) Table 9 – “Historical Total Enplanements by Airline”;
- (G) Table 10 – “Total Revenue Landed Weight”;
- (H) Table 11 – “Enplaned and Deplaned Cargo”;
- (I) Table 12 – “Historical Operating Statements”;
- (J) Table 13 – “Top Ten Revenue Providers”;
- (K) Table 14 – “Top Ten Revenue Sources”;
- (L) Table 15 – “Historical Debt Service Coverage”;

(iii) The columns entitled “Department Carrying Value” and “LAX Carrying Value” in Table 17 – “City of Los Angeles Pooled Investment Fund Assets”; and

(iv) Unless otherwise provided in “Historical Operating Statements,” the total amount of PFC revenues received by the Issuer with respect to Los Angeles International Airport; and

(b) All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the MSRB or (ii) the SEC.

Section 5. Financial Statements. The Issuer’s annual financial statements for each Fiscal Year shall be prepared in accordance with GAAP as in effect from time to time. Such financial statements shall be audited by an independent accounting firm.

Section 6. Remedies. If the Issuer shall fail to comply with any provision of this Certificate, then any Holder may enforce, for the equal benefit and protection of all Holders similarly situated, by mandamus or other suit or proceeding in law or in equity, this Certificate against the Issuer and any of the officers, agents and employees of the Issuer, and may compel the Issuer or any such officers, agents or employees to perform and carry out their duties under this Certificate; provided that the sole and exclusive remedy for breach of this Certificate shall be an action to compel specific performance of the obligations of the Issuer hereunder and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances, and provided further, that any challenge to the adequacy of any information provided pursuant to Section 3 may be brought only by the Holders of 25% in aggregate principal amount of the Series 2009 Bonds at the time outstanding. A failure by the Issuer to comply with any provision of this Certificate shall not constitute an Event of Default under the Senior Indenture or the Subordinate Indenture.

Section 7. Parties in Interest. This Certificate is executed and delivered solely for the benefit of the Holders. No other person shall have any right to enforce the provisions hereof or any other rights hereunder.

Section 8. Amendment. Without the consent of any Holders of Series 2009 Bonds, the Issuer at any time and from time to time may enter into any amendments or changes to this Certificate for any of the following purposes:

- (a) to comply with or conform to any changes in the Rule or any authoritative interpretations thereof by the SEC or its staff (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Issuer and the assumption by any such successor of the covenants of the Issuer hereunder;
- (d) to add to the covenants of the Issuer for the benefit of the Holders, or to surrender any right or power herein conferred upon the Issuer; or
- (e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or type of business conducted; provided that (i) the Certificate, as amended, would have complied with the requirements of the Rule at the time of the offering of the Series 2009 Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of Holders, as determined either by a party unaffiliated with the Issuer (such as Bond Counsel), or by the vote or consent of Holders of a majority in outstanding principal amount of the Series 2009 Bonds on or prior to the time of such amendment or change.

Section 9. Termination. This Certificate shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Series 2009 Bonds shall have been paid in full or legally defeased pursuant to the Senior Indenture and the Subordinate Indenture. Upon any such legal defeasance, the Issuer shall provide notice of such defeasance to the MSRB. Such notice shall state whether the Series 2009 Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 10. Governing Law. THIS CERTIFICATE SHALL BE GOVERNED BY THE LAWS OF CALIFORNIA DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW.

Section 11. Dissemination Agent. The Issuer may, from time to time, appoint or engage a dissemination agent to assist it in carrying out its obligations under this Certificate, and may discharge any such dissemination agent, with or without appointing a successor dissemination agent. The dissemination agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Certificate.

IN WITNESS WHEREOF, the undersigned have duly authorized, executed and delivered this Certificate as of _____, 2009.

DEPARTMENT OF AIRPORTS ACTING THROUGH THE
BOARD OF AIRPORT COMMISSIONERS OF THE CITY
OF LOS ANGELES, CALIFORNIA

By: _____

Name: _____

Title: _____

[THIS PAGE INTENTIONALLY LEFT BLANK]

