

S&amp;P: AAA

S&amp;P: AA

Moody's: Aaa

Moody's: Aa3

Fitch: AAA

Fitch: AA

See "RATINGS" herein.

In the opinion of Kutak Rock LLP and Quateman & Zidell LLP, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants described in "TAX MATTERS" herein, interest on the Series 2003B Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes. Co-Bond Counsel is further of the opinion that interest on the Series 2003B Bonds (including original issue discount treated as interest, if any) is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations, although for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings as described in "TAX MATTERS" herein. Under existing laws, regulations, rulings and judicial decisions, Co-Bond Counsel is further of the opinion that interest on the Series 2003B Bonds is exempt from all present State of California personal income taxes. See "TAX MATTERS" herein for a discussion of additional federal tax law consequences.



**\$103,625,000**  
**DEPARTMENT OF AIRPORTS**  
**OF THE CITY OF LOS ANGELES, CALIFORNIA**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**REFUNDING REVENUE BONDS**  
**2003 SERIES B**

Dated: May 1, 2003

Due: May 15, as shown on the inside cover

The Department of Airports of the City of Los Angeles, California Los Angeles International Airport Refunding Revenue Bonds, 2003 Series B (the "Series 2003B Bonds"), are being issued by the Department of Airports (the "Department") of the City of Los Angeles, California (the "City") acting through the Board of Airport Commissioners of the City (the "Board") in accordance with certain provisions of the Charter of the City, relevant ordinances of the City and Sections 11.28.1 *et seq.* of the Los Angeles Administrative Code (collectively, the "Charter"); a resolution adopted by the Board on March 18, 2003 and approved by the City Council of the City on April 2, 2003, (the "Resolution"); a Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented (the "Master Indenture"), by and between the Department, acting through the Board, and BNY Western Trust Company, as successor to U.S. Trust Company of California, N.A., as trustee (the "Trustee"), and an Eighth Supplemental Trust Indenture, dated as of May 1, 2003 (the "Eighth Supplemental Indenture," and collectively with the Master Indenture, the "Indenture"), by and between the Department, acting through the Board, and the Trustee. See "DESCRIPTION OF THE SERIES 2003B BONDS" herein.

The proceeds of the Series 2003B Bonds will be used to (i) refund a portion of the Department's outstanding Los Angeles International Airport Refunding Revenue Bonds 1995 Series A and a portion of the Department's outstanding Los Angeles International Airport Revenue Bonds 1995 Series D (collectively, the "Refunded Bonds") and (ii) pay costs of issuance.

The Series 2003B Bonds are limited obligations of the Department payable solely from and secured by (i) a pledge of Pledged Revenues (as defined herein) which Pledged Revenues include certain income and revenue received by the Department from Los Angeles International Airport ("LAX") but specifically exclude income and revenue received by the Department from the Department's other airports, and (ii) certain funds and accounts held by the Trustee. The Series 2003B Bonds will be issued on a parity with the Existing Parity Bonds (as defined herein) currently outstanding in the aggregate principal amount of \$244,335,000 (including the Refunded Bonds). Additional future series of parity bonds may be issued by the Department as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS – Additional Bonds" herein.

Interest on the Series 2003B Bonds will be payable on each May 15 and November 15, commencing November 15, 2003. The Series 2003B Bonds will be executed and delivered only as fully registered bonds without coupons in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC") and will be available to ultimate purchasers in integral multiples of \$5,000. The Series 2003B Bonds will be initially issued and delivered under a book-entry form only and no physical delivery of the Series 2003B Bonds will be made to purchasers. So long as Cede & Co. is the registered owner of the Series 2003B Bonds, payments of principal, premium, if any, and interest on the Series 2003B Bonds are expected to be made to beneficial owners by DTC through its participants. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM."

The Series 2003B Bonds are not subject to redemption prior to maturity.

The scheduled payment of principal and interest on the Series 2003B Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Series 2003B Bonds. See "BOND INSURANCE" herein and "APPENDIX H – FORM OF FINANCIAL GUARANTY INSURANCE POLICY."



**THE SERIES 2003B BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTION, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2003B BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISION 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 2003B BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2003B BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE INDENTURE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS."**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of the Series 2003B Bonds. Investors are advised to read the entire Official Statement, including any portion hereof included by reference, to obtain information essential to the making of an informed decision.

Purchasers of the Series 2003B Bonds will be deemed to have consented to certain amendments to the Master Indenture as discussed in "INTRODUCTION – Consent to Master Indenture Amendments" and "APPENDIX D – MASTER INDENTURE AMENDMENTS." Such amendments will become effective upon the issuance of the Series 2003B Bonds.

The Series 2003B Bonds were awarded at a true interest cost of 3.557758% pursuant to competitive bidding held on April 22, 2003 as set forth in the Notice Inviting Bids dated April 8, 2003. The Series 2003B Bonds are offered, when, as and if issued by the Department, subject to the approval of legality by Kutak Rock LLP, Denver, Colorado, and Quateman & Zidell LLP, Los Angeles, California, Co-Bond Counsel, and by Rockard J. Delgadillo, City Attorney of the City, and to certain other conditions. Public Resources Advisory Group and Frasca & Associates, L.L.C. have served as Co-Financial Advisors to the Department. It is expected that the delivery of the Series 2003B Bonds will be made to DTC on or about May 7, 2003 in New York, New York.

Date of Official Statement: April 22, 2003

**MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIPS**

**\$103,625,000**  
**DEPARTMENT OF AIRPORTS**  
**OF THE CITY OF LOS ANGELES, CALIFORNIA**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**REFUNDING REVENUE BONDS**  
**2003 SERIES B**

<u>Due</u> <u>May 15</u>	<u>Principal Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP*</u> <u>(544435)</u>
2007	\$ 9,320,000	5.00%	2.20%	WH9
2008	11,185,000	5.00	2.57	WJ5
2009	11,780,000	5.00	2.90	WK2
2010	12,395,000	5.00	3.26	WL0
2011	13,255,000	5.00	3.51	WM8
2012	13,915,000	5.00	3.63	WN6
2013	14,615,000	5.00	3.75	WP1
2014	15,345,000	5.00	3.85	WQ9
2015	1,815,000	4.00	3.95	WR7

(In all cases, plus accrued interest from May 1, 2003.)

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\* CUSIP numbers are provided only for the convenience of the reader. The Department takes no responsibility for any changes to or errors in this list of CUSIP numbers.

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 foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2003B Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2003B Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact. Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "forecast" or other similar words.

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

The information set forth herein has been furnished by the Department and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Department since the date hereof.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2003B BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2003B BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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## **CITY OF LOS ANGELES OFFICIALS**

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

## **CITY COUNCIL**

Ed P. Reyes (District 1)	Ruth Galanter <sup>(1)</sup> (District 6)	Cindy Miscikowski (District 11)
Wendy Greuel (District 2)	Alex Padilla (District 7)	Hal Bernson <sup>(2)</sup> (District 12)
Dennis P. Zine (District 3)	Bernard C. Parks (District 8)	Eric Garcetti (District 13)
Tom LaBonge (District 4)	Jan Perry (District 9)	Nick Pacheco <sup>(3)</sup> (District 14)
Jack Weiss (District 5)	Nate Holden <sup>(4)</sup> (District 10)	Janice Hahn (District 15)

<sup>(1)</sup> To be replaced by Tony Cardenas on July 1, 2003.

<sup>(2)</sup> To be replaced on July 1, 2003 by the winner of a run-off election to be held May 20, 2003.

<sup>(3)</sup> To be replaced by Antonio Villaraigosa on July 1, 2003.

<sup>(4)</sup> To be replaced on July 1, 2003 by the winner of a run-off election to be held May 20, 2003.

## **BOARD OF AIRPORT COMMISSIONERS**

Theodore O. Stein, President	Alan Llorens, Commissioner
Miguel Contreras, Commissioner	Cheryl K. Petersen, Commissioner
Eileen N. Levine, Commissioner	Armando Vergara, Commissioner
Peter Weil, Commissioner	

## **THE LOS ANGELES WORLD AIRPORTS STAFF**

Lydia H. Kennard, Executive Director  
Paul L. Green, Chief Operating Officer  
Karen L. Sisson, Chief Financial Officer  
William A. Bruce, Director of Airports Administration  
Kim Day, Deputy Executive Director, Project and Facilities Development  
Philip J. Depoian, Deputy Executive Director, Government and External Affairs  
Michael DiGirolamo, Deputy Executive Director, Airports Operations  
Paul Haney, Deputy Executive Director, Public and Community Relations  
Richard M. Janisse, Deputy Executive Director, Properties and Concessions  
Edward James Ritchie, Deputy Executive Director, Long Range Planning  
Eduardo Alfonso Angeles, Managing Assistant City Attorney

## **TRUSTEE**

BNY Western Trust Company

## **CO-BOND COUNSEL AND CO-DISCLOSURE COUNSEL**

Kutak Rock LLP  
Quateman & Zidell LLP

## **CO-FINANCIAL ADVISORS**

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

## **VERIFICATION AGENT**

Grant Thornton LLP

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## OFFICIAL STATEMENT

**\$103,625,000**  
**DEPARTMENT OF AIRPORTS**  
**OF THE CITY OF LOS ANGELES, CALIFORNIA**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**REFUNDING REVENUE BONDS**  
**2003 SERIES B**

### INTRODUCTION

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

#### **General**

The purpose of this Official Statement, which includes the cover page, table of contents and appendices, is to provide certain information concerning the sale and delivery by the Department of Airports (the "Department") of the City of Los Angeles, California (the "City") acting through the Board of Airport Commissioners of the City (the "Board") of its \$103,625,000 aggregate principal amount of Los Angeles International Airport Refunding Revenue Bonds, 2003 Series B (the "Series 2003B Bonds"). Capitalized terms used but not defined herein have the meanings ascribed to them in APPENDIX C. See "APPENDIX C – SUMMARIES OF THE MASTER INDENTURE AND THE EIGHTH SUPPLEMENTAL INDENTURE."

#### **The Issuer and the Airport System**

The City is a municipal corporation and chartered city duly organized and existing under and pursuant to the provisions of the Constitution of the State of California (the "State") and the Charter of the City of Los Angeles. The City, acting through the Department, owns, operates and maintains Los Angeles International Airport ("LAX" or the "Airport"), Ontario International Airport ("ONT"), Van Nuys Airport ("VNY") and Palmdale Regional Airport ("PMD") (collectively, the "Airport System"). LAX is the major facility in the Airport System accounting for approximately 90% of the total passenger traffic of the Airport System for Fiscal Year 2002. The City operates the Airport System as a financially self-sufficient enterprise, without General Fund support, through the Department under the supervision of the Board. The Department is governed by the seven-member Board which is responsible for the formulation of airport policy. See "THE DEPARTMENT OF AIRPORTS."

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

#### **Plan of Finance**

The proceeds of Series 2003B Bonds will be used to (i) advance refund the Refunded Bonds (as defined herein) and (ii) to finance costs of issuance, all as further described herein. See "PLAN OF REFUNDING," "ESTIMATED SOURCES AND USES OF FUNDS" and "DESCRIPTION OF THE SERIES 2003B BONDS."

## Series 2003B Bonds

The Series 2003B Bonds are being issued pursuant to the Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented (the "Master Indenture"), by and between the Department, acting through the Board, and BNY Western Trust Company, as successor to U.S. Trust Company of California, N.A., as trustee (the "Trustee") and an Eighth Supplemental Trust Indenture, dated as of May 1, 2003 (the "Eighth Supplemental Indenture," and together with the Master Indenture, the "Indenture"), by and between the Department, acting through the Board, and the Trustee; Resolution No. 21990 adopted by the Board on March 18, 2003 and approved by the City Council on April 2, 2003 (the "Resolution"), authorizing the issuance of the Series 2003B Bonds; and under and in accordance with Section 609 of the Charter, relevant ordinances of the City and Sections 11.28.1 *et seq.* of the Los Angeles Administrative Code (collectively, the "Charter").

The Series 2003B 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 2003B Bonds are secured by a pledge of and lien on Pledged Revenues on a parity with the Existing Parity Bonds (as defined below), any additional bonds issued on a parity with the Series 2003B Bonds and the Existing Parity Bonds under the terms and provisions of the Master Indenture (the "Additional Bonds") and any other obligations issued on a parity with respect to Pledged Revenues pursuant to the terms of the Master Indenture. For purposes of this Official Statement, "Bonds" shall mean the Series 2003B Bonds, the Existing Parity Bonds and any Additional Bonds. At the time of this Official Statement, the only obligations the Department has issued pursuant to the Master Indenture are the Existing Parity Bonds. Pledged Revenues are available for the equal and proportionate benefit of all Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS – Pledged Revenues."

**THE SERIES 2003B BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTION, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2003B BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2003B BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2003B BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND AND AS FURTHER SPECIFICALLY PROVIDED IN THE INDENTURE. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS."**

## Existing Parity Bonds

The Department has previously issued and there is currently outstanding \$244,335,000 in aggregate principal amount of its Los Angeles International Airport Revenue Bonds 1995 Series A, 1995 Series B, 1995 Series C, 1995 Series D and 2002 Series A (including the Refunded Bonds) (the "Existing Parity Bonds"). The Existing Parity Bonds are secured by the Pledged Revenues on parity with the Series 2003B Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS" and "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE."

## Aviation Activity

The Airport System, like the rest of the North American air transportation system, was adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the "September 11 Events").

Additionally, according to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. 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. Significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, Passenger Facility Charges ("PFCs"), concession revenues and parking revenue due in part to the September 11 Events as well as the slowdown in the national economy, which commenced prior to the September 11 Events, and more recently to the hostilities occurring in Iraq and the current outbreak of Severe Acute Respiratory Syndrome ("SARS"). The Department reviewed its rates and charges, and has implemented expenditure controls that affect a variety of operating expenses. Capital expenditures were reevaluated and many such expenditures were suspended except where the affected projects were near completion or essential from a security or safety standpoint. See "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events." LAX domestic passenger volume decreased approximately 9.4% from 45,656,025 passengers in calendar year 2001 to 41,379,168 passengers in calendar year 2002. LAX international passenger volume decreased approximately 6.9% from 15,950,228 passengers in calendar year 2001 to 14,844,675 passengers in calendar year 2002. Total LAX passenger volume decreased approximately 8.7% from 61,606,253 passengers in calendar year 2001 to 56,223,843 passengers in calendar year 2002.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines were experiencing economic difficulties prior to the September 11 Events. This situation was worsened by the September 11 Events, the ongoing economic slowdown, which commenced prior to the September 11 Events, and by the current hostilities occurring in Iraq and the current outbreak of SARS, and most of the airlines have been downgraded by the rating agencies. Seven airlines operating at the Airport, National Airlines ("National"), Vanguard Airlines ("Vanguard"), Midway Airlines ("Midway"), United Airlines ("United"), Hawaiian Airlines ("Hawaiian"), Avianca Airlines ("Avianca") and Air Canada, which together accounted for approximately 22% of enplanements at LAX in Fiscal Year 2002, have filed for bankruptcy protection. National, Vanguard and Midway have suspended operations; however, United, Hawaiian, Avianca and Air Canada continue to operate at LAX. US Airways, which accounted for 2.3% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection in August 2002, but emerged from bankruptcy protection on March 31, 2003. The Department is unable to predict how long any airline in bankruptcy proceedings will continue operating at LAX nor whether any such airline will reorganize or liquidate. See "RISK FACTORS – Financial Condition of the Airlines" and "– Effect of Airline Bankruptcies." In response to decreased passenger demand and financial losses, most major airlines have reduced service and employment levels to control costs. Other key factors that are expected to affect future aviation activity and enplaned passenger traffic at LAX are local, regional, national and international economic and political conditions, war and acts of terrorism, world health emergencies, airline service and route networks, availability and price of aviation fuel, airline economics (including labor relations), airline bankruptcies, competition, airfares, airline industry consolidation, capacity of the national air traffic control system and capacity provided at the Airport, among others.

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

### **Investment Considerations**

The purchase and ownership of the Series 2003B Bonds involve investment risks. Prospective purchasers of the Series 2003B Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the Series 2003B Bonds, see "RISK FACTORS."

### **Consent to Master Indenture Amendments**

In connection with its execution of the Seventh Supplemental Trust Indenture dated as of December 1, 2002 (the "Seventh Supplemental Indenture") by and between the Department acting through the Board, and the

Trustee, the Board amended certain provisions of the Master Indenture (the "Master Indenture Amendments"). See "APPENDIX D – MASTER INDENTURE AMENDMENTS." The Master Indenture Amendments may not become effective until the Board has received the written consent of the owners of more than 50% in aggregate principal amount of all Bonds then Outstanding (the "Master Indenture Consent Requirement"). By the purchase and acceptance of the Series 2003B Bonds, the owners of the Series 2003B Bonds will be deemed to have irrevocably consented to the Master Indenture Amendments. At the time of issuance of the Series 2003B Bonds, the owners of over 50% of the Outstanding Bonds will have consented to the Master Indenture Amendments, thereby meeting the Master Indenture Consent Requirement and the Master Indenture Amendments will become effective. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS – Consent to Master Indenture Amendments" and "APPENDIX D – MASTER INDENTURE AMENDMENTS."

### **Continuing Disclosure**

The Department has covenanted for the benefit of the owners of the Series 2003B Bonds to provide annually certain financial information and operating data concerning the Department to each Nationally Recognized Municipal Securities Information Repository certified by the Commission (each, a "NRMSIR") and to provide notice to the Municipal Securities Rulemaking Board or to the NRMSIRs of certain enumerated events, pursuant to the requirements of Rule 15c2-12 of the Commission. See "CONTINUING DISCLOSURE" and "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE" for the form of the Continuing Disclosure Certificate.

### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2003B Bonds, MBIA Insurance Corporation ("MBIA" or the "Bond Insurer") will issue a financial guaranty insurance policy guaranteeing the payment of the principal and interest on the Series 2003B Bonds. See "BOND INSURANCE" and "APPENDIX H – FORM OF FINANCIAL GUARANTY INSURANCE POLICY."

### **Additional Information**

Brief descriptions of the Series 2003B Bonds, the Department, the Airport System, LAX, the 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 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 2003B Bonds.

## PLAN OF REFUNDING

### Refunding Plan

The Department is undertaking an advance refunding and defeasance of a portion of the Department's Outstanding Los Angeles International Airport Refunding Revenue Bonds 1995 Series A (the "Refunded Series 1995A Bonds") and a portion of the Department's Los Angeles International Airport Revenue Bonds 1995 Series D (the "Refunded Series 1995D Bonds" and together with the Refunded Series 1995A Bonds, the "Refunded Bonds"), as identified in the table below:

**TABLE 1**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**REFUNDED BONDS**

Series	Maturity Date May 15	Principal Redeemed	Redemption Date	Redemption Price <sup>(1)</sup>	CUSIP Number <sup>(2)</sup>
1995 Series A	2007	\$ 18,155,000	5/15/2005	101%	544435VM9
1995 Series A	2008	20,320,000	5/15/2005	101	544435QW3
1995 Series A	2009	21,240,000	5/15/2005	101	544435QX1
1995 Series A	2010	22,110,000	5/15/2005	101	544435QY9
1995 Series D	2006	2,135,000	5/15/2005	101	544435VN7
1995 Series D	2007	2,255,000	5/15/2005	101	544435VP2
1995 Series D	2008	2,380,000	5/15/2005	101	544435VQ0
1995 Series D	2009	2,510,000	5/15/2005	101	544435VR8
1995 Series D	2010	2,650,000	5/15/2005	101	544435VS6
1995 Series D	2011	2,795,000	5/15/2005	101	544435VT4
1995 Series D	2012	2,950,000	5/15/2005	101	544435VU1
1995 Series D	2013	3,115,000	5/15/2005	101	544435VV9
1995 Series D	2015	<u>6,760,000</u>	5/15/2005	101	544435VW7
<b>TOTAL:</b>		<b><u>\$109,375,000</u></b>			

<sup>(1)</sup> Plus accrued interest to, but not including, May 15, 2005.

<sup>(2)</sup> CUSIP numbers are provided only for the convenience of the reader. The Department takes no responsibility for any changes to or errors in this list of CUSIP numbers.

### Refunding Escrow

The net proceeds of the Series 2003B Bonds, together with other available moneys released from the Series 1995A Debt Service Fund, the Series 1995D Debt Service Fund, the Series 1995D Construction Fund and the Reserve Fund, will be deposited with BNY Western Trust Company, as escrow agent (the "Escrow Agent") and held in the Refunded Series 1995A Bonds Escrow Fund and the Refunded Series 1995D Bonds Escrow Fund (collectively, the "Escrow Funds") created under the terms of an Escrow Agreement, to be dated as of May 1, 2003 (the "Escrow Agreement") among the Department, acting through the Board, the Trustee and the Escrow Agent. Proceeds deposited into the Escrow Funds will be invested in direct, noncallable obligations of the United States Treasury ("Government Obligations") or held uninvested in cash, and such amounts, together with the earnings thereon, if any, will be used to pay interest due on the Refunded Bonds on May 15, 2003, November 15, 2003, May 15, 2004 and November 15, 2004 and to redeem the Refunded Bonds on May 15, 2005, plus accrued interest and premium due on such redemption date.

Grant Thornton LLP will verify that the Government Obligations, together with the earnings thereon, and the other amounts held in the Escrow Funds will be sufficient to pay all interest due on May 15, 2003, November 15, 2003, May 15, 2004 and November 15, 2004 and all principal, redemption premium and interest due on the Refunded Bonds on May 15, 2005. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

## Use of Proceeds of the Refunded Bonds

The proceeds of the Refunded Series 1995A Bonds were used to advance refund a portion of the Department's Refunding Revenue Bonds 1989 Series A, B and C (the "1989 Bonds"). The 1989 Bonds were issued to current refund the Department's Revenue Bonds Issue of 1979A and Issue of 1979B (the "1979 Bonds"). The 1979 Bonds were issued to finance the costs of expansion and improvement of LAX and ONT and for land acquisition at PMD. Such improvements at LAX and ONT included, among other things, the construction of new terminals, runways and roadways.

A portion of the proceeds of the Refunded Series 1995D Bonds was used to finance the costs of the acquisition, construction and installation of certain improvements at LAX including, among other things, airfield lighting and signage, parking, taxiways, roadways and terminal and cargo buildings. Additionally, a portion of the proceeds of the Refunded Series 1995D Bonds was used to finance the costs of land acquisitions at LAX and VNY.

## ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of the funds with respect to the Series 2003B Bonds and certain other funds:

### Sources:

Principal Amount	\$103,625,000.00
Original Issue Premium	10,894,799.00
Funds Released from Series 1995A and 1995D Debt Service Funds	3,001,653.76
Funds Released from Reserve Fund	4,369,112.73
Funds Released from the Series 1995D Construction Fund	954,000.00
Accrued Interest	<u>86,051.67</u>
<b>TOTAL:</b>	<b><u>\$122,930,617.16</u></b>

### Uses:

Deposit to Refunded Series 1995A Bonds Escrow Fund	\$90,841,492.66
Deposit to Refunded Series 1995D Bonds Escrow Fund	30,635,755.00
Costs of Issuance <sup>(1)</sup>	1,367,317.83
Deposit to Series 2003B Debt Service Fund <sup>(2)</sup>	<u>86,051.67</u>
<b>TOTAL:</b>	<b><u>\$122,930,617.16</u></b>

<sup>(1)</sup> Includes legal fees, underwriters' discount, trustee fees, financial advisory fees, escrow agent fees, verification agent fees, rating agencies' fees, printing costs, bond insurance premium and other costs of issuance.

<sup>(2)</sup> Represents accrued interest.

## DESCRIPTION OF THE SERIES 2003B BONDS

### General

The Series 2003B Bonds will be dated May 1, 2003, and will bear interest from that date at the rates per annum and will mature on May 15 in the years set forth on the inside cover page of this Official Statement. Interest on the Series 2003B Bonds will be payable semiannually on May 15 and November 15, commencing November 15, 2003, and will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Series 2003B Bonds will be issued in minimum denominations of \$5,000 and any integral multiple thereof in fully registered form, and when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). So long as Cede & Co. is the registered owner of the Series 2003B Bonds, references herein to the owners or registered owners shall mean Cede & Co., and not the beneficial owners of the Series 2003B Bonds. See "APPENDIX F – BOOK-ENTRY ONLY SYSTEM" herein.

See APPENDIX C for a summary of certain provisions of the Indenture, including, without limitation, certain covenants of the Board and the Department, the rights and duties of the Trustee, the rights and remedies of

the Trustee and the Bondholders upon an event of default under the Indenture, provisions relating to amendments of the Indenture and procedures for defeasance of the Series 2003B Bonds.

### **No Redemption**

The Series 2003B Bonds are not subject to redemption prior to maturity.

## **SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS**

Following is a summary of certain provisions of the Indenture, including, among other things, sections of the Indenture detailing the pledge of Pledged Revenues (as defined below), the rate covenant for the Bonds, debt service coverage on the Bonds, debt service deposits for the Bonds, the funding and utilization of the Reserve Fund for the Bonds and the issuance of Additional Bonds. These summaries are not comprehensive or definitive. See APPENDIX C for a more complete description of these provisions of the Indenture. Also see APPENDIX D for a description of the Master Indenture Amendments.

### **Pledged Revenues**

The Bonds are limited obligations of the Department payable solely from and secured by a pledge of Pledged Revenues. Pledged Revenues include certain income and revenues received by the Department from LAX but specifically exclude income and revenues received by the Department from the Department's other airports. The Bonds are also secured by amounts held in certain funds and accounts pursuant to the Indenture, as further described herein.

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

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

Construction Fund allowed to be pledged by the terms of a Supplemental Indenture, the Reserve Fund and allocated earnings on the Maintenance and Operations Reserve Fund established pursuant to the Charter. See "APPENDIX D – MASTER INDENTURE AMENDMENTS."

**THE SERIES 2003B BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY, THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE WITHIN THE MEANING OF ANY CONSTITUTION, CHARTER OR STATUTORY LIMITATION OF THE CITY OR THE STATE. NEITHER THE FAITH AND THE CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OR ANY PUBLIC AGENCY, OTHER THAN THE DEPARTMENT, TO THE EXTENT OF THE PLEDGED REVENUES, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE SERIES 2003B BONDS. THE DEPARTMENT HAS NO POWER OF TAXATION. NO OBLIGATION ISSUED OR INCURRED BY THE DEPARTMENT UNDER THE INDENTURE SHALL CONSTITUTE OR EVIDENCE AN INDEBTEDNESS OF THE CITY OR A LIEN OR CHARGE ON ANY PROPERTY OR THE GENERAL REVENUES OF THE CITY, BUT SHALL CONSTITUTE AND EVIDENCE AN OBLIGATION OF THE DEPARTMENT PAYABLE ONLY IN ACCORDANCE WITH SECTION 609(B) OF THE CHARTER AND ANY OTHER APPLICABLE PROVISIONS THEREOF. NONE OF THE PROPERTIES OF THE AIRPORT SYSTEM IS SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2003B BONDS. THE DEPARTMENT IS UNDER NO OBLIGATION TO PAY THE SERIES 2003B BONDS, EXCEPT FROM FUNDS IN THE LAX REVENUE ACCOUNT OF THE AIRPORT REVENUE FUND.**

#### **Rate Covenant**

Under the Master Indenture, the Department has covenanted that, while any of the Bonds remain Outstanding (but subject to all prior existing contracts and legal obligations of the Department), it shall establish, fix, prescribe and collect rates, tolls, fees, rentals and charges in connection with LAX and for services rendered in connection therewith, so that 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" below. 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 will be equal to at least 125% of Aggregate Annual Debt Service for that Fiscal Year. See "APPENDIX D – MASTER INDENTURE AMENDMENTS."

If the Department violates the above-described covenants, such violation is not a default under the Indenture and will not give rise to a declaration of an 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, an Event of Default may be declared under the 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.

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



The following table shows historical debt service coverage on the Bonds for Fiscal Years 1998 through 2002. The Department had no debt service requirements in Fiscal Years 1998 through 2002 for subordinate obligations.

**TABLE 2**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**HISTORICAL DEBT SERVICE COVERAGE**  
**FISCAL YEARS 1998-2002<sup>(1)</sup>**  
**(DOLLARS IN THOUSANDS)**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Pledged Revenues<sup>(2)</sup></b>					
Total Operating Revenues	\$ 378,679	\$ 358,441	\$ 375,664	\$ 403,821	\$ 397,178
Interest Income	<u>27,170</u>	<u>30,847</u>	<u>31,132</u>	<u>29,170</u>	<u>23,653</u>
<b>Total Pledged Revenues</b>	<b><u>\$ 405,849</u></b>	<b><u>\$ 389,288</u></b>	<b><u>\$ 406,796</u></b>	<b><u>\$ 432,991</u></b>	<b><u>\$ 420,831</u></b>
<b>LAX Maintenance and Operations Expenses<sup>(3)</sup></b>	<b><u>(216,270)</u></b>	<b><u>(229,164)</u></b>	<b><u>(271,081)</u></b>	<b><u>(346,556)</u></b>	<b><u>(316,981)</u></b>
<b>Net Pledged Revenues<sup>(4)</sup></b>	<b><u>\$ 189,579</u></b>	<b><u>\$ 160,124</u></b>	<b><u>\$ 135,715</u></b>	<b><u>\$ 86,435</u></b>	<b><u>\$ 103,850</u></b>
<b>Total Senior Lien Debt Service</b>	\$ 41,886	\$ 37,620	\$ 37,187	\$ 37,491	\$ 19,655 <sup>(5)</sup>
<b>Coverage of Senior Lien Debt Service</b>	4.53x	4.26x	3.65x	2.31x	5.28x

<sup>(1)</sup> Restated.

<sup>(2)</sup> As defined in the Indenture.

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

<sup>(4)</sup> As defined in the Indenture. Equals Pledged Revenues less LAX Maintenance and Operations Expenses.

<sup>(5)</sup> Does not include \$15,750,000 of debt service on Existing Parity Bonds which was prepaid and defeased from sources other than Pledged Revenues.

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

### Flow of Funds

Pursuant to the Charter, all fees, charges, rentals and revenue from every source collected by the Department in connection with its possession, management and control of its assets are deposited in the City Treasury to the credit of the Airport Revenue Fund. The Board has created two separate revenue and expense accounts within the Airport Revenue Fund: one for LAX, PMD and VNY and one for ONT. The Board has the power to direct that monies in such separate accounts be used solely for a specified purpose related to the specific airport from which the monies were derived or to which such monies have been allocated. Pursuant to the Charter and the Master Indenture, the Board has established the LAX Revenue Account in the Airport Revenue Fund and has covenanted to deposit certain LAX Revenues in such account and such LAX Revenues will immediately upon receipt thereof become subject to the lien and pledge of the Indenture. The Board has notified the City Treasurer (the "City Treasurer") of the pledge of, lien on and interest in LAX Revenues granted by the Indenture and has instructed the City Treasurer that all such LAX Revenues are to be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Board or the City.

The amount of Pledged Revenues required by the 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 Board Representative may direct that such sums be set aside through transfers or payments made at such time and in such amounts as may be necessary to comply with the provisions of the Indenture.

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

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

**FIRST**, to the payment of amounts required to be deposited in the Debt Service Funds for the Bonds pursuant to the Master Indenture and any Supplemental Indenture;

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

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

**THIRD**, to the payment of debt service on any indebtedness other than the 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 the 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 Board. The Board has covenanted to fund the Maintenance and Operation Reserve Account each Fiscal Year in an amount which, when added to any moneys in such Account, will be equal to not less than 25% nor more than 50% of the budgeted LAX Maintenance and Operation Expenses for the current Fiscal Year;

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

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

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

Notwithstanding the provisions of the Indenture, nothing therein shall preclude the Board from making the payments described in paragraphs FIRST through SEVENTH above from sources other than Pledged Revenues.

In July 2000 the City amended its Charter whereby certain provisions governing the use and deposit of LAX Revenues were amended. The Charter no longer requires the deposit of moneys in certain funds, including, among others, the LAX Maintenance and Operation Reserve Account, however, the Board, pursuant to the Indenture, has covenanted to continue using moneys on deposit in the LAX Revenue Account as described in the flow of funds detailed above. The Charter may be further amended in the future in any respect by an affirmative

vote of a majority of the voters within the City at a special or general election. However, a proposed Charter amendment could not affect the pledge of Pledged Revenues under the Indenture or any Supplemental Indenture to secure the payment of the Bonds.

### **Reserve Fund**

The Master Indenture established the "Reserve Fund" for the Bonds issued or to be issued by the Department pursuant to any Supplemental Indenture. The Reserve Fund is required to be funded at all times in an amount equal to the Reserve Requirement. The Reserve Requirement is equal to an amount equal to the lesser of (i) Maximum Aggregate Annual Debt Service for Reserve Requirement, (ii) 10% of the principal amount of the Bonds that have been issued, less the amount of original issue discount with respect to any Bond if such original issue discount exceeded 2% on such Bond at the time of its original sale and (iii) 125% of the average Aggregate Annual Debt Service for Reserve Requirement. Upon the issuance of the Series 2003B Bonds, the Reserve Requirement will equal \$22,896,444. No additional deposit to the Reserve Fund will be required to satisfy the Reserve Requirement upon the issuance of the Series 2003B Bonds.

Moneys or instruments held in the Reserve Fund may only be used to pay principal and interest on the Bonds issued under a Supplemental Indenture. The Reserve Fund may be drawn upon if the amounts in the Debt Service Fund for any Bonds are insufficient to pay in full any principal or interest then due on such Bonds. Moneys held in the Reserve Fund may also be used to make any deposit required to be made to the Rebate Fund created for any Bonds if the Board does not have other funds available from which such deposit can be made.

Moneys in the Reserve Fund will be invested and reinvested by the Trustee at the written direction of an Authorized Board Representative in Permitted Investments. Investments in the Reserve Fund will not have maturities which extend beyond five years. Earnings on the Reserve Fund will be paid *pro rata* to the Debt Service Funds to be applied as a credit against the Board's obligation to make its next interest payments unless an amount has been withdrawn from the Reserve Fund as a result of a deficiency in the Debt Service Funds and such withdrawal has not been repaid or, as of the most recent valuation of the Reserve Fund, the amount therein was valued at less than the Reserve Requirement and the deficiency has not yet been restored, in either of which events the earnings will be retained in the Reserve Fund until the deficiency therein has been eliminated.

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

The Trustee will value the Reserve Fund at least annually on two different bases: (i) the lower of cost or market value thereof and (ii) the basis of the cost thereof. If the value at the lower of cost or market value exceeds the Reserve Requirement as of any valuation date, the excess amount may be withdrawn and paid to the Board for any lawful purpose. If the value at cost is less than the Reserve Requirement, the Board is required to replenish such amounts within 12 months. Upon any transfer of moneys from the Reserve Fund to the Debt Service Fund, the Board will pay to the Trustee, from Pledged Revenues, an amount sufficient to restore the Reserve Fund to the Reserve Requirement. Such repayment will be made in 12 substantially equal monthly installments commencing with the first month after any such withdrawal occurs.

When any Series of Bonds issued under a Supplemental Indenture is paid in full or is deemed to be paid in full in accordance with the Indenture, moneys in the Reserve Fund may be used to pay the final installments of principal and interest on such Series of Bonds. All moneys remaining in the Reserve 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 Bonds of all Outstanding Series will be transferred to the Board for deposit into the LAX Revenue Account. See "APPENDIX D – MASTER INDENTURE AMENDMENTS."

## **Additional Bonds**

The Master Indenture provides the Board with flexibility as to the nature and terms of any Additional Bonds hereafter issued with a lien and charge on Pledged Revenues on a parity with the Series 2003B Bonds and the Existing Parity Bonds. See "APPENDIX C – SUMMARIES OF MASTER INDENTURE AND SEVENTH SUPPLEMENTAL INDENTURE." See also "APPENDIX D – MASTER INDENTURE AMENDMENTS."

Additional Bonds may be issued under the Master Indenture on a parity with the Series 2003B Bonds and the Existing Parity Bonds, provided, among other things, that there is delivered to the Trustee either:

(a) a certificate prepared by an Authorized Board Representative showing the Net Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months 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 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 prepared by a Consultant showing that:

(i) the Net Pledged Revenues for any 12 months out of the most recent 24 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 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, the Consultant estimates that the Board will be in compliance with the rate covenant under the Indenture; and

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

Neither of the certificates described above will be required if:

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

(B) the Bonds being issued constitute Notes and the Trustee receives, 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 Pledged Revenues for any 12 consecutive months out of the 18 months immediately preceding the issuance of the proposed Notes, and the Trustee receives a Certificate of an Authorized Board Representative showing that for each of the Fiscal Years during which the Notes will be Outstanding, the Board will be in compliance with the rate covenant under the Indenture.

The Series 2003B Bonds will be issued as Additional Bonds described in (A) above and at the time of the issuance the Department will deliver a certificate as described in (A) above.

The Board has covenanted in the Master Indenture that so long as any Bonds are Outstanding, 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. 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.”

### **Consent to Master Indenture Amendments**

The Series 2003B Bonds will be issued pursuant to the Indenture. Pursuant to the Seventh Supplemental Indenture, the Department has adopted the Master Indenture Amendments. See “APPENDIX D – MASTER INDENTURE AMENDMENTS.” Under the terms of the Master Indenture, the Master Indenture Amendments cannot become effective until the Board has met the Master Indenture Consent Requirement. See “INTRODUCTION – Consent to Master Indenture Amendments.”

By the purchase and acceptance of the Series 2003B Bonds, the owners of the Series 2003B Bonds are deemed to have irrevocably consented to the Master Indenture Amendments. After the issuance of the Series 2003B Bonds, the owners of over 50% of the Outstanding Bonds will have consented to the Master Indenture Amendments thereby meeting the Master Indenture Consent Requirement and the Master Indenture Amendments will become effective.

### **Permitted Investments**

Moneys held by the Trustee under the Indenture, including moneys in the Debt Service Fund (and the accounts therein) and in the Reserve Fund, may be invested as directed by the Board in Permitted Investments, subject to the restrictions set forth in the Indenture and subject to restrictions imposed upon the Board by the Charter. Investments held in the 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**

Events of Default under the Indenture and related remedies are described in the summary of certain provisions of the Indenture attached as APPENDIX C. The occurrence of an Event of Default does not grant any right to accelerate payment of the Series 2003B Bonds to either the Trustee or the holders of the Bonds. The Trustee is authorized to take certain actions upon the occurrence of an Event of Default, including proceedings to enforce the obligations of the Department under the Indenture.

## **BOND INSURANCE**

*The following information has been furnished by MBIA for use in this Official Statement. The Department makes no representation as to the accuracy or completeness of such information or as to the absence of material adverse changes to such information. Reference is made to Appendix H for a specimen of MBIA’s financial guaranty insurance policy.*

### **The MBIA Insurance Corporation Insurance Policy**

MBIA’s policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Department to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2003B Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA’s policy shall be made in such amounts and at such times

as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2003B Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2003B Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2003B Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Series 2003B Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 2003B Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Series 2003B Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2003B Bonds or presentment of such other proof of ownership of the Series 2003B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2003B Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2003B Bonds in any legal proceeding related to payment of insured amounts on the Series 2003B Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Series 2003B Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

## **MBIA**

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the Series 2003B Bonds or the advisability of investing in the Series 2003B Bonds.

## **MBIA Information**

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2003B Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and (2) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2002, June 30, 2002 and September 30, 2002), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2002, MBIA had admitted assets of \$9.2 billion (audited), total liabilities of \$6.0 billion (audited), and total capital and surplus of \$3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

#### **Financial Strength Ratings of MBIA**

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2003B Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2003B Bonds. MBIA does not guaranty the market price of the Series 2003B Bonds nor does it guaranty that the ratings on the Series 2003B Bonds will not be revised or withdrawn.

In the event the Bond Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

## OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE

### Existing Parity Bonds

Pursuant to the Master Indenture and certain Supplemental Indentures, the Department issued its Existing Parity Bonds, which are currently outstanding in the aggregate principal amount of \$244,335,000 (including the Refunded Bonds). The Existing Parity Bonds are secured by the Pledged Revenues on parity with the Series 2003B Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS – Pledged Revenues." The following table presents the principal amounts outstanding and final maturity dates for the Existing Parity Bonds.

**TABLE 3  
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
LOS ANGELES INTERNATIONAL AIRPORT  
EXISTING PARITY BONDS  
AS OF APRIL 1, 2003**

<u>Series</u>	<u>Principal Amount Outstanding</u>	<u>Final Maturity (May 15)</u>
Series 1995A	\$125,740,000 <sup>(1)</sup>	2010
Series 1995B	34,240,000	2004
Series 1995C	4,950,000	2010
Series 1995D	46,955,000 <sup>(2)</sup>	2015
Series 2002A	<u>32,450,000</u>	2019
Total	<u>\$244,335,000</u>	

<sup>(1)</sup> Includes \$81,825,000 aggregate principal amount of the Refunded Series 1995A Bonds.

<sup>(2)</sup> Includes \$27,550,000 aggregate principal amount of the Refunded Series 1995D Bonds.

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

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## Debt Service Requirements

The following table sets forth debt service requirements on the Existing Parity Bonds (after giving effect to the refunding and defeasance of the Refunded Bonds) and the Series 2003B Bonds:

**TABLE 4**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**SENIOR LIEN BONDS DEBT SERVICE REQUIREMENTS\***

<u>Fiscal Year</u>	<u>Total Debt Service on Existing Parity Bonds<sup>(1)</sup></u>	<u>Principal Requirements on Series 2003B Bonds</u>	<u>Interest Requirements on Series 2003B Bonds</u>	<u>Total Debt Service on Series 2003B Bonds</u>	<u>Total Debt Service on Outstanding Bonds</u>
2003	\$26,693,985.21				\$26,693,985.21
2004	29,335,432.50		\$5,363,887.22	\$5,363,887.22	34,699,319.72
2005	27,162,587.50		5,163,100.00	5,163,100.00	32,325,687.50
2006	24,689,267.50		5,163,100.00	5,163,100.00	29,852,367.50
2007	4,822,622.50	\$9,320,000.00	5,163,100.00	14,483,100.00	19,305,722.50
2008	3,417,760.00	11,185,000.00	4,697,100.00	15,882,100.00	19,299,860.00
2009	3,390,760.00	11,780,000.00	4,137,850.00	15,917,850.00	19,308,610.00
2010	3,361,522.50	12,395,000.00	3,548,850.00	15,943,850.00	19,305,372.50
2011	3,120,047.50	13,255,000.00	2,929,100.00	16,184,100.00	19,304,147.50
2012	3,121,207.50	13,915,000.00	2,266,350.00	16,181,350.00	19,302,557.50
2013	3,123,426.25	14,615,000.00	1,570,600.00	16,185,600.00	19,309,026.25
2014	3,121,707.50	15,345,000.00	839,850.00	16,184,850.00	19,306,557.50
2015	4,317,732.50	1,815,000.00	72,600.00	1,887,600.00	6,205,332.50
2016	8,100,637.50				8,100,637.50
2017	8,098,325.00				8,098,325.00
2018	8,096,325.00				8,096,325.00
2019	<u>11,340,687.50</u>				<u>11,340,687.50</u>
<b>Total</b>	<b>\$175,314,033.96</b>	<b>\$103,625,000.00</b>	<b>\$40,915,487.22</b>	<b>\$144,540,487.22</b>	<b>\$319,854,521.18</b>

\* The Existing Parity Bonds and the Series 2003B Bonds have a parity lien on Pledged Revenues.

<sup>(1)</sup> Debt Service on the Existing Parity Bonds after giving effect to the refunding and defeasance of the Refunded Bonds.

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

## Future Financings

Department staff is currently reviewing plans to issue approximately \$183,000,000 of Additional Bonds (exclusive of the Series 2003B Bonds) to fund its capital improvement program between Fiscal Years 2003 and 2006. Department staff has prepared a capital improvement plan for Fiscal Years 2003-2006 which has not been approved by the Board. See "CAPITAL IMPROVEMENT PLANNING." Additionally, the Department continuously evaluates refunding opportunities and, when economically beneficial, may refund one or more Series of Bonds.

## Other Obligations

### *General Obligation Bonds*

The Board has covenanted in the Master 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. The City last issued general obligation bonds for Department purposes in 1956, which were retired in February 1990.

### ***Repayment Obligations***

Under certain circumstances, the obligation of the Board, pursuant to a written agreement, to reimburse the provider of a Credit Facility or a Liquidity Facility (a "Repayment Obligation") may be secured by a pledge of and lien on Pledged Revenues on a parity with the Bonds. If a Credit Provider or Liquidity Provider advances funds to pay principal of or purchase Bonds, all or a portion of the Department's Repayment Obligation may be afforded the status of a Bond under the Master Indenture. The Board currently does not have any Repayment Obligations outstanding with respect to the Bonds. See "APPENDIX C – SUMMARIES OF MASTER INDENTURE AND SEVENTH SUPPLEMENTAL INDENTURE."

### ***LAX Special Facility Obligations***

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

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

The Department does not have any outstanding LAX Special Facility Obligations, and although such obligations may be issued in the future, the Department currently does not have any plans to issue LAX Special Facility Obligations or to designate a facility, existing or planned, as an LAX Special Facility.

### ***Rental Credits***

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

These rental credits are applied as an offset to amounts owed to the Department by such airlines. Upon application of the rental credit to outstanding invoices owed to the Department the accounts receivable of the Department is considered paid in the amount of such rental credit applied. Since the credit is taken before any

revenue is received, the Department actually collects less moneys from those airlines than what is actually owed by such airlines. Thus, even though rental credits are not secured by any pledge of the Department's revenues, the use of the rental credits results in the creation of a higher payment priority for the rental credits than for Bonds.

Over the last 13 months, the Department prepaid certain rental credits owed to American Airlines ("American"), United, Delta Air Lines ("Delta") and Continental Airlines ("Continental") from excess moneys in the LAX Revenue Account. The Department currently owes approximately \$670,000 of rental credits to Continental and approximately \$55,500,000 to LAX TWO Corp. The Department does not plan to enter into future building leases using this method of financing. See "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Building Leases."

### *Subsidization of Other Airports*

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

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

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

### *Subordinate Obligations*

Pursuant to a Subordinate Trust Indenture dated as of April 1, 2002 by and between the Department and U.S. Bank Trust National Association, as issuing and paying agent, the Department authorized the issuance of not to exceed \$300,000,000 aggregate principal amount of its Commercial Paper Notes (the "Subordinate Commercial Paper Notes"). As of the date of this Official Statement, there is \$15,500,000 aggregate principal amount of Subordinate Commercial Paper Notes outstanding. The Subordinate Commercial Paper Notes are secured by a lien on Pledged Revenues on a subordinate basis to the Bonds on parity with the Subordinate 2002 Bonds (as defined below) and the Subordinate 2003 Bonds (as defined herein), the repayment obligations under the Subordinate 2002 Reimbursement Agreement (as defined herein) and the repayment obligations under the Subordinate 2003 Reimbursement Agreement (as defined herein). In connection with the issuance of the Subordinate Commercial Paper Notes, the Department entered into a Reimbursement Agreement dated as of April 1, 2002 (the "CP Reimbursement Agreement") with Bayerische Landesbank, (formerly Bayerische Landesbank Girozentrale) acting through its New York Branch; JPMorgan Chase Bank; Landesbank Baden-Wuerttemberg, acting through its New York Branch and West LB AG (formerly Westdeutsche Landesbank Girozentrale), acting through its New York Branch (collectively the "CP Banks"), pursuant to which the CP Banks issued an irrevocable direct pay letter of credit (the "CP Letter of Credit") on a several, but not joint basis, to secure the timely payment of the principal of and interest on the Subordinate Commercial Paper Notes. Any repayment obligations of the Department incurred pursuant to the CP Reimbursement Agreement and the CP Letter of Credit will have a lien on Pledged Revenues on a subordinate basis to the Bonds and will be on parity with the Subordinate 2002 Bonds, the Subordinate Commercial Paper Notes, the Subordinate 2003 Bonds, the repayment obligations under the Subordinate

2002 Reimbursement Agreement and the repayment obligations under the Subordinate 2003 Reimbursement Agreement.

The Department has also previously issued and there is currently outstanding \$57,400,000 in aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2002 Subseries C-1 and 2002 Subseries C-2 (collectively, the "Subordinate 2002 Bonds"). The Subordinate 2002 Bonds are secured by a lien on Pledged Revenues on a subordinate basis to the Bonds on parity with the Subordinate Commercial Paper Notes and the Subordinate 2003 Bonds. In connection with the issuance of the Subordinate 2002 Bonds, Bayerische Landesbank, acting through its New York Branch, individually and as Agent, JPMorgan Chase Bank, and Landesbank Baden-Württemberg, acting through its New York Branch (collectively, the "Subordinate 2002 Banks") issued, on a several, not joint basis, an irrevocable transferable direct-pay letter of credit (the "Subordinate 2002 Letter of Credit") securing the Subordinate 2002 Bonds. At the time of issuance of the Subordinate 2002 Letter of Credit, the Department and the Subordinate 2002 Banks entered into a Reimbursement Agreement dated as of December 1, 2002 (the "Subordinate 2002 Reimbursement Agreement"). Any repayment obligations of the Department incurred pursuant to the Subordinate 2002 Reimbursement Agreement and the Subordinate 2002 Letter of Credit will have a lien on Pledged Revenues on a subordinate basis to the Bonds and will be on parity with the Subordinate 2002 Bonds, the Subordinate Commercial Paper Notes, the repayment obligations under the CP Reimbursement Agreement, the Subordinate 2003 Bonds and the repayment obligations under the Subordinate 2003 Reimbursement Agreement.

The Department has also previously issued and there is currently outstanding \$23,700,000 in aggregate principal amount of its Los Angeles International Airport Subordinate Revenue Bonds, 2003 Series A (the "Subordinate 2003 Bonds"). The Subordinate 2003 Bonds are secured by a lien on Pledged Revenues on a subordinate basis to the Bonds on parity with the Subordinate 2002 Bonds Subordinate Commercial Paper Notes, the repayment obligations under the CP Reimbursement Agreement and the Subordinate 2002 Reimbursement Agreement. In connection with the issuance of the Subordinate 2003 Bonds, Bayerische Landesbank, acting through its New York Branch, individually and as Agent, JPMorgan Chase Bank, and Landesbank Baden-Württemberg, acting through its New York Branch (collectively, the "Subordinate 2003 Banks") issued, on a several, not joint basis, an irrevocable transferable direct-pay letter of credit (the "Subordinate 2003 Letter of Credit") securing the Subordinate 2003 Bonds. At the time of issuance of the Subordinate 2003 Letter of Credit, the Department and the Banks entered into a Reimbursement Agreement dated as of February 1, 2003 (the "Subordinate 2003 Reimbursement Agreement"). The repayment obligations of the Department incurred pursuant to the Subordinate 2003 Reimbursement Agreement and the Subordinate 2003 Letter of Credit will have a lien on Pledged Revenues on a subordinate basis to the Bonds and will be on parity with the Subordinate 2002 Bonds, the Subordinate Commercial Paper Notes and the Subordinate 2003 Bonds and any repayment obligations.

## **RISK FACTORS**

The purchase and ownership of the Series 2003B Bonds involve investment risk. Prospective investors are urged to read this Official Statement in its entirety. The factors set forth below, among others, may affect the security for the Series 2003B Bonds. See also "LOS ANGELES INTERNATIONAL AIRPORT – Recent Events."

### **Reduction in Air Travel**

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

Key factors that affect airline traffic at LAX and, therefore, the amount of Pledged Revenues available for payment of the Series 2003B Bonds, include: local, regional, national and international economic and political conditions; international hostilities such as those presently occurring in Iraq and elsewhere in the Middle East, world health concerns such as the current SARS outbreak, aviation security concerns; airline service and routes; airline airfares and competition; airline industry economics, including labor relations; availability and price of aviation fuel; capacity of the national air traffic control and airport systems; capacity of LAX and competition from other airports, among others. Many of these factors are outside the Department's control. Drops in aviation activity and enplaned passenger traffic at LAX would result in reduced Pledged Revenues.

### **Financial Condition of the Airlines**

Recent events, including the September 11 Events, the ongoing economic slowdown (which commenced prior to the September 11 Events) and the current hostilities occurring in Iraq and elsewhere in the Middle East have had a significant negative effect on airline industry profitability. Vanguard, United, National, Midway, Hawaiian, Avianca and Air Canada have filed for bankruptcy protection. Vanguard, United, National, Midway, Hawaiian, Avianca, and Air Canada comprised approximately 22% of enplanements at LAX in Fiscal Year 2002. US Airways, which accounted for 2.3% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection in August 2002, but emerged from bankruptcy protection on March 31, 2003. Numerous air carriers have announced schedule reductions and layoffs. American, the second largest carrier at LAX (accounting for 13.6% of enplanements at LAX in Fiscal Year 2002), has also reported financial difficulties. Future airline traffic will be affected by, among other things, the growth or decline of the population of LAX's service region; local, regional, national and international economic and political conditions; international hostilities such as those presently occurring in Iraq and elsewhere in the Middle East, world health concerns such as the current SARS outbreak, federal regulatory actions; the financial condition of the airlines; air fare levels; and the operation of the air traffic control systems.

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

Several airlines including American, Delta and United (which three airlines accounted for approximately 39% of all enplaned passengers at LAX during Fiscal Year 2002) have received compensation pursuant to the Stabilization Act, for losses resulting from airport closures and other losses resulting from the effects of the September 11 Events. In addition, several airlines have applied for federal loan guarantees, including US Airways and United. On December 4, 2002, the ATSB rejected United's application for \$1.8 billion of federal loan guarantees. On March 18, 2003 the ATSB accepted US Airways' application for a \$900 million federal loan guarantee. See "AIRLINE INDUSTRY INFORMATION" for additional information about airlines operating at LAX.

On April 16, 2003, President Bush signed a \$3 billion-plus aid package for the airline industry as part of a larger Iraqi-war spending bill that pays the initial costs of the war. The aid package includes, among other things, reimbursement for airline security costs and a six-month waiver of security fees owed to the government for the last six months of federal fiscal year 2003.

## Aviation Security Concerns

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

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

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

The TSA assumed most passenger screening functions nationwide in February 2002, largely by contracting with private sector security providers; and by November 2002, the TSA had taken over screening functions at all terminals at LAX. To comply with the checked baggage screening requirements imposed by the ATSA, by December 31, 2002 explosive detection systems were required to be deployed at airports across the United States to screen all checked baggage.

The Department conducted all the necessary planning studies to allow TSA contractors to make infrastructure improvements and beginning on January 1, 2003 all checked baggage at LAX was being screened by explosive detection equipment as required by the ATSA. To date only minor delays have been experienced as a result of the new screening procedures; however this may change as a result of increased passenger traffic or other factors. While the cost of the new security screening systems will be borne by the TSA and the airlines, structural modifications to the terminal complex to facilitate installation and operation of the new systems may be necessitated at a cost to the Department that has not yet been determined.

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

According to Central Intelligence Agency officials, LAX was the target of a terrorist bombing plot in December 1999, which was unsuccessful. 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. After the September 11 Events the United States government launched a

military offensive against Afghanistan and recently against Iraq and has warned that these offensives may continue for years. The Department cannot predict the duration of the current hostilities or the effect thereof on the air transportation system or the likelihood of any retaliation. Any such action could directly or indirectly reduce passenger traffic and depress airline industry revenues and Pledged Revenues. Further, the Department is unable to predict the effect on any of the airlines operating at LAX, including the potential that these incidents may cause any additional airlines to seek bankruptcy protection.

LAX has an approved airport security plan in place which meets federal requirements. Airport police are also part of a national and international network of law enforcement agencies and airports which share information regarding potential or actual security threats. Police officers at LAX have undergone special aviation security training and have been training other airport police officers in these techniques since the 1970s. LAX has an established emergency management system which sets out the protocols for response to security breaches, natural disasters and other emergencies. See also "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Emergency Preparedness." Airport police and security personnel regularly test various security systems throughout LAX. The TSA also conducts random tests of the security systems at LAX for compliance with federal requirements.

### **Forward-Looking Statements**

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

### **Regulations and Restrictions Affecting LAX**

The operations of LAX are affected by a variety of contractual, statutory and regulatory restrictions and limitations including extensive federal legislation and regulations applicable to all airports in the United States. In the aftermath of the September 11 Events, LAX has been required to implement enhanced security measures mandated by the FAA, the TSA, the Department of Homeland Security and Airport management.

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

### **Effect of Airline Bankruptcies**

The profitability of the airline industry has declined since 2000, with many airlines reporting substantial financial losses and several airlines filing for bankruptcy protection, due not only to the September 11 Events, but also to a general economic slowdown, which commenced prior to the September 11 Events, increased aviation fuel costs, inclement weather throughout the nation, labor disruptions and other factors. Most recently, the airline industry has been affected by the hostilities presently occurring in Iraq. In December 2000, National, which accounted for less than 1% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection and subsequently ceased operations in November 2002. In January 2001, Trans World Airlines ("TWA") filed for bankruptcy protection and was integrated into American after substantially all of TWA's assets and certain liabilities were purchased by American; in August 2001, Midway, which accounted for less than 1% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection and subsequently ceased operations; in July 2002, Vanguard, which also accounted for less than 1% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection and has suspended all operations; in August 2002, US Airways, which accounted for approximately 2.3% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection but emerged from bankruptcy protection on March 31, 2003; on December 9, 2002 UAL, the parent of United, which accounted for approximately 19% of enplanements at LAX in Fiscal Year 2002 filed for bankruptcy protection but is continuing operations, although certain routes and flights could be affected; on March 21, 2003, Hawaiian, which accounted for approximately 1.4% of enplanements at LAX in Fiscal Year 2002, and Avianca, which accounted for less than 1% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection, but both are continuing operations, although certain

routes and flights could be affected; and on April 1, 2003 Air Canada, which accounted for approximately 1.6% of enplanements at LAX in Fiscal Year 2002, filed for bankruptcy protection in Canada but is continuing operations, although certain routes and flights may be affected. It is not yet known whether United and/or any other airlines in bankruptcy will assume or reject their respective affected agreements with LAX. The Department is unable to predict how long any airline in bankruptcy protection will continue operating at LAX or whether any of these airlines will liquidate in the future. The seven airlines currently in bankruptcy protection accounted, together, for approximately 24.5% of enplanements at LAX in Fiscal Year 2002. 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 60 days or later, if ordered by the court, with respect to its use agreements or leases of non-residential real property, or (ii) prior to the confirmation of a plan or reorganization with respect to any other agreement. In the event of assumption and/or assignment of any agreement to a third party, the airline would be required to cure any pre- and post-petition monetary defaults and to provide adequate assurance of future performance under the applicable agreement. The Department is unable to predict whether any leases of non-residential real property with any airlines in bankruptcy proceedings may be assigned to third parties in the course of bankruptcy proceedings. Rejection of a use or other agreement or executory contract would give rise to an unsecured claim of the Department and/or the City for damages, the amount of which in the case of a use or other agreement is limited by the U.S. Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (1) one year of rent or (2) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of a use or other agreement could be considerably less than the maximum amounts allowed under the U.S. Bankruptcy Code. Except for costs allocated to such airline for post-petition usage and rental of the terminal, concourse and ramps, amounts unpaid as a result of a rejection of a use or other agreement in connection with an airline in bankruptcy, such as airfield costs, would be passed on to the remaining airlines under their respective use agreements, although there can be no assurance that such other airlines would be financially able to absorb the additional costs. Additionally, during the pendency of a bankruptcy proceeding, and until assumption or rejection of the affected agreements, a debtor airline may not, absent a court order, make any payments to the City or the Department on account of goods and services provided prior to the bankruptcy. Thus, the Department's stream of payments from a debtor airline might be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

United sought and obtained an order of the Bankruptcy Court authorizing the payment of pre-petition landing fees, and the Department has been paid by United for all pre-petition landing fees. United also obtained an extension to the date by which it must assume or reject its agreements with the Department and/or the City. On the current Bankruptcy Court schedule United must assume or reject its lease agreements by August 9, 2003. United has lease agreements at LAX for Terminals 7 and 8 and a portion of Terminal 6.

Pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (P.L. 101-508) (the "1990 PFC Act") and the Wendel H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181) ("AIR 21," and collectively with the 1990 PFC Act, the "PFC Acts"), the FAA has approved the Department's applications to require the airlines to collect and remit to the Department a PFC on each enplaning revenue passenger at LAX. See "CAPITAL IMPROVEMENT PLANNING - Passenger Facility Charges." The PFC Acts provide that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (*i.e.*, the Department) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. The airlines, however, are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. The bankruptcy courts have not fully addressed such trust arrangements. Therefore, the Department cannot predict how a bankruptcy court might rule on this matter in the event of a bankruptcy filing by one of the airlines operating at LAX. United sought and obtained an order of the Bankruptcy Court authorizing the payment of pre-petition PFCs. United has paid all pre-petition PFCs owed to the Department. It is possible that the Department could be held to be an unsecured creditor with respect to unremitted PFCs held by an airline that has filed for bankruptcy protection. Additionally, the Department cannot predict whether an airline operating at LAX that files for bankruptcy protection would have properly accounted for the



PFCs owed to the Department or whether the bankruptcy estate would have sufficient moneys to pay the Department in full for the PFCs owed by such airline. PFCs are not pledged to the repayment of Bonds, including the Series 2003B 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.

### **Seismic Risks**

The City is located in a seismically active region of the State. During the past 150 years, the Los Angeles area has experienced several major and minor earthquakes. On January 17, 1994, the Los Angeles area experienced an earthquake that measured 6.7 on the Richter Scale. LAX experienced no disruption of service. Damage in excess of \$11 million was sustained at VNY and LAX; of which almost all of the damage was at VNY. As of June 2001, the Department had received \$224,973 of a total of \$3,314,000 in expected funds from the Federal Emergency Management Agency ("FEMA"), and \$234,162 from the State Governor's Office of Emergency Services to offset the cost of earthquake damage. An additional \$1.5 million will be advanced by FEMA once work is completed on Hangar 902 at VNY, which has been delayed due to litigation matters with the current tenant. In addition, the Department received \$7,131,606 from its insurance carrier for the earthquake damage at VNY. The Department is unable to predict when another earthquake may occur and what impact, if any, it may have on the Department's operations or finances.

## **THE DEPARTMENT OF AIRPORTS**

### **General Description**

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

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

ONT is a medium-hub full-service airport with commercial jet service to many major cities in the United States and connecting service to many international destinations. ONT is located approximately 35 miles east of downtown Los Angeles and occupies approximately 1,677 acres. ONT currently serves about 6.4 million annual passengers, representing about 10% of the total air passenger traffic of the Airport System for Fiscal Year 2002. In addition to 12 passenger carriers and one commuter carrier that served ONT as of July 1, 2002, ONT was also served by more than 20 unscheduled air passenger and air cargo carriers.

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

PMD, located in the Antelope Valley, is approximately 50 miles north of downtown Los Angeles. The airport is located on United States Air Force Plant 42 ("Plant 42") property and operated through a Joint Use Agreement with the United States Air Force. The Department owns approximately 17,750 acres of land east of

Plant 42 for the potential future development of a new airport. PMD features a newly refurbished 9,000 square foot terminal capable of handling up to 300,000 passengers annually.

### Comparison of Four Airports in Airport System

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

**TABLE 5  
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
OPERATING DATA FOR THE AIRPORT SYSTEM  
FISCAL YEAR 2002**

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

<sup>(1)</sup> Operating revenues less operating expenses, before depreciation. This definition of Net Revenues varies from the definition of the term "Net Pledged Revenues" as defined in the Indenture.

<sup>(2)</sup> For revenue-related operations only.

<sup>(3)</sup> Reflects landed weight for revenue-generating landings only.

<sup>(4)</sup> General Aviation Facility.

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

### Board of Airport Commissioners

The Department is governed by the Board which is responsible for the formulation of policy for the Airport System. The Board is comprised of 7 members. Each member is appointed by the Mayor for revolving five-year terms. One member is required to live near LAX and one is required to live near VNY. The President and Vice President of the Board are elected by the Board members for one-year terms. The current members of the Board are set forth as follows:

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

## Oversight by City Council

The Charter allows the City Council to review all Board actions. The Charter states that actions of the Board become final at the expiration of five meeting days of the City Council unless the City Council acts within that time, by a two-thirds vote, to bring an action of the Board before the City Council for review. If the City Council chooses to assert jurisdiction over the action, the City Council may, by a two-thirds vote, veto the action within 21 calendar days of bringing the matter before it, or the action of the Board is final. An action vetoed by the City Council shall be remanded to the Board which will have the authority it originally held to take action on the matter.

## Department Management

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

**Lydia H. Kennard, Executive Director.** Lydia H. Kennard was appointed as Executive Director on March 10, 2000. Since August 1999, Ms. Kennard, former Deputy Executive Director, Planning and Engineering, served as Interim Executive Director, replacing John J. Driscoll, Executive Director, Operations and Administration upon his retirement. She was appointed to the position of Deputy Executive Director for Design and Construction, in April 1994, and she was responsible for overseeing the activities of the bureaus relating to planning, engineering, design, construction, real estate and facilities for the Airport System. Prior to joining the Department, Ms. Kennard was President/Principal-in-Charge of KDG Development Consulting, a position she had held since 1980. The Los Angeles based firm specializes in land use planning, development, programming and construction management for both public and private sector clients. She was a member of the Los Angeles Planning Commission from 1991 to 1993, and served as Vice Chair from 1992 to 1993. Ms. Kennard earned a Bachelor of Arts degree in Urban Planning and Management from Stanford University, her Juris Doctorate degree from Harvard University and a Masters degree in City Planning from the Massachusetts Institute of Technology.

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

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

**William A. Bruce, Director of Airports Administration.** Mr. Bruce was appointed Director of Airports Administration in May 1999. He oversees the activities of the Human Resources, Procurement Services, Purchasing, Risk Management and Small Business and Job Opportunities Divisions and their support of the Airport System. His major responsibilities include reviewing these bureaus, their interrelationships and how they support

the Airport System. Mr. Bruce has worked for the City for over 30 years, most recently with the Community Development Department where he was responsible for managing the annual consolidated plan process for \$150 million in federal grant programs. In addition, his other responsibilities included departmental information systems, risk management and environmental review activities, records retention, insurance support and environmental review. Prior to that post, he was appointed to lead the City's federal jobs training program. Mr. Bruce started his government career with the City Administrative Officer in 1969, where he spent eleven years as a budget analyst and chief negotiator for employee relations matters. Mr. Bruce earned a Bachelor of Arts degree in 1967 from the University of California at Los Angeles and a Master of Public Administration degree in 1971 from California State University, Los Angeles. For the past nine years, he has also been a Lecturer in Public Administration and State and Local Government at California State University, Los Angeles.

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

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

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

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

***Richard M. Janisse, Deputy Executive Director, Properties and Concessions.*** Mr. Janisse was appointed to Deputy Executive Director, Properties and Concessions in June 2001. He is responsible for overseeing all property management, concessions and new business development within the Airport System. He brings to the

position more than 27 years of experience in aviation business development. Before joining LAX, Mr. Janisse served as founder and president of RMJ & Associates, LLC in Orange County, California, a consulting services firm that provided airports with economic development planning, marketing and sales, business recruitment, airport privatization, planning, air cargo operations and facilities analysis, air cargo service development, asset management, land development and financial analysis. Previously, he served as President and CEO of Martin Aviation, Inc., a \$30 million general aviation fueling, air charter aircraft sales and hangar storage business. He has also served as President of World Airways, Inc., President and CEO of AMR Services Corp. and in several other positions with American. Mr. Janisse holds a Bachelor of Science degree in management from the University of Detroit.

*Edward James "Jim" Ritchie, Deputy Executive Director, Long Range Planning.* Mr. Ritchie was appointed to the position of Executive Director, Long Range Planning in November 1999. He is responsible for Long Range Planning and Environmental Management. He has 32 years of aviation experience combined with extensive strategic planning experience. His career highlights include six years as the Marine Corps West Coast Director for Base Realignment and Closures followed by a consulting assignment as Program Manager for Orange County's Base Transition Plan (El Toro). Most recently, Mr. Ritchie has been the General Manager of Mercury Air Center at LAX. As West Coast Director for Base Realignment and Closure, Mr. Ritchie developed a \$934 million budget with construction contracts in excess of \$455 million. He has personally supervised three master plan efforts and initiated five environmental statements, one of which was a joint EIS/EIR. Mr. Ritchie earned a Bachelors degree in Social Sciences from California State University, Long Beach in 1966; a Masters degree in Systems Management from the University of Southern California in 1975; a Masters degree in National Security and Strategic Studies from the Naval War College, Newport, Rhode Island in 1988; and a Masters degree in International Relations from Salve Regina College, Newport, Rhode Island in 1989. He also completed a fellowship in Foreign Politics and the National Interest at the Massachusetts Institute of Technology in 1990.

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

## **Employees and Labor Relations**

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

As a municipal organization, the Department's employee and labor relations are governed by Civil Service rules and regulations, the Charter and the City Administrative Code as well as 21 separate labor agreements between management and unions ("Memoranda of Understanding"). Several Memoranda of Understanding have expired and are currently being negotiated. Until new Memoranda of Understanding are entered into, the terms of the expired Memoranda of Understanding govern labor relations. The following table sets forth all Memoranda of Understanding between the Department and labor and management unions.

**TABLE 6  
DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
LOS ANGELES INTERNATIONAL AIRPORT  
MEMORANDA OF UNDERSTANDING  
BETWEEN THE DEPARTMENT AND  
EMPLOYEE LABOR ORGANIZATIONS**

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

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

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

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

# LOS ANGELES INTERNATIONAL AIRPORT

## Introduction

LAX is located approximately 15 miles from downtown Los Angeles on the western boundary of the City. LAX occupies approximately 3,586 acres in an area generally bounded on the north by Manchester Avenue, on the east by the San Diego (405) Freeway, on the south by the Imperial Highway, and on the west by the Pacific Ocean. The LAX site, originally known as Mines Field, has been in use as an aviation field since 1928. During World War II it was used for military flights. Commercial airline service started in December 1946, using intermediate passenger facilities, and the present terminal complex was constructed in 1961. In the early 1980s, LAX added domestic and international terminals, parking structures and a second level roadway. LAX offers commercial air service to every major city in the United States and to virtually every major international destination. LAX is the major facility in the Airport System accounting for approximately 90% of the total passenger traffic of the Airport System for Fiscal Year 2002. In calendar year 2001, 67% of enplanements at LAX represented originating and destination passengers. The remaining 33% of enplanements represented connections to or from regional markets as well as domestic connections to or from international markets. The relatively high percentage of connecting passengers at LAX is primarily due to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets in the State; (iii) the significant number of nonstop flights to and from domestic markets and (iv) the diversity of airlines serving LAX. LAX is classified by the FAA as a large hub airport. See "APPENDIX A – ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE LAX SERVICE REGION."

## Recent Events

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

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 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. The Department and Airport police have implemented a variety of safety and security measures at LAX to enhance passenger safety. See "RISK FACTORS – Aviation Security Concerns" and "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Emergency Preparedness." As part of its program of proactively addressing heightened security concerns and requirements, in April 2002 the Department entered into contracts with several architectural and engineering firms under which such firms analyzed the Department's security systems and provided recommendations for enhancements focusing on baggage screening for explosive devices, federalization of security screening checkpoints, perimeter security, access control and communication systems, improved protection of public areas and architectural design standards. The firms included Gensler, which was responsible for the Airport's domestic terminals; Parsons Brinckerhoff, which was responsible for the Airport's international facilities, including Tom Bradley International Terminal ("TBIT"); Bechtel/JGM, a Joint Venture, for ground access, airside/perimeter/parking structures and other miscellaneous airport facilities and CH2M Hill for all facilities at ONT. In addition, the Mayor directed the Department to implement certain security enhancements in advance of otherwise applicable legal deadlines. Based on the results of the analyses conducted by such firms, the Department is actively evaluating various possible enhancements, and has obtained Board approval to amend three of the contracts to proceed to the next phase of work on perimeter security and baggage and passenger screening system enhancements.

Currently, final construction documents are being prepared for perimeter fencing improvements and enhancements at LAX. Design is also underway for the installation of seven additional passenger screening lanes; four lanes at TBIT and one lane at each of Terminals 1 and 3.

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

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

- The Department plans to reduce the size of the Capital Improvement Program ("CIP") over the next five Fiscal Years (which in the case of the Department, currently consist of the period July 1 of each year through June 30 of the immediately subsequent year). See "CAPITAL IMPROVEMENT PLANNING";
- The Department received authority from the Internal Revenue Service to utilize approximately \$39 million of unspent proceeds of certain prior bonds to reimburse the Department for prior pay-as-you-go spending on capital projects;
- The Department raised landing fees effective January 2, 2002 and is planning for further increases in upcoming Fiscal Years, if necessary, subject to Board approval;
- On October 15, 2002, the Board approved the sale of advertising space at LAX and authorized the solicitation of bids from companies to administer the advertising program; advertising revenues are expected to partially offset security costs and reduced concession and parking revenues;
- The LAX Revenue Account was reimbursed approximately \$20 million for a previous advance to ONT for land acquisition costs;
- The Department is in the process of seeking FAA approval to increase the PFC to \$4.50 from \$3.00 to fund specific CIP projects, subject to Board approval;
- The Department has revised its internal policy to allow for the acceptance of FAA Airport Improvement Program grants. The Department has received approximately \$41,778,000 of such grants to reimburse the Department for capital projects within the Airport System for security-related costs and improvements to the easterly end of Taxiway C at LAX; and
- Subject to Board approval, the Department is planning to issue a request for proposals for ground handling services. To date, the Department has granted permits for ground handling services under arrangements that involved the payment to the Department of permit fees. The new agreement structure will require the payment of a concession fee which is expected to generate additional revenues, while enhancing operational efficiency.

## **Facilities**

The central terminal complex is comprised of approximately 265 acres and features a decentralized design concept with nine individual terminals constructed on two levels lining a U-shaped two-level roadway (the "Central Terminal Area"). The total terminal area is approximately 4.1 million square feet.

Passenger terminal facilities include ticketing and baggage check-in on the upper departure level and baggage claim on the ground level, fronting on the lower-level roadway. Passenger terminal facilities provide access to upper-level concourses and/or underground tunnels to field arrival/departure areas, each of which accommodates gate positions for eight to sixteen aircraft. LAX currently has a total of 144 gate positions. Several of the jet gates accommodate commuter airplanes. American recently completed a \$300-million improvement project at Terminal 4 which expanded the main check-in lobby, security checkpoints and baggage claim areas. The



project included a new U.S. Customs and Immigration facility that can handle up to 1,200 passengers per hour, with a moving walkway linked to the TBIT. The project expanded the main ticket counter area and almost doubled the number of check-in positions.

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

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

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

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## Air Carriers Serving LAX

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

**TABLE 7**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**AIR CARRIERS SERVING LAX**  
**AS OF JULY 1, 2002**

<u>Scheduled U.S. Carriers (20)</u>	<u>Foreign Flag Carriers (43)</u>	<u>Non-Scheduled Carriers (22)</u>	<u>All-Cargo Carriers (30)</u>
Air Wisconsin	Aer Lingus	Access Air	Aeromexpress
Alaska	Aero California	Air Atlanta Icelandic	Air Transport International
America West	Aeroflot	Air Group	ABX Air
American	AeroMexico	Air Mobility Command	Ameriflight
American Eagle	Air Canada <sup>1</sup>	Air 2000	Ameristar
American Trans Air	Air China	Allegiant Air	Atlas Air
Continental	Air France	Champion Air	Capital Cargo
Delta	Air Jamaica	Classic Limited	Cargolux
Frontier	Air New Zealand	Clay Lacy Aviation	Contract Air Cargo
Hawaiian <sup>2</sup>	Air Pacific	Florida West	Custom Air Transport
Horizon	Air Tahiti Nui	Legend	DHL Airways
Mesa	All Nippon	Miami Air	Empire
Midwest Express	Allegro	North American	Evergreen International
National <sup>3</sup>	Asiana	Omni Air International	Express.Net
Northwest	Avianca <sup>4</sup>	Peterson Aviation	Fast Air
SkyWest	British Airways	Premier Aircraft	FedEx
Southwest	Cathay Pacific	Sky Service	Gemini
Spirit	China	Sports Jet	Kalitta Air
United <sup>5</sup>	China Eastern	Sun Country	Kitty Hawk
US Airways <sup>6</sup>	China Southern	Trans Meridian	MAS Air Cargo
	CMA Mexicana	West Air	McNeely Charter
	Copa	World Airways	Nippon Cargo Airlines
	Corsair		Polar
	El Al Israel		Ryan International
	Eva Airways		Singapore Airlines Cargo
	Japan		Southern Air
	KLM Royal Dutch		Union Flights
	Korean		United Parcel Service
	LACSA		USA Jet
	LanChile		Zantop
	Lot Polish		
	LTU International		
	Lufthansa		
	Malaysian		
	Martinair Holland		
	Philippine		
	Qantas		
	Singapore		
	Swissair		
	Taca		
	Thai Airways International		
	Varig Brazilian		
	Virgin Atlantic		

<sup>1</sup> Air Canada filed for bankruptcy protection on April 1, 2003, but is continuing operations at LAX.

<sup>2</sup> Hawaiian Airlines filed for bankruptcy protection on March 21, 2003, but is continuing operations at LAX.

<sup>3</sup> National Airlines filed for bankruptcy protection in December 2000, and subsequently ceased operations in November 2002.

<sup>4</sup> Avianca Airlines filed for bankruptcy protection on March 21, 2003, but is continuing operations at LAX.

<sup>5</sup> United filed for bankruptcy protection on December 9, 2002, but is continuing operations at LAX.

<sup>6</sup> US Airways filed for bankruptcy protection on August 11, 2002, but emerged from bankruptcy protection on March 31, 2003 and continues to operate at LAX.

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

## Aviation Activity

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

**TABLE 8**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**TOP 10 WORLDWIDE RANKING – CALENDAR YEAR 2001**

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

Sources: Airports Council International

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

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

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

**TABLE 9**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**AIR TRAFFIC DATA**

<u>Fiscal Year</u>	<u>Total Operations<sup>(1)</sup></u>	<u>Operations Growth</u>	<u>Enplanements and Deplanements</u>			<u>Passenger Growth</u>
			<u>Domestic<sup>(2)</sup></u>	<u>International<sup>(2)</sup></u>	<u>Total<sup>(2)</sup></u>	
1993	632,690	2.36%	35,710,742	11,792,496	47,503,238	2.84%
1994	647,832	2.39	36,745,058	12,163,450	48,908,508	2.96
1995	700,459	8.12	40,028,894	13,109,337	53,138,231	8.65
1996	732,250	4.54	42,278,067	13,893,382	56,171,449	5.71
1997	737,036	0.65	44,519,371	14,119,585	58,638,956	4.39
1998	735,596	-0.20	45,879,451	15,135,442	61,014,893	4.05
1999	769,938	4.67	47,173,340	15,404,356	62,577,696	2.56
2000	745,421	-3.18	49,570,344	16,510,467	66,080,811	5.60
2001	795,723	6.75	49,639,031	17,553,941	67,192,972	1.68
2002	625,457	-21.40	41,490,373	14,623,209	56,113,582	-16.49
July 2001 to January 2002	395,623		24,401,139	8,720,661	33,121,800	
July 2002 to January 2003	385,165	-2.64	24,490,388	9,034,443	33,524,831	1.22
<b>Compounded Annual Growth Rate</b>						
1993-2002	-0.1%		1.7%	2.4%	1.9%	
1993-2001	2.9		4.2	5.1	4.4	
2001-2002	-21.4		-16.4	-16.7	-16.5	

<sup>(1)</sup> For revenue-related operations only.

<sup>(2)</sup> Enplaned and deplaned passengers.

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

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

**TABLE 10**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**(RANKED BY FISCAL YEAR 2002 RESULTS)**  
**HISTORICAL TOTAL ENPLANEMENTS BY AIRLINE**

Airline	Fiscal Year 1998		Fiscal Year 1999		Fiscal Year 2000		Fiscal Year 2001		Fiscal Year 2002		First nine months of FY 2003	
	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share	Enplanements	Share
1 United <sup>(1)</sup>	6,947,061	22.6%	7,192,369	22.8%	7,711,998	23.2%	7,194,065	21.3%	5,290,373	18.8%	3,713,687	17.7%
2 American <sup>(2)(3)</sup>	3,316,921	10.8%	3,350,656	10.6%	4,105,585	12.4%	4,774,104	14.1%	3,829,598	13.6%	2,853,549	13.6%
3 Southwest	3,396,545	11.1%	2,838,483	9.0%	3,865,114	11.6%	3,860,380	11.4%	3,311,548	11.8%	2,571,198	12.3%
4 Delta	2,834,495	9.2%	2,705,019	8.6%	2,651,724	8.0%	2,585,904	7.6%	2,260,347	8.0%	1,532,184	7.3%
5 Alaska	986,124	3.2%	1,160,832	3.7%	1,147,236	3.5%	1,142,074	3.4%	1,108,714	3.9%	847,101	4.1%
6 Northwest	1,314,112	4.3%	1,180,675	3.7%	1,374,630	4.1%	1,356,444	4.0%	1,061,976	3.8%	755,944	3.6%
7 SkyWest	857,196	2.8%	1,096,978	3.5%	959,111	2.9%	987,910	2.9%	925,688	3.3%	849,868	4.1%
8 Continental	1,054,866	3.4%	1,116,767	3.5%	997,489	3.0%	985,257	2.9%	890,826	3.2%	643,045	3.1%
9 America West	723,044	2.4%	715,822	2.3%	738,146	2.2%	790,128	2.3%	681,813	2.4%	548,281	2.6%
10 US Airways <sup>(4)</sup>	827,310	2.7%	749,656	2.4%	680,705	2.0%	771,107	2.3%	638,973	2.3%	423,105	2.0%
11 CMA Mexicana	505,850	1.6%	508,131	1.6%	640,948	1.9%	677,830	2.0%	517,625	1.8%	395,523	1.9%
12 American Eagle	404,898	1.3%	456,042	1.4%	495,927	1.5%	551,485	1.6%	495,554	1.8%	421,751	2.0%
13 Air Canada <sup>(5)</sup>	314,843	1.0%	278,191	0.9%	305,903	0.9%	487,765	1.4%	460,618	1.6%	338,992	1.6%
14 Qantas	312,417	1.0%	320,825	1.0%	411,692	1.2%	491,456	1.5%	440,369	1.6%	354,472	1.7%
15 Air New Zealand	386,604	1.3%	468,974	1.5%	488,349	1.5%	498,083	1.5%	423,787	1.5%	352,531	1.7%
16 American Trans Air	328,149	1.1%	379,105	1.2%	422,593	1.3%	441,376	1.3%	400,667	1.4%	366,803	1.8%
17 Hawaiian <sup>(6)</sup>	339,116	1.1%	371,134	1.2%	481,881	1.5%	466,834	1.4%	380,035	1.4%	237,108	1.1%
18 Korean	391,023	1.3%	399,776	1.3%	416,008	1.3%	398,120	1.2%	325,007	1.2%	240,191	1.2%
19 AeroMexico	190,720	0.6%	235,620	0.7%	322,851	1.0%	322,851	1.0%	267,579	1.0%	166,599	0.8%
20 Japan	331,661	1.1%	374,132	1.2%	331,562	1.0%	383,746	1.1%	267,239	0.9%	200,951	1.0%
Other	4,974,927	16.2%	5,586,274	17.7%	4,682,270	14.1%	4,673,050	13.8%	4,153,325	14.8%	3,118,352	14.8%
Airport Total <sup>(7)</sup>	30,737,882	100.0%	31,485,461	100.0%	33,231,722	100.0%	33,839,969	100.0%	28,131,661	100.0%	20,931,235	100.0%

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

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

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

<sup>(4)</sup> US Airways filed for bankruptcy protection on August 11, 2002, but emerged from bankruptcy protection on March 31, 2003 and continues to operate at LAX.

<sup>(5)</sup> Air Canada filed for bankruptcy protection on April 1, 2003, but is continuing operations while in bankruptcy protection.

<sup>(6)</sup> Hawaiian Airlines filed for bankruptcy protection on March 21, 2003 and has announced that it will continue operating while in bankruptcy proceedings.

<sup>(7)</sup> Totals may not add due to individual rounding.

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

The following table presents the total revenue landed weight for the largest air carriers serving LAX for the previous five Fiscal Years.

**TABLE 11**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**TOTAL REVENUE LANDED WEIGHT**  
**(RANKED ON FISCAL YEAR 2002 RESULTS)**  
**(LBS.)**

<u>Airline</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>% of 2002 Total<sup>(1)</sup></u>
1. United Air Lines <sup>(2)</sup>	11,200,038	11,617,488	12,857,574	12,066,767	9,252,061	17.31
2. American Airlines <sup>(3)(4)</sup>	5,605,853	5,626,160	6,467,683	7,577,223	6,688,177	12.52
3. Southwest Airlines	5,087,080	4,559,264	4,834,389	4,871,684	4,579,383	8.57
4. Delta Air Lines	5,023,926	4,841,886	4,073,843	4,570,301	4,002,913	7.49
5. Northwest Airlines	2,206,389	2,067,873	2,457,207	2,404,460	1,836,994	3.44
6. Federal Express	1,464,242	1,464,242	1,607,824	1,640,848	1,817,327	3.40
7. Alaska Airlines	1,534,944	1,647,362	1,663,496	1,705,023	1,570,644	2.94
8. SkyWest	1,480,396	1,711,118	1,661,449	1,618,382	1,412,865	2.64
9. Continental Airlines	1,673,493	1,671,238	1,460,642	1,503,215	1,276,978	2.39
10. Korean Airlines	788,232	781,604	978,000	1,303,882	1,061,072	1.99
11. Qantas Airlines	1,448,558	1,423,076	1,254,737	1,113,212	1,047,020	1.96
12. America West Airlines	998,602	1,072,025	1,186,311	1,135,245	965,928	1.81
13. US Airways <sup>(5)</sup>	912,519	989,798	1,006,221	1,010,197	920,940	1.72
14. Air New Zealand	899,350	1,089,580	904,809	1,130,818	861,181	1.61
15. Japan Airlines	706,094	972,832	805,548	1,096,778	750,676	1.40
16. American Eagle	550,582	454,821	754,000	794,955	743,398	1.39
17. CMA Mexicana Airlines	699,424	705,620	881,974	919,890	727,772	1.36
18. Air Canada <sup>(6)</sup>	—	—	—	—	707,154	1.32
19. Singapore Airlines	—	—	—	—	667,530	1.25
<b>Subtotal</b>	<b><u>42,279,722</u></b>	<b><u>42,695,987</u></b>	<b><u>44,855,707</u></b>	<b><u>46,462,880</u></b>	<b><u>40,890,013</u></b>	<b><u>76.52</u></b>
All Others	<u>14,846,416</u>	<u>15,034,109</u>	<u>15,960,673</u>	<u>16,371,893</u>	<u>12,550,126</u>	<u>23.48</u>
<b>TOTAL</b>	<b><u>57,126,138</u></b>	<b><u>57,730,096</u></b>	<b><u>60,816,380</u></b>	<b><u>62,834,773</u></b>	<b><u>53,440,139</u></b>	<b><u>100.00%</u></b>

<sup>(1)</sup> Totals may not add due to rounding.

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

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

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

<sup>(5)</sup> US Airways filed for bankruptcy protection on August 11, 2002, but emerged from bankruptcy protection on March 31, 2003 and continues to operate at LAX.

<sup>(6)</sup> Air Canada filed for bankruptcy protection on April 1, 2003, but is continuing operations while in bankruptcy protection.

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

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

**TABLE 12**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**CARGO TRAFFIC DATA**  
**AIR CARGO ON AND OFF**  
**(TONS)**

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

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

### Competition for Domestic Flights

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

### Certain Other Matters Related to LAX

#### *Airport/Tenant Relations*

The Department believes that its relations with airlines and other tenants are satisfactory in spite of several complaints and lawsuits at any point in time. The Department does not believe that an unfavorable determination in

any pending disputes with airlines and other tenants would have a material adverse effect on its finances. See "LITIGATION."

### *Conduit Financings*

In addition to the improvements financed or planned to be financed at LAX through the issuance of revenue bonds, interest income, PFCs and grants-in-aid, other improvements have been undertaken through the issuance of bonds by RAIC and the California Statewide Communities Development Authority (the "CSCDA"). RAIC is a nonprofit public benefit corporation organized under the laws of the State for the purpose of assisting the City by financing and otherwise acquiring, constructing, reconstructing, replacing, extending, enlarging or improving airports, heliports and the facilities thereof. Bonds of RAIC have been issued for a variety of improvements, including terminal building facilities, hangars, cargo buildings, flight kitchens, fuel systems and special equipment. While RAIC may finance improvements at any facility in the Airport System, to date, all RAIC financings have provided funds for improvements at LAX, except for one financing which was a small short term financing for facilities at ONT. RAIC has approximately \$600 million aggregate principal amount of bonds outstanding, of which approximately \$59,390,000 is payable by United pursuant to leases. United did not make the interest payment on such bonds as was due on April 1, 2003 and the Department is unable to predict when or if such payment will ever be made. See "OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE – Other Obligations – Rental Credits."

CSCDA is a joint exercise of powers agency whose members include over 150 California counties, cities and other local governments. CSCDA bonds have been issued for improvements to Terminals 6, 7 and 8 and certain cargo facilities, all leased by United. There is approximately \$224.8 million aggregate principal amount of bonds issued by CSCDA for improvements to LAX currently outstanding, of which approximately \$223,110,000 is payable by United pursuant to installment payment agreements. United did not make the interest payment on such bonds as was due on April 1, 2003 and the Department is unable to predict when or if such payment will ever be made.

Bonds of RAIC and CSCDA are not obligations of the Department or the City, are not payable from or secured by any pledge of, or lien upon, moneys in the Airport Revenue Fund, and do not rely on the taxing power of the City. RAIC and CSCDA bonds are secured solely by the payment obligations of the airlines or other users of the facilities they finance and, with respect to RAIC bonds, by leasehold deeds of trust on the financed properties. Certain of the outstanding RAIC and CSCDA bonds have buy-back rights, whereby the City may, at any time, purchase the financed facilities by retiring the bonds used to finance those facilities. This could be done by the City through use of moneys in the Airport Revenue Fund or the issuance of revenue bonds. See "AGREEMENTS FOR THE USE OF AIRPORT FACILITIES – Building Leases" for a description of the buy-back rights.

### *Landing Fee Issues*

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

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



### *Caltrans Transfer*

In February 1994, the Department requested permission from the U.S. DOT to transfer funds received from the California Department of Transportation ("Caltrans") to the City's General Fund. The Caltrans funds were received by the Department for the land and rights-of-way for the Century Freeway, a new freeway located immediately south of LAX. The funds were deposited in the Airport Revenue Fund. The Department based its request on the assumption that the land properly belonged to the City of Los Angeles, not exclusively the Department, and that the City's General Fund should therefore receive the funds. On February 18, 1995, the Department received a letter from the U.S. DOT, which stated that it would not oppose a transfer of the Caltrans funds to the City's General Fund. The Board approved a transfer of \$58,467,000 in principal and interest from the Department to the City at its regular meeting on March 7, 1995. The transfer was thereafter made.

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

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

### *Emergency Preparedness*

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

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

For additional information on security measures at LAX please see "RISK FACTORS – Aviation Security Concerns."

## AIRLINE INDUSTRY INFORMATION

Certain of the major scheduled domestic airlines serving LAX (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith file reports and other information with the Commission. Certain information, including financial information as of particular dates concerning each of the airlines (or their respective parent corporations) is disclosed in certain reports and statements filed with the Commission. Such reports and statements can be inspected in the Public Reference Room of the Commission at 450 Fifth Street, NW, Washington, DC 20549, and the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and 233 Broadway, New York, New York 10279. Copies of such reports and statements can be obtained from the Public Reference Section of the Commission at the above address at prescribed rates. The Commission maintains a web site at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. None of the information contained on that web site is incorporated into this Official Statement. In addition, each airline is required to file periodic reports of financial and operating statistics with the U.S. DOT, which can be obtained from the U.S. DOT, Research and Special Programs Administration, Office of Airline Statistics at Room 4125, 400 Seventh Street, SW, Washington, DC 20590, at prescribed rates.

Information regarding United's bankruptcy proceedings can be obtained from the United States Bankruptcy Court for the Northern District of Illinois which maintains a web site at: [www.ilnb.uscourts.gov](http://www.ilnb.uscourts.gov).

*Neither the City nor the Department undertake any responsibility for and make no representations as to the accuracy or completeness of the content of information available (including web sites) from the Commission, U.S. DOT or the United States Bankruptcy Court for the Northern District of Illinois, including, but not limited to, updates of such information, and any links to other web sites. Nothing contained in the Bankruptcy Court's or the Commission's web sites is incorporated into this document.*

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

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

## AGREEMENTS FOR USE OF AIRPORT FACILITIES

### General

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

### Operating Permits – Landing Facilities

The Department has entered into separate, but substantially similar operating permits covering the use of landing facilities with air carriers serving LAX. These operating permits grant operating rights to the airlines typically for a five-year term, and are commonly referred to as the "Non-Exclusive Operating Permits" or the "Permits." The City has authorized the Department to issue Permits for a five year term which will expire June 30, 2007. The Permits require each airline to pay a landing fee to the City for each aircraft that lands at LAX. The

landing fee is calculated as the product of (i) the number of thousands of pounds of maximum gross landed weight of the airline multiplied by (ii) the landing fee rate currently in effect. Even in the absence of such Permits, carriers are required to comply with all LAX operating procedures and regulations, including the uninterrupted payment of landing fees. The landing fee rates to be charged during each Fiscal Year are based upon the Department's then current budget. At the end of each Fiscal Year, the landing fee rates for that Fiscal Year are adjusted to reflect the actual expenses incurred and as necessary to satisfy the rate covenant set forth in the Indenture. All adjustments for deficiencies are billed when determined and overages are refunded to the affected airlines. The Permits provide that the airline landing fee rates are to be forecasted and adjusted annually. During the Fiscal Year, the Board and the airlines may adjust rates up or down to maintain a balance between actual and forecasted billing rates. The Department anticipates no material impact on LAX operations with respect to the status of such Permits. See "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Landing Fee Issues."

### **Building Leases**

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

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

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

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

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

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

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

## Concession, Parking and Rental Car Agreements

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

There is a total of 11 food and beverage agreements at LAX (13 including vending machine contracts), with the largest tenant being HMS Host Corporation. The concession agreements with these food and beverage operators extend for various periods, with some expiring in Fiscal Year 2005 and others in Fiscal Year 2006. The agreements provide for a concession fee equal to the greater of a minimum annual guarantee ("MAG") or a percentage of gross revenues. The percentage rentals generally range from 14% to 24% on food and 20% to 24% on alcoholic beverages. In total, the MAGs for these agreements are approximately \$14.3 million.

The primary gift and news operator at LAX is WH Smith, Inc. ("WH Smith"). The current agreement with WH Smith which will expire in May 2005, provides for an annual concession fee equal to the greater of a \$15.61 million or 17% of gross receipts. The agreement provides that optional locations may be added, which would increase the MAG to \$15.68 million. There are also four smaller operators which have agreements that expire in July 2006 and provide total MAGs of \$750,000.

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

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

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

The Department has agreements with several rental car companies for on- and off-airport car rentals. The on-airport agreements require the concessionaires to pay the greater of a MAG or a percentage of their total gross revenues from airport operations to the Department annually. For Fiscal Year 2002, on-airport rental car companies paid a MAG of \$27.5 million to the Department, which was greater than the otherwise applicable percentage of total gross revenues; however, historically, on-airport rental car companies have paid a percentage of their total gross revenues ranging between \$33 million and \$37 million. These agreements with rental car companies for on-airport rentals expired January 31, 2003, and new agreements became effective February 1, 2003. The new on-airport rental car agreements are for a term of five years and require the concessionaires to pay the greater of a MAG or a percentage of their total gross revenues from airport operations to the Department annually. The Department awarded the new on-airport rental car agreements through a competitive bid process. The off-airport agreements currently require the rental car companies to pay the greater of a MAG or a percentage of their gross revenues from

airport customers in excess of \$1 million to the Department annually as well as a trip fee for the right to have shuttle buses run to and from LAX.

ANC Rental Corporation ("ANC"), the parent company of Alamo Rent-A-Car, Inc. ("Alamo") and National Car Rental System, Inc. ("NCRS") (both of which have on-airport car rental concession agreements at LAX), filed for Chapter 11 reorganization in November 2001. ANC's filing included its U.S. operating subsidiaries, including Alamo and NCRS, as well as several other domestic entities, but did not include its international or Canadian operations, or its independent franchisees. The Alamo and NCRS pre-petition agreements expired by their terms on January 31, 2003. Alamo and NCRS have entered into a settlement with the Department whereby Alamo and NCRS paid all pre and post-petition amounts due under the various agreements between the parties with respect to LAX.

Alamo and NCRS still owe the Department certain amounts due under the various agreements at ONT. In addition, Budget Rent a Car Systems, Inc., which provides on-airport car rentals at LAX, together with its parent company, Budget Group, Inc. ("Budget"), and certain other domestic subsidiaries thereof, filed for Chapter 11 reorganization in July 2002. On November 22, 2002 an affiliate of Cendant Corporation ("Cendant") (which owns Avis Rent A Car System, Inc. ("Avis")) acquired substantially all of the assets of Budget. As part of that acquisition, all of the agreements between Budget and the Department were assumed and assigned to Cendant. As a result, all pre- and post-petition obligations were paid in full and Cendant is now bound to honor such agreements going forward. Cendant has stated that it intends to continue to operate Budget and Avis as separate companies.

Additional bankruptcies, liquidations or major restructurings of other car rental companies or other concessionaires 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 car rental companies or other concessionaires operating at LAX. See "RISK FACTORS."

## **FINANCIAL AND OPERATING INFORMATION CONCERNING LAX**

### **Summary of Operating Statements**

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

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**TABLE 13**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**HISTORICAL OPERATING STATEMENTS**  
**(DOLLARS IN THOUSANDS)<sup>1</sup>**

	<u>1998</u>	<u>1999</u>		<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Operating Revenue</b>			<b>Operating revenue:</b>			
Aviation Revenue	\$ 210,168	\$ 180,759	Aviation revenue	\$ 192,658		
Concession Revenue	175,234	184,770	Landing fees		\$ 105,189	\$ 116,334
Airport Sales & Services	2,991	2,550	Building rentals		58,729	78,614
Miscellaneous Revenues	<u>1,136</u>	<u>1,208</u>	Other aviation revenue		39,203	40,387
<b>Total Operating Revenues</b>	<b>389,529</b>	<b>369,287</b>	Concession revenue	188,680	205,335	156,128
			Airport sales and services	3,431	3,765	5,361
			Miscellaneous revenue	<u>1,641</u>	<u>1,023</u>	<u>1,727</u>
<b>Operating Expenses</b>			<b>Total operating revenue</b>	<b>386,410</b>	<b>413,244</b>	<b>398,551</b>
<b>Maintenance and Operation</b>			<b>Operating expenses:</b>			
Maintenance and Repairs	71,371	73,161	Salaries and benefits	104,084	124,812	135,416
Administrative Expense	75,447	88,778	Contractual services	98,987	107,009	97,389
General Operating Expenses	34,173	36,966	Administrative expense	14,428	43,936	7,035
Security Expense	32,437	36,824	Material and supplies	17,454	34,714	39,211
Cost of Sales and Service	<u>4,051</u>	<u>3,377</u>	Utilities	14,614	20,000	19,843
<b>Total Maintenance and Operation</b>	<b>217,479</b>	<b>239,106</b>	Advertising and public relations	4,969	5,882	6,113
			Other operating expenses	<u>32,247</u>	<u>16,609</u>	<u>34,813</u>
<b>Depreciation and Miscellaneous</b>			<b>Total operating expenses before depreciation and amortization</b>	<b>286,783</b>	<b>352,962</b>	<b>339,820</b>
Depreciation	37,885	38,265				
Depreciation-Grants/Other Aid	<u>5,255</u>	<u>4,844</u>	Income from operations before depreciation and amortization	99,627	60,282	58,731
Total Dep. and Misc.	<u>43,140</u>	<u>43,109</u>	Depreciation and amortization	<u>(44,592)</u>	<u>(48,108)</u>	<u>(46,126)</u>
<b>Total Operating Expenses</b>	<b>260,619</b>	<b>282,215</b>	<b>Operating income</b>	<b>55,035</b>	<b>12,174</b>	<b>12,605</b>
<b>Income from Operations</b>	<b>128,910</b>	<b>87,072</b>	<b>Non-Operating revenues (expenses):</b>			
			Passenger facility charges	79,858	85,745	67,166
<b>Non-Operating Revenue</b>			Federal Grant Revenue	—	—	5,763
Interest Income	32,887	38,605	Interest income	40,192	38,343	32,017
Passenger Facility Charges	<u>26,443</u>	<u>73,766</u>	Net increase (decrease) in fair value of			
<b>Income Before Interest Expense</b>	<b>188,240</b>	<b>199,443</b>	Investments	(216)	8,899	(3,667)
			Loss on sale of securities	—	—	(462)
<b>Interest and Other Expense</b>	<b>28,131</b>	<b>25,311</b>	Other non-operating revenue	—	1,623	361
<b>Net Income</b>	<b>\$ 160,109</b>	<b>\$ 174,132</b>	Interest expense	(24,144)	(21,384)	(18,135)
			Bond expense	(324)	(163)	(163)
			Other non-operating expenses	—	(15,903)	(1,821)
			Net non-operating revenue (expenses)	<u>95,366</u>	<u>97,160</u>	<u>81,059</u>
			Income before capital grant contributions and transfers	150,401	109,334	93,664
			Landing fees legal settlement	(104,756)	—	—
			Capital grant contributions	—	2,701	35,916
			Inter-agency transfers	—	—	(17,553)
			Change in net assets	45,645	112,035	112,027
			Residual equity transfers (to) from other funds	(71)	—	—
			<b>Net assets, beginning of year, as restated</b>	<b>1,112,140</b>	<b>1,400,085</b>	<b>1,512,120</b>
			<b>Net assets, end of year</b>	<b>\$ 1,157,714</b>	<b>\$ 1,512,120</b>	<b>\$ 1,624,147</b>

<sup>1</sup> Totals may not add due to independent rounding.

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

## Management Discussion of LAX Fiscal Year 2002 Finances

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

1. Fiscal Year 2002 results are attributable to the net impact of: a) operating revenues of \$398.6 million, decreasing \$14.7 million, or 3.6%; b) a \$13.1 million, or 3.7% drop in operating and administrative expenses which totaled \$339.8 million; c) net non-operating income of \$81.1 million which was lower by \$16.1 million, or 16.6%; and d) a \$33.2 million increase in capital grant revenue.
2. The most significant items affecting the financial results were:
  - a. Building rentals increased \$19.9 million, or 33.9%, over the prior Fiscal Year due primarily to higher rental rates. In addition, landing fees increased by \$11.1 million or 10.6%, while airport sales and services revenue, and other aviation revenue, increased \$1.6 million and \$1.2 million, respectively.
  - b. Concession revenue decreased \$49.2 million to \$156.1 million, or 24.0%, as the result of daily sales declines caused by lower passenger volume and increased airport security which restricts access by customers to concessionaires and to parking facilities due to the September 11 Events.
  - c. Depreciation and amortization expense was \$2.0 million lower than Fiscal Year 2001 due to fewer capital assets acquired and fewer capital project completions during Fiscal Year 2002.
  - d. PFC revenues decreased \$18.6 million, or 21.7%. This decrease was due primarily to a 16.5% reduction in air passenger traffic from 67.2 million passengers in Fiscal Year 2001 to 56.1 million passengers in Fiscal Year 2002. A significant portion of this decrease is attributable to the September 11 Events.
  - e. Capital grant receipts increased \$33.2 million from Fiscal Year 2001 due to the receipt of federal grant reimbursements of \$35.9 million for the LAX Taxiway "C" project. In addition, a non-capital grant reimbursement of \$5.6 million was received from the FAA for incremental security costs incurred following the September 11 Events.
  - f. The continued slow, but upward, trend in aviation revenue reflects a recovery in air traffic since the September 11 Events. However, with overall air passenger traffic reduced, concession revenue significantly declined from the prior Fiscal Year. Coupled with lower passenger volume and the hampering impacts of increased security due to terminal configuration, revenue from duty free sales decreased by \$21.5 million, or 47.3%, from the prior Fiscal Year. Additionally, parking revenues decreased \$20.6 million, or 31.6%, below the previous Fiscal Year.

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

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

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

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



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

**TABLE 14**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**TOP TEN REVENUE PROVIDERS (LAX)**  
**FISCAL YEAR 2002**  
**(DOLLARS IN THOUSANDS)<sup>(1)</sup>**

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

<sup>(1)</sup> Net of rental credits.

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

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

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

## **Budgeting Process**

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

### ***Fiscal Year 2003 Budget***

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

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

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

Actual expenditures for the first seven months of Fiscal Year 2003 have been approximately 11% under the Fiscal Year 2003 budgeted amounts. Actual revenues for the same period were approximately at budgeted levels.

### Investment Practices of the City Treasurer

The City Treasurer invests temporarily idle cash for the City, including that of the Department, as part of a pooled investment program (the "Pool") which combines general receipts with special funds for investment purposes and allocates interest earnings on a *pro rata* basis when the interest is earned and distributes interest receipts based on the previously established allocations.

**TABLE 15**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**POOLED INVESTMENT FUND <sup>(1)</sup>**  
**ASSETS AS OF JUNE 30, 2002**  
**(DOLLARS IN MILLIONS)**

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

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

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

<sup>(3)</sup> The Department's share of the Fund including restricted assets.

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

<sup>(5)</sup> Including securities lending collateral.

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

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

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

The City Treasurer does not invest in securities that include, but are not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments and mortgage derived interest or principal only strips.

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

### **Risk Management and Insurance**

The Indenture requires that the Department maintain insurance or qualified self-insurance against such risks at LAX as are usually insured at other major airports, to the extent available at reasonable rates and upon reasonable terms and conditions. The Department is not required to carry insurance against losses due to seismic activity.

The Department carries commercial liability insurance with coverage of \$750 million for losses arising out of liability for airport operations. The Department has also purchased a "war and allied perils" endorsement with coverage of up to \$750 million with a deductible of \$10,000 per occurrence. 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. Annually the Department hosts the Van Nuys Air Show and purchases a separate Van Nuys Air Show Liability policy to cover this special event.

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

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

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

## **CAPITAL IMPROVEMENT PLANNING**

### **Capital Improvement Program**

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

Under the Charter, the Department is obligated to submit a debt accountability and major capital improvement plan to the Mayor, City Council and City Controller every two years in conjunction with submittal of its annual budget. The Board adopted a debt accountability and major capital improvement plan on July 18, 2000 and the most recent plan provided for in the Charter was presented to City Council on November 28, 2000 for information purposes only. That plan covered capital improvements at LAX through Fiscal Year 2003. After the September 11 Events, the Department suspended capital projects except those that were necessary for safety or security or were substantially completed.

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

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

Following is a summary of the Department’s proposed CIP for the four-year period July 1, 2002 through June 30, 2006.

**TABLE 16**  
**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**PROPOSED CAPITAL IMPROVEMENT PLAN\***  
**FISCAL YEARS 2003 – 2006**  
**(DOLLARS IN THOUSANDS)**

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

\* Preliminary, subject to change.

<sup>(1)</sup> Anticipated to be funded by a third party.

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

The estimated costs of, and the projected schedule for, the proposed CIP and the Department’s other capital projects are subject to a number of uncertainties. The ability of the Department to complete the CIP and the Department’s other capital projects may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation and (xi) environmental issues. No assurance can be

made that the existing projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue additional obligations and may result in increased costs per enplaned passenger to the airlines.

### **Master Plan – Airport Capacity and Future Capital Improvements**

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

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

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

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

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

### **Passenger Facility Charges**

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

The purpose of the charge is to develop additional capital funding sources to provide for the expansion of the national airport system. The proceeds from PFCs must be used to finance eligible airport-related projects that serve or enhance safety, capacity or security of the national air transportation system, reduce noise from an airport that is part of such system or furnish opportunities for enhanced competition between or among air carriers. PFC revenues are not included in the definition of LAX Revenues and therefore are not pledged to the payment of Bonds, including the Series 2003B Bonds. However, pursuant to the Master Indenture, the Department has the ability to provide for the inclusion of PFC revenues in the definition of LAX Revenues through the adoption of a Supplemental Indenture. The Department does not have any current plans to include PFC revenues in the definition of LAX Revenues.

Effective February 1, 1998, the FAA approved the collection of a \$3.00 PFC at LAX for a Noise Mitigation program, including a Land Acquisition and Soundproofing program, for a total program of \$150 million, which was later amended to \$440 million. The combined program authorizations are estimated to expire on January 31, 2004.

The Department's Land Acquisition program involves the voluntary acquisition of properties and relocation assistance for residential neighbors near LAX who expressed a preference for acquisition in lieu of sound insulation. The program reduced the number of residences in areas impacted by noise from LAX operations. The Department plans to submit an additional amendment to its application to the FAA in which it will seek approval to: (a) increase PFC collections by \$260 million, for a total program authorization of \$700 million, for its Noise Mitigation and Land Acquisition programs (\$215 million for soundproofing and \$485 million for land acquisition) and (b) increase to a \$4.50 PFC. See also "AIRPORT SYSTEM ENVIRONMENTAL MATTERS – Noise Standards."

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

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

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

## **Federal Grants**

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

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

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

The Taxiway C project included an aircraft taxiway bridge, taxiway paving, related airfield lighting system, storm drains, relocation of an airfield access security post and modification of a tunnel ventilation building, fire

station and an airline maintenance facility. The total project cost was \$53,214,000, with the AIP federal grants covering 75% of the costs and PFCs covering the remaining 25%.

## **AIRPORT SYSTEM ENVIRONMENTAL MATTERS**

There are several significant environmental matters which have direct and indirect impacts on the Department and LAX, some of which are described below. These include aircraft noise reduction, clean air requirements and hazardous substance cleanup. Generally, the Department includes a set of standard terms and conditions in its tenant leases which provides that tenants are responsible for the costs of remediation of hazardous or other regulated material from Department property and obligates tenants to comply with applicable laws. However, if a tenant does not comply with these lease requirements or the requirements of applicable environmental laws, the Department could ultimately become responsible for any required environmental cleanup. The ultimate impact of these environmental factors on the Department and LAX cannot be determined at this time.

### **Noise Standards**

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

Additionally, the Airport System is subject to administrative regulations of Caltrans establishing off-airport noise impact standards. LAX operates under a three-year variance that was granted in May 1998 and was recently reissued in February 2001.

VNY operates under a different variance and restrictions. A three-year variance for VNY was granted in June 2000. The Department anticipates that this variance will be reissued in 2003.

In 1997, the Department implemented a Noise Mitigation program at LAX, which included a Land Acquisition and Soundproofing program. The Department's Land Acquisition program in the City involves the voluntary acquisition of properties and relocation assistance for residential neighbors near LAX in the areas of Manchester Square and Airport/Belford. This Acquisition program is being carried out in lieu of sound insulation. This program's goal is to reduce the number of residences in areas impacted by noise from airport operations. The Department's Soundproofing program involves acoustic treatment to reduce noise to or below the State-specified maximum interior noise level of 45 dB CNEL in all habitable rooms. Typical retrofit methods include replacing doors and windows with acoustically rated doors and windows, modifying wood frame walls, adding insulation to attics and fitting chimneys and vents with dampers and/or acoustic louvers. The Noise Mitigation program includes payment for residential sound insulation and property acquisition projects in the City, unincorporated portions of Los Angeles County near LAX and the cities of El Segundo and Inglewood. The Noise Mitigation program has an estimated total cost of approximately \$890 million of which approximately \$270 million had been expended as of June 30, 2002. See "CAPITAL IMPROVEMENT PLANNING – Passenger Facility Charges" above for a description of the funding of the Noise Mitigation program.

## **Hazardous Substances**

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

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

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

## **Emission Standards**

Under the Clean Air Act of 1970, the U.S. Environmental Protection Agency (“EPA”) was given authority to promulgate aircraft emission standards. The emission standards for aircraft engines were adopted by the EPA in May 1997. New standards for carbon monoxide and nitrogen oxide (“NOx”) were established. However, most aircraft engines currently being manufactured meet these standards already and therefore little impact should be expected in regard to compliance. There continues to be pressure exerted by public and private entities to reduce emissions from aircraft. In particular, the International Civil Aviation Organization (“ICAO”) has proposed further reductions in NOx emissions. Since these types of emission reductions are the most difficult to achieve in aircraft engines, the imposition of such standards could result in economic hardships on engine manufacturers and airlines, particularly if the standards are made retroactive. In fact, a draft Federal Implementation Plan (“FIP”) for the Clean Air Act was prepared by the EPA in 1994 in response to a lawsuit by environmental groups. The draft FIP proposed the imposition of an emissions cap on the airlines operating in the South Coast Air Basin (“SCAB”), including those airlines operating out of LAX. The final FIP removed control measures targeted towards aircraft. Instead, it focused on conversion of ground service equipment to electric power and alternative fuels and the reduced use of auxiliary power units on aircraft to achieve emission reductions. The FIP was adopted by the EPA in February 1995. However, subsequent legislation, passed by Congress and signed by the President in April 1995, rescinded this FIP on the basis that it was inappropriately predicated on the 1977 Clean Air Act (“CAA”), which was superseded by the 1990 CAA amendments. This action has focused greater attention on the Air Quality Management Plan (“AQMP”) for the South Coast Basin and the State Implementation Plan (“SIP”).

As required by the State and Federal Clean Air Acts, the South Coast Air Quality Management District (the “SCAQMD”) adopted its AQMP in September 1994. The AQMP was revised by the California Air Resources Board (“CARB”) and incorporated into the SIP, which was adopted by the CARB in November 1994. The SIP is subject to approval by the EPA, which conditionally adopted the SIP in April 1996. The condition to the EPA’s adoption of the SIP was that a consultative process be established between the EPA, airport operators, airlines and other interested parties to identify additional air emission reduction measures from federal sources which include



airports, harbors, railroads and heavy duty trucks. This consultative process was formally concluded by the EPA in May 1999. However, the parties involved in this process, including the CARB, the ATA and commercial airports in the SCAB, agreed to continue to work on a Memorandum of Understanding (the "Environmental MOU") for reduction of emissions from ground service equipment ("GSE") used to support operations. This work is continuing and the Department has participated extensively in all aspects of the process. The Environmental MOU has been signed by the ATA and all affiliated airlines. However, the SCAQMD has declined to sign the Environmental MOU.

The SIP was amended in 1997, again in 1999 and a recent amendment is contained in the draft 2003 SCAQMD AQMP (the "2003 Draft AQMP") which was released on February 25, 2003. Pursuant to the 2003 Draft AQMP, the SCAQMD may develop and administer a mitigation fee program applicable to all federal sources, including ships, locomotives, aircraft and certain off-road equipment, paid for by the EPA or federal sources.

The quantified emission savings that were anticipated by the proposed engine standards referenced in the 1997 SIP would have been four tons of NO<sub>x</sub> and three tons of Volatile Organic Compounds per day from all airports in the South Coast Basin. These emission levels subsequently became the targets for emission reductions associated with airports, in the consultative process, regardless of whether they come about from engine standards or some other sources. After exploring numerous measures that were related to various sources of emissions on an airport, the focus of the consultative process evolved toward achieving the maximum amount of emission reductions from conversion of GSE, which service aircraft on the ramp area, to alternative fuels. In conjunction with this effort, the Department will upgrade the electrical infrastructure in the Central Terminal Area at an estimated cost of \$4 million. This upgrade will have sufficient load capacity in the transformers and distribution panels to accommodate the conversion of GSE to battery power and the increased electrical demand from required battery chargers. Customized transformers have been constructed to be installed in existing vaults within the five remaining terminals subject to the upgrade. However, the installation program has been put on hold because of budgetary constraints that resulted from decreases in revenues following the September 11 Events.

Less emphasis has been placed on other sources, such as operational controls, because of various impracticalities or safety or economic constraints involved in the implementation of related measures. However, it is unlikely that emission reductions from GSE will meet the target levels. Therefore, other measures may be pursued by the EPA, the CARB or the SCAQMD as suggested in the 2003 Draft AQMP. The CARB proposes to replace the existing control strategy with strategies proposed in the 2003 Draft AQMP. The 1994 and 1997 SIPs recommended that the EPA promulgate aircraft engine standards to reduce NO<sub>x</sub> by 30%. The 2003 Draft AQMP advocates more stringent engine standards and recommends at least a 50% reduction in NO<sub>x</sub> emissions from the current standard for engines produced after 2007, and a 70% reduction in NO<sub>x</sub> by 2010-2015. It is not certain what, if any, measures may be pursued or what the commensurate impacts might be.

The 1994 AQMP also included an airport ground access rule, the primary purpose of which was to reduce the number of vehicles entering the Central Terminal Area. Options that have been considered to implement this rule include imposing fees and restricting the length of time a vehicle could park. The 1997 AQMP deleted the airport ground access rule, as well as other Indirect Source Rules ("ISRs"), as unfeasible. The 2003 Draft AQMP proposes a long-term strategy to reduce emissions from vehicles traveling to and from airports. Included in this strategy is a recommendation for the application of emissions-based airport entry fees for cabs and other shuttle vehicles. It is not certain what efforts will be taken or measures considered in an attempt to compensate for the shortfall expected from the GSE measure. These efforts may include the reevaluation of ISRs, including the airport ground access rule or may result in a continuation/expansion of the circuit fees currently required by the Department of door-to-door shuttles entering the Central Terminal Area. The ultimate impact of environmental factors on the airline industry in general, and on the Department and LAX in particular, cannot be determined.

## 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 2003B Bonds or in any way contests the validity of the Series 2003B Bonds or any proceedings of the Board taken with respect to the authorization, sale or issuance of the Series 2003B Bonds, or the pledge or application of any moneys provided for the payment of or security for the Series 2003B. Further, there is no pending litigation relating to the Airport System or the Department's operations or business pertaining thereto, except as follows:

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

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

For a discussion of the resolution of a series of disputes related to landing fee calculations see "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Landing Fee Issues"; for a discussion of litigation involving the transfer of funds to the City's general fund see "LOS ANGELES INTERNATIONAL AIRPORT – Certain Other Matters Related to LAX – Caltrans Transfer" and for a discussion of certain bankruptcy matters see "RISK FACTORS – Effect of Airline Bankruptcies" and "AGREEMENTS FOR USE OF AIRPORT FACILITIES – Concession, Parking and Rental Car Agreements."

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

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

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

compensation. The total amount of its claims is in excess of \$19 million. The original trial date has been vacated and the Department expects to receive a sixth amended complaint from Syncro.

In *Regency Outdoor Advertising v. City of Los Angeles*, the Plaintiff, Regency Outdoor Advertising (“Regency”), sought injunctive relief and \$18 million in monetary damages based on a theory of inverse condemnation. Regency is the owner of several billboards along Century Boulevard near LAX. Regency claimed that the Department’s construction of pylons and planting of trees blocked the view of its billboard and that the obstruction constituted a taking under the State Constitution. The case went to trial on January 7, 2002. Regency was unable to show damages. The Court found in favor of the Department and against Regency. The Court awarded the Department \$105,000 in attorneys’ fees. Regency has filed a Notice of Appeal. The briefing schedule has been suspended pending settlement negotiations.

*Century Investments, Inc. v. City of Los Angeles*. Plaintiff, Century Investments, Inc. (“Century”), owns real property located at 5625 Century Boulevard and leases space on its property to allow for two single-sided billboards to be placed thereon. Century alleged that the Department’s construction of pylons and planting of trees has caused the view of the billboards to be impaired, thereby causing the value of the billboards to decrease. Century claimed that the impairment has resulted in the lessee’s inability to pay rent to Century. Century sought injunctive relief and to be compensated for the taking of its property without compensation. On July 26, 2002 the Court granted the City’s Motion for Summary Judgment and dismissed the case. Century has filed a Notice of Appeal. The briefing schedule has been suspended pending settlement negotiations.

The Department does not maintain a record of incidents which have arisen out of contracts which might impose liability on the Department. All contracts for the Department contain a “hold harmless” clause and provisions for insurance protecting the Department from liability arising therefrom. In addition, the Department is insured against all claims arising out of incidents on Airport property.

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

## **TAX MATTERS**

*The following opinions expressed by Co-Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 2003B Bonds and Co-Bond Counsel express no opinion as of any date subsequent thereto or with respect to any pending or future legislation.*

### **General**

In the opinion of Kutak Rock LLP and Quateman & Zidell LLP, Co-Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2003B Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes. Interest on the Series 2003B Bonds (including original issue discount treated as interest, if any) is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations, however, such interest is included in the alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporations over the alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations. Under existing laws, regulations, rulings and judicial decisions, Co-Bond Counsel is of the opinion that interest on the Series 2003B Bonds is exempt from all present State of California personal income taxes.

The Internal Revenue Code of 1986, as amended (the “Code”) imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Series 2003B Bonds. The Department has covenanted in the Indenture and the Tax Compliance Certificate to comply with certain restrictions, conditions and requirements designed to assure that interest on the Series 2003B Bonds will not become includible in gross income. Failure to comply with these covenants may result in interest on the Series 2003B Bonds being included in gross income retroactively from the date of issue of the Series 2003B Bonds. The opinion of Co-Bond Counsel assumes compliance with such covenants.

Although Co-Bond Counsel has rendered an opinion that interest on the Series 2003B Bonds is excluded from gross income for federal income tax purposes, the accrual or receipt of interest on the Series 2003B Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Co-Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series 2003B Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States); property or casualty insurance companies; banks, thrifts or other financial institutions; certain recipients of Social Security or Railroad Retirement benefits; taxpayers otherwise entitled to claim the earned income credit and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or owning the Series 2003B Bonds.

From time to time, there are legislative proposals in the United States Congress that, if enacted, could alter or amend the federal income tax consequences referred to above or could adversely affect the market value of the Series 2003B Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, any such proposal would apply to bonds issued prior to enactment. Each purchaser of the Series 2003B Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Co-Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

### **Tax Treatment of Original Issue Premium**

The Series 2003B Bonds are being sold at a premium (collectively, the "Premium Obligations"). An amount equal to the excess of the issue price of a Premium Obligation over its stated redemption price at maturity constitutes premium on such Premium Obligation. An initial purchaser of such Premium Obligation must amortize any premium over such Premium Obligation's term using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, it offsets the interest allocable to the corresponding payment period and the purchaser's basis in such Premium Obligation 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 Obligation prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of Premium Obligations should consult with their own tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning such Premium Obligation.

## **RATINGS**

Standard & Poor's Rating Service, a Division of the McGraw-Hill Companies Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch"), have assigned ratings of "AAA", "Aaa" and "AAA", respectively, to the Series 2003B Bonds, with the understanding that upon delivery of the Series 2003B Bonds, a financial guaranty insurance policy will be issued by MBIA. See "BOND INSURANCE" herein. S&P, Moody's and Fitch have assigned underlying ratings of "AA," "Aa3" and "AA," respectively, to the Series 2003B 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, 99 Church Street, New York, New York 10007 and Fitch, One State Street Plaza, New York, New York 10004. S&P and Moody's indicated that they viewed the outlook for their respective ratings of the Series 2003B Bonds and the Existing Parity Bonds as stable; Fitch indicated that its outlook for the rating of the Series 2003B Bonds and the Existing Parity Bonds was negative. The Department furnished the rating agencies with certain information and materials concerning the Series 2003B 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 2003B Bonds.

## **LEGAL MATTERS**

The validity of the Series 2003B Bonds and certain other legal matters are subject to the approving opinion of Kutak Rock LLP, Denver, Colorado, and Quateman & Zidell LLP, Los Angeles, California, Co-Bond Counsel. A complete copy of the proposed form of Co-Bond Counsel opinion is contained in APPENDIX E hereto. Certain matters will be passed upon for the Department and the City by Rockard J. Delgadillo, Esq., City Attorney. Certain legal matters in connection with the Official Statement will be passed upon by Kutak Rock LLP and Quateman & Zidell LLP, Co-Disclosure Counsel to the Department. All of the fees of Co-Bond Counsel and Co-Disclosure Counsel with regard to the issuance of the Series 2003B Bonds are contingent upon the issuance and delivery of the Series 2003B Bonds.

## **FINANCIAL ADVISORS**

The Department has retained the services of Public Resources Advisory Group of Los Angeles, California and Frasca & Associates, L.L.C. of New York, New York, as Co-Financial Advisors in connection with the authorization and delivery of the Series 2003B Bonds. The Co-Financial Advisors are not obligated to undertake, and have not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

## **FORWARD-LOOKING STATEMENTS**

The statements contained in this Official Statement and in the Appendices hereto, and in any other information provided by the Department or the Board, that are not purely historical, are forward-looking statements, including statements regarding the Department or the Board's expectations, hopes, intentions or strategies regarding the future. Prospective investors should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Department and the Board on the date hereof, and the Department and the Board assume no obligation to update any such forward-looking statements. It is important to note that the Department's actual results could differ materially from those in such forward-looking statements.

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

## **FINANCIAL STATEMENTS**

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

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, certified public accountants (the "Verification Agent") will deliver a report stating that the verification agent has verified the accuracy of mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the governmental obligations initially deposited in the Escrow Funds to provide for the payment of the interest due on each of the Refunded Bonds to and including the respective maturity or redemption dates therefor, as applicable, and to pay on the respective maturity or redemption dates therefor, as applicable, the principal or redemption price thereof.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them and that they have no obligations to update its report because of events occurring, or data or information coming to their attention, subsequent to the date of its report.

## **ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE LAX SERVICE REGION**

Included as APPENDIX A hereto is selected economic and demographic information for the LAX service region. Such information was neither prepared nor verified by the Department, the Co-Financial Advisors, Co-Bond Counsel or Co-Disclosure Counsel. Such information is provided for informational purposes only.

## **CONTINUING DISCLOSURE**

In connection with the issuance of the Series 2003B Bonds, the Department has covenanted to provide, or cause to be provided, to each nationally recognized municipal securities information repository (collectively, the "Repositories"), for purposes of Rule 15c2-12(b)(5) adopted by the Commission ("Rule 15c2-12(b)(5)"), certain annual financial information and operating data relating to the Department and, in a timely manner, notice of certain material events. The Department has never failed to comply in all material respects with any continuing disclosure undertakings with regard to Rule 15c2-12(b)(5) to provide annual reports or notices of material events. Owners may obtain from the Repositories such information provided by the Department. The foregoing should not be construed as a covenant of the Department in connection with the offering of the Series 2003B Bonds. See "APPENDIX G – FORM OF CONTINUING DISCLOSURE CERTIFICATE."

The Department has agreed to provide the foregoing information to the Repositories and any State Information Depository only. The information will be available to owners of the Series 2003B Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

## **SALE OF BONDS**

The Series 2003B Bonds were sold at competitive sale on April 22, 2003 and awarded to Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Purchaser") at a purchase price of \$113,582,178.58 (consisting of the par amount of the Series 2003B Bonds, plus an original issue premium of \$10,894,799.00, less the premium for the MBIA financial guaranty insurance policy of \$825,000.00, and less the Purchaser's compensation of \$112,620.42) plus accrued interest.

## MISCELLANEOUS

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

All references to the Charter, the Indenture and agreements with any other parties herein and in the Appendices hereto are made subject to the detailed provisions of such documents, and reference is made to such documents and agreements for full and complete statements of the contents thereof. Copies of such documents are available for review at the offices of the Department which are located at One World Way, Los Angeles, California. This Official Statement is not to be construed as a contract or agreement between the City and the owners of any of the Series 2003B Bonds.

## AUTHORIZATION

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

DEPARTMENT OF AIRPORTS OF THE  
CITY OF LOS ANGELES, CALIFORNIA

By:           /s/ Lydia H. Kennard            
Lydia H. Kennard  
Executive Director

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## APPENDIX A

### ECONOMIC AND DEMOGRAPHIC INFORMATION FOR THE LAX AIR SERVICE REGION

*The following economic and demographic data was compiled by Ricondo & Associates, Inc. at the request of the Department and is being provided for informational purposes only. The Department and the City take no responsibility for the accuracy or completeness of the information provided herein. The information provided below was current at July 1, 2002 and has not been updated.*

The following table presents population trends for the Los Angeles Consolidated Metropolitan Statistical Area ("CMSA"), the State of California and the United States.

#### DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES LOS ANGELES INTERNATIONAL AIRPORT POPULATION TRENDS (1990-2000)

	<u>1990</u>	<u>2000</u>
Los Angeles CMSA	14,531,529	16,373,645
California	29,760,021	33,871,648
United States	248,709,873	281,421,906

<u>Annual Compounded Growth</u>	<u>1990-2000</u>
Los Angeles CMSA	1.2%
California	1.3%
United States	1.2%

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

The following table presents a comparison of the effective buying incomes per household for the years 1997-2002 of the Los Angeles CMSA, the State of California and the United States.

#### DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES LOS ANGELES INTERNATIONAL AIRPORT EFFECTIVE BUYING INCOME PER HOUSEHOLD (1997-2002)

<u>Year</u>	<u>EBI Per Household</u>		
	<u>Los Angeles CMSA</u>	<u>California</u>	<u>United States</u>
1997	\$45,718	\$46,379	\$43,956
1998	\$46,845	\$47,771	\$45,504
1999	\$49,219	\$50,344	\$47,373
2000	\$54,399	\$55,662	\$49,252
2001 <sup>1</sup>	NA	NA	NA
2002	\$54,029	\$55,113	\$49,218

#### Annual Compounded Growth

1997 - 2002	3.4%	3.5%	2.3%
-------------	------	------	------

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

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

The following table presents civilian labor force and unemployment rates for the Los Angeles CMSA, the State of California and the United States for the years 1991 to 2001.

**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
LOS ANGELES INTERNATIONAL AIRPORT  
CIVILIAN LABOR FORCE AND UNEMPLOYMENT RATES  
(1991-2001)**

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

<sup>1</sup> Non-seasonally adjusted.

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

The following table lists the top 25 private sector employers in the Los Angeles CMSA for 2002.

**DEPARTMENT OF AIRPORTS OF THE CITY OF LOS ANGELES  
LOS ANGELES INTERNATIONAL AIRPORT  
TOP 25 PRIVATE SECTOR EMPLOYERS IN THE LOS ANGELES CMSA  
(2002)**

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

(1) Does not reflect recent layoffs by Boeing North America Inc.

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

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**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS OF**  
**LOS ANGELES WORLD AIRPORTS**  
**(DEPARTMENT OF AIRPORTS OF**  
**THE CITY OF LOS ANGELES, CALIFORNIA)**  
**LOS ANGELES INTERNATIONAL AIRPORT**  
**FOR THE FISCAL YEARS ENDED JUNE 30, 2002 AND 2001**

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*Partners*  
Kenneth A. Macias, Managing Partner  
Ernest J. Gini  
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The Members of the Board of Airport Commissioners  
of the City of Los Angeles, California

## **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying statement of net assets of Los Angeles International Airport, a departmental component of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of June 30, 2002 and 2001, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the LAWA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the financial statements present only Los Angeles International Airport and do not purport to, and do not, present fairly the financial position of LAWA or the City of Los Angeles, California, as of June 30, 2002, and 2001, and the changes in their financial position and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Los Angeles International Airport as of June 30, 2002 and 2001, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, LAWA adopted the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000.

Offices Located Throughout California

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2002 on our consideration of the Los Angeles International Airport's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants for the year ended June 30, 2002. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Maccari, Jini & Company LLP*

Certified Public Accountants

Los Angeles, California  
October 25, 2002



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

Statements of Net Assets  
June 30, 2002 and 2001  
(Dollars in thousands)

	<b>2002</b>	<b>2001</b>
<b>ASSETS</b>		
Current assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	\$ 392,056	\$ 352,887
Accounts receivable, net of allowance for uncollectible accounts of \$2,114 and \$1,346 in 2002 and 2001, respectively	31,596	36,985
Unbilled receivables	20,645	3,738
Federal grants receivable	2,061	9,094
Accrued interest receivable	4,502	8,122
Due from other agencies (Note 7)	45,731	49,666
Prepaid expenses and inventories	2,359	2,425
Total current assets	498,950	462,917
Restricted assets:		
Cash and pooled investments held by the City Treasurer (Note 3)	345,257	353,473
Investments with fiscal agent (Note 3)	38,960	35,578
Accrued interest receivable	3,879	4,867
Passenger facility charges receivable (Note 12)	10,631	12,188
Total restricted assets	398,727	406,106
Capital assets (Note 4):		
Land, land clearance and air easements	400,670	400,670
Buildings, improvements and equipment	1,073,507	1,050,176
Leased property	184,423	184,423
Less accumulated depreciation and amortization	(659,917)	(613,792)
Construction work in process	257,645	205,502
Net capital assets	1,256,328	1,226,979
Deferred bond issuance expenses	2,249	1,471
Total assets	\$ 2,156,254	\$ 2,097,473

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, 2002 and 2001  
(Dollars in thousands)

	<b>2002</b>	<b>2001</b>
<b>LIABILITIES</b>		
Current liabilities:		
Contracts and accounts payable	\$ 24,642	\$ 46,980
Employee benefits (Note 6)	6,191	12,143
Salaries payable	3,811	4,009
Commercial paper notes payable (Note 5)	15,500	-
Due to other agencies	-	4,301
Current obligations under capital leases (Note 11)	1,597	1,945
Deferred revenue	-	1
Other liabilities (Note 6)	4,265	2,431
Current liabilities payable from nonrestricted assets	56,006	71,810
Current liabilities payable from restricted assets:		
Obligations under securities lending transactions (Note 3)	103,848	112,237
Bonds payable, less net deferred charges and credits of \$178 and \$182 in 2002 and 2001, respectively (Note 5)	23,174	22,451
Accrued bond interest payable	1,742	1,883
Contracts, accounts payable and other	3,681	1,635
Total current liabilities payable from restricted assets	132,445	138,206
Long-term liabilities:		
Bonds payable, less net deferred charges and credits of \$1,928 and \$2,106 in 2002 and 2001, respectively (Note 5)	186,932	209,779
Obligations under capital leases - less current portion (Note 11)	122,957	134,696
Employee benefits (Note 6)	15,400	12,495
Other liabilities (Note 6)	18,367	18,367
Total long-term liabilities	343,656	375,337
Total liabilities	532,107	585,353
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	921,668	858,108
Restricted:		
Capital projects	18,165	30,316
Debt service	37,790	34,546
Special purpose	155,343	147,198
Unrestricted	491,181	441,952
Net assets	\$ 1,624,147	\$ 1,512,120

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets  
For the Years Ended June 30, 2002 and 2001  
(Dollars in thousands)

	2002	2001
Operating revenue:		
Aviation revenue		
Landing fees	\$ 116,334	\$ 105,189
Building rentals	78,614	58,729
Other aviation revenue	40,387	39,203
Concession revenue	156,128	205,335
Airports sales and services	5,361	3,765
Miscellaneous revenue	1,727	1,023
Total operating revenue	398,551	413,244
Operating expenses:		
Salaries and benefits	135,416	124,812
Contractual services	97,389	107,009
Administrative expense	7,035	43,936
Material and supplies	39,211	34,714
Utilities	19,843	20,000
Advertising and public relations	6,113	5,882
Other operating expenses	34,813	16,609
Total operating expenses before depreciation and amortization	339,820	352,962
Income from operations before depreciation and amortization	58,731	60,282
Depreciation and amortization	(46,126)	(48,108)
Operating income	12,605	12,174
Nonoperating revenue (expenses):		
Passenger facility charges (Note 12)	67,166	85,745
Federal grant revenue	5,763	-
Interest income	32,017	38,343
Net increase (decrease) in fair value of investments	(3,667)	8,899
Loss on sale of securities	(462)	-
Other nonoperating revenue	361	1,623
Interest expense	(18,135)	(21,384)
Bond expense	(163)	(163)
Other nonoperating expenses	(1,821)	(15,903)
Net nonoperating revenue (expenses)	81,059	97,160
Income before capital grant contributions and transfers	93,664	109,334
Capital grant contributions	35,916	2,701
Inter-agency transfers	(17,553)	-
Change in net assets	112,027	112,035
Net assets, beginning of year, as restated (Note 2)	1,512,120	1,400,085
Net assets, end of year	\$ 1,624,147	\$ 1,512,120

See accompanying notes to financial statements.

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

Statements of Cash Flows  
For the Years Ended June 30, 2002 and 2001  
(Dollars in thousands)

	<b>2002</b>	<b>2001</b>
Cash flows from operating activities:		
Receipts from customers	\$ 386,265	\$ 424,382
Receipts from passenger facility charges	68,723	82,341
Payments for goods and services	(224,697)	(242,223)
Payments to employees	(138,660)	(119,837)
Other receipts (payments), net	843	(3,850)
Net cash provided by operating activities	92,474	140,813
Cash flows from noncapital financing activities:		
Inter-agency transfers out	(17,553)	-
Loans to other funds	-	(22,519)
Federal grants received	5,763	-
Net cash used in noncapital financing activities	(11,790)	(22,519)
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(75,474)	(147,377)
Principal paid on bonds	(22,305)	(23,015)
Interest paid on bonds	(13,105)	(14,654)
Principal paid on capital leases	(12,087)	(1,792)
Interest paid on capital leases	(4,994)	(7,631)
Commercial paper issued	15,500	-
Cash transferred (to)/from fiscal agent	(3,382)	1,890
Payment for commercial paper issuance costs	(941)	-
Federal grants received	42,949	9,250
Net cash used in capital and related financing activities	(73,839)	(183,329)
Cash flows from investing activities:		
Interest received	36,164	41,343
Net increase (decrease) in fair value of investments	(3,667)	8,899
Securities lending cash collateral returned	(8,389)	(8,602)
Net cash provided by investing activities	24,108	41,640
Net increase (decrease) in cash and cash equivalents	30,953	(23,395)
Cash and cash equivalents, beginning of year	706,360	729,755
Cash and cash equivalents, ending of year	\$ 737,313	\$ 706,360

See accompanying notes to financial statements.

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

Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2002 and 2001  
(Dollars in thousands)

	<u>2002</u>	<u>2001</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 12,605	\$ 12,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	46,126	48,108
Change in allowance for uncollectible accounts	768	(203)
Passenger facility charges received	68,723	82,341
Other expenses, net	(1,460)	(14,280)
Changes in operating assets and liabilities:		
Accounts receivable	4,621	3,451
Unbilled receivables	(16,907)	7,890
Prepaid expenses and inventories	66	565
Contracts and accounts payable	(20,292)	(11,605)
Employee benefits	(3,047)	3,809
Salaries payable	(198)	1,166
Deferred revenue	1	(6,889)
Other liabilities	1,834	13,367
Due to other agencies	(4,301)	919
Due from other agencies	3,935	-
Total adjustments	<u>79,869</u>	<u>128,639</u>
Net cash provided by operating activities	<u>\$ 92,474</u>	<u>\$ 140,813</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2002 and 2001

**(1) Reporting Entity and Summary of Significant Accounting Policies**

***(a) Organization and Reporting Entity***

The Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) operates Los Angeles International Airport (LAX) as an independent, financially self-sufficient departmental component of the City of Los Angeles (the City). LAWA also operates Ontario International Airport (Ontario), Van Nuys Airport and Palmdale Regional Airport (collectively, the Airport System).

LAWA is under the management and control of a seven-member Board of Airport Commissioners (the Board) appointed by the City Mayor and approved by the City Council. Under the City Charter, the Board has the general power to, among other things: (a) acquire, develop and operate all property, plant and equipment as it may deem necessary or convenient for the promotion and accommodation of air commerce; (b) borrow money to finance the development of airports owned, operated or controlled by the City; and (c) fix, regulate and collect rates and charges for use of the Airport System. An Executive Director administers LAWA and reports to the Board.

The financial statements presented herein represent the financial position, changes in financial position and cash flows of LAX only and are not intended to present fairly the financial position, changes in financial position or the cash flows of LAWA or the City in conformity with generally accepted accounting principles (GAAP).

***(b) Basis of Accounting***

LAX is reported as a enterprise fund and maintains its records on the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded when the related liability is incurred. LAX applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless such pronouncements conflict with or contradict GASB pronouncements.

***(c) Cash and Pooled Investments***

All cash collections are deposited with and all payments are withdrawn from the City Treasurer with the exception of certain bond financing activity of LAX's outstanding bonds. In order to maximize investment return, LAX pools its available cash with that of the City, which is invested by the City Treasurer (see Note 3).

LAX's investments, including its share of the City's pooled investments, are stated at fair value. Fair value is determined based upon market closing prices or bid/asked prices for

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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

***(c) Cash and Pooled Investments (continued)***

regularly traded securities. The fair value of mutual funds, government-sponsored investment pools and other similar investments are stated at share value, or appropriate allocation of fair maturities at the time of purchase of less than one year are recorded at cost. Interest income arising from such cash and pooled investments is apportioned to LAX based on the relationship of LAX's respective daily cash balances to aggregate cash and pooled investments.

***(d) Securities Lending***

The City Treasurer engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the accompanying financial statements (see Note 3).

***(e) Federal Grants***

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a Federal grant receivable and as a capital grant contribution or operating grant revenue, as appropriate, in the statement of revenues, expenses, and changes in net assets.

***(f) Capital Assets***

Capital assets are carried at cost, or at estimated fair value on the date received in the case of properties acquired by donation or by termination of leases, less an allowance for accumulated depreciation. Such cost includes, when appropriate, interest capitalized as part of the cost of construction of fixed assets. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAWA has a capitalization threshold of \$5,000 for all capital assets.

***(g) Bond Premiums, Discounts and Issuance Costs***

Bond premiums and discounts, issuance costs, as well as gains and losses on extinguishments are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

***(h) Depreciation and Amortization***

Depreciation expense includes amortization of assets under capital leases. Depreciation and amortization are computed on the straight-line basis. The estimated useful lives of the major property classifications are as follows:

Buildings and facilities	10 to 40 years
Landplane ports	10 to 35 years
Equipment	5 to 20 years

No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service.

***(i) Preliminary Costs of Capital Projects***

Preliminary costs of capital projects incurred prior to the finalization of formal construction contracts are capitalized. In the event the proposed capital projects are abandoned, the associated preliminary costs are charged to expense in the year of abandonment.

***(j) Operating and Nonoperating Revenue and Expenses***

Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives operating revenues primarily from landing fees, terminal space rental, auto parking and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services related to security and parking management, and other expenses such as maintenance, insurance and utilities.

***(k) Interest Expense***

LAX capitalizes interest expense (net of interest earnings) for capital projects during construction. Interest costs charged to expense of \$18,135,000 for the year ended June 30, 2002 and \$21,384,000 for the year ended June 30, 2001 exclude \$189,000 and \$722,000, respectively, of interest capitalized as part of the cost of LAX's construction work in process.

***(l) Employee Benefits***

LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave is recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave.

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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

***(m) Allocation of Administrative Expenses***

A portion of administrative expenses incurred by LAWA has been allocated to LAX based on LAX's relative share of payroll expense.

***(n) Statements of Cash Flows***

Cash and cash equivalents as reported in the statements of cash flows include short-term, highly liquid investments that are both readily convertible to known amounts of cash and have maturities of three months or less at the time of purchase. Cash and investments (both restricted and unrestricted) held by the City Treasurer are, in effect, demand deposits and are therefore considered to be cash equivalents.

***(o) Use of Estimates***

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and accompanying notes. Actual results could differ from the estimates.

***(p) Reclassifications***

Certain reclassifications have been made to fiscal year 2001 amounts in order to conform to the fiscal year 2002 presentation.

***(q) Inventory***

LAX's inventory consists primarily of general office supplies and is recorded at cost on a first in, first out basis.

***(r) Inter-agency Transfers***

Amounts shown on the financial statements as inter-agency transfers reflect operational and other expenses incurred by Ontario, Palmdale or Van Nuys airports but paid for by LAX. Generally, LAX does not receive reimbursement for these expenses from the other airports, and accordingly, records a transfer in an amount equal to the expenses incurred.

***(s) Net Assets***

The financial statements utilize a net assets presentation. Net assets are categorized as follows:

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**(1) Reporting Entity and Summary of Significant Accounting Policies (continued)**

**(s) Net Assets (continued)**

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of LAX, not restricted for any project or other purpose.

**(2) Accounting Changes**

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This statement establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. GASB Statement No. 34 represents the most important single change in the history of accounting and financial reporting for state and local governments.

GASB Statement No. 34 provides new information and restructures information provided in the past. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces both the Income Statement and the Statement of Changes in Retained Earnings and Contributed Capital. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

In June 2001, GASB issued Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*. This statement is effective for the same periods as GASB Statement No. 34 and either clarifies or modifies certain provisions in GASB Statements No. 21 Accounting for Escheat Property and No. 34. It establishes guidance in the following areas: reporting of escheat property, topics for discussion in the Management’s Discussion and Analysis (MD&A), program revenue classifications, the minimum level of detail required for business-type activities in the statement of activities, etc.

LAWA and its individual airports are not required to present an MD&A with their financial statements because LAWA is an Enterprise Fund of the City. MD&A is only required supplementary information for a governmental entity as a whole.

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**(2) Accounting Changes (continued)**

Also in June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which is effective for the same periods as GASB Statement No. 34. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Modifications to the note disclosures primarily focus on: a) revenue recognition policies; b) actions taken in response to significant violations of legal or contractual provisions; c) debt service requirements; d) lease obligations; e) short-term debt; and f) interfund balances. These new disclosure requirements address the needs of users of financial statements identified by GASB.

The impact of adopting GASB Statement Nos. 34, 37, and 38, resulted in changes in the presentation of the financial statements and providing additional disclosures in the notes to the statements.

**(3) Cash and Investments**

**(a) Cash and Pooled Investments**

Cash is deposited with the City Treasurer and generally invested in short-term investments under the City Treasurer's pooled investment program. The Los Angeles City Treasury Investment Procedures and Guidelines, established pursuant to the California Government Code and Los Angeles City Council action, govern the City's investment practices. The primary objectives of the City's investment policy are the safety of capital, the liquidity of the portfolio and the yield on the investments. Investments permitted by the City's investment policy include obligations of the U.S. Government and agencies, certain commercial paper, bankers' acceptances, medium-term corporate notes, negotiable certificate of deposits, repurchase agreements and state and local government pools (e.g., State Local Agency Investment Fund) up to certain specified allowable percentages.

In addition, the Securities Lending Program (the Program) approved by the City Council on October 28, 1991, allows the City to engage in the transfer of securities to other entities for collateral and simultaneously agree to return the collateral for the same securities in the future. Under the provisions of the Program, no more than 60% of the par value of the City's General Investment Pool (the Pool) shall be available for loan. Collateral on loaned securities shall be strictly limited to cash which the City can reinvest, and U.S. Treasury securities and U.S. Government Agency securities (noncallable) which can not be pledged or sold by the City unless the borrower defaults. Cash reinvestment shall be made only with security dealers designated as primary dealers by the New York Federal Reserve Bank or with direct issuers. The collateral on loaned securities shall not, on the loan initiation date, be less than 102% of the market value of the loaned securities, including accrued interest. After the initiation date, any aggregate amount that rounds to 102% shall be considered as meeting the 102% collateralization requirement. The securities lending agent shall mark to market the value of both the collateral and the repurchased securities collateral daily. During the fiscal year, the Pool had no losses due to borrowers' default. There was no credit risk exposure to the Pool at

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**(3) Cash and Investments (continued)**

*(a) Cash and Pooled Investments (continued)*

June 30, 2002 because the amounts owed the borrowers exceeded the amounts the borrowers owed the Pool. At June 30, 2002 and 2001, the assets and liabilities arising from the reinvested cash collateral have been recognized in LAX's financial statements based on its equity in the pool at year-end. LAX's equity in the City Treasurer's pooled investment and securities lending programs consists of the following cash and investments, based on the relative percentages of such equity to the total of the City Treasurer's pooled funds and is not necessarily indicative of LAX's actual investment in the pooled funds (dollars in thousands):

	2002	2001
Deposits	\$ 49,348	\$ 33,821
U.S. Treasury securities	72,001	129,598
Federal agency securities	333,133	262,887
Commercial paper	51,272	68,085
Medium-term corporate notes	147,391	131,695
State Local Agency Investment Fund	1,006	4,884
Repurchase agreements	83,141	75,199
Money market mutual funds	21	191
Total	737,313	706,360
Less restricted portion	(345,257)	(353,473)
Unrestricted portion	\$ 392,056	\$ 352,887

The restricted portion represents cash and investments that are restricted as to use either by bond indenture requirements, actions of the Board or the Federal Aviation Administration.

At June 30, 2002 and 2001, the bank balance of \$45,327,000 and \$21,316,000, respectively, of LAX's proportionate share of cash deposits was collateralized entirely with collateral held in the pledging bank's trust department or another financial institution. As defined in the California Government Code, all collateral other than mortgage collateral must have a fair value at all times of not less than 110% of the amount of deposit, while mortgage collateral must have a fair value of not less than 150% of the deposit. Such collateral is considered held in the City's name.

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**(3) Cash and Investments (continued)**

*(b) Investments with Fiscal Agents*

LAX also maintains investments with a fiscal agent that are pledged to the payment or security of LAX 1995 series bonds. These investments are also generally invested in short-term investments under the control of the fiscal agent. The investment practices of the fiscal agent are similar to those of the City Treasurer, with similar investment objectives. These investments are restricted as to their use and have maturities designed to coincide with required bond retirement payments.

LAX's investments with the fiscal agent were as follows (dollars in thousands):

	<b>2002</b>	<b>2001</b>
Mutual funds	\$ 3,925	\$ 8,565
U.S. Treasury securities	35,035	27,013
Total	\$ 38,960	\$ 35,578

*(c) Custodial Credit Risk Categorization*

Investments maintained on behalf of LAX by the City and the fiscal agent are categorized to give an indication of the custodial credit risk assumed by LAX at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by LAWA or by its agent in LAWA's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in LAWA's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department, but not in LAWA's name. At June 30, 2002 and 2001, substantially all of the City's investments are classified in Category 1 type investments, except for investments in the State Local Agency Investment Fund and money market mutual funds, which are not required to be categorized. Similarly, investments held by the fiscal agent were classified as Category 2 type investments except for investments in mutual funds, which are noncategorized investments.

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**(4) Changes in Capital Assets**

Capital asset activity for the year ended June 30, 2002, was as follows:

	Balance at July 1, 2001	Additions	Deductions	Balance at June 30, 2002
Capital assets, not depreciated:				
Land	\$ 356,325	\$ -	\$ -	\$ 356,325
Air Easements	44,345	-	-	44,345
Construction in Progress	205,502	71,951	(19,808)	257,645
Total capital assets, not Depreciated	606,172	71,951	(19,808)	658,315
Capital assets, depreciated:				
Buildings	473,986	182	-	474,168
Improvements	469,391	19,852	-	489,243
Equipment and Vehicles	106,799	3,297	-	110,096
Leased Property	184,423	-	-	184,423
Total capital assets, Depreciated	1,234,599	23,331	-	1,257,930
Less accumulated depreciation:				
Buildings	(211,620)	(12,426)	-	(224,046)
Improvements	(262,235)	(21,684)	-	(283,919)
Equipment and Vehicles	(73,933)	(8,874)	-	(82,807)
Leased Property	(66,004)	(3,141)	-	(69,145)
Total accumulated depreciation	(613,792)	(46,125)	-	(659,917)
Total capital assets depreciated, net	620,807	(22,794)	-	598,013
Total capital assets, net	\$ 1,226,979	\$ 49,157	\$(19,808)	\$ 1,256,328

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June 30, 2002 and 2001

**(4) Changes in Capital Assets (continued)**

Capital asset activity for the year ended June 30, 2001, was as follows:

	Balance at July 1, 2000	Additions	Deductions	Balance at June 30, 2001
Capital assets, not depreciated:				
Land	\$ 295,623	\$ 60,702	\$ -	\$ 356,325
Air Easements	44,345	-	-	44,345
Construction in Progress	141,568	136,582	(72,648)	205,502
Total capital assets, not depreciated	481,536	197,284	(72,648)	606,172
Capital assets, depreciated:				
Buildings	475,967	-	(1,981)	473,986
Improvements	455,966	13,425	-	69,391
Equipment and Vehicles	103,021	13,103	(9,325)	106,799
Leased Property	184,423	-	-	184,423
Total capital assets, depreciated	1,219,377	26,528	(11,306)	1,234,599
Less accumulated depreciation:				
Buildings	(196,963)	(14,657)	-	(211,620)
Improvements	(242,823)	(19,412)	-	(262,235)
Equipment and Vehicles	(73,165)	(9,264)	8,496	(73,933)
Leased Property	(61,229)	(4,775)	-	(66,004)
Total accumulated depreciation	(574,180)	(48,108)	8,496	(613,792)
Total capital assets depreciated, net	645,197	(21,580)	(2,810)	620,807
Total capital assets, net	\$ 1,126,733	\$ 175,704	\$(75,458)	\$ 1,226,979



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**(5) Bonds Payable**

LAX issued revenue bonds in 1995 for various airport improvement projects. LAX's revenues are pledged as security for the bonds. In 2002, LAX issued \$15.5 million in commercial paper notes to finance a portion of LAX's short-term borrowing needs as well as paying for all or a portion of the principal and interest on the Notes when due. The commercial paper notes bear interest at a market rate at the date issued not to exceed 12% per annum. LAX recognized \$941,000 in bond issuance expense related to these commercial notes.

LAX revenue bonds mature in varying amounts through 2015 and commercial paper notes at June 30, 2002 are summarized as follows (dollars in thousands):

<u>Debt issue</u>	<u>Interest rate %</u>	<u>Authorized and issued</u>	<u>Included in current liabilities</u>	<u>Included in long-term liabilities</u>	<u>Total</u>
Issue of 1995	5.00 to 8.375	\$365,855	\$23,025	\$188,860	\$211,885
Commercial paper	Variable	15,500	15,500	-	15,500
		<u>381,355</u>	<u>38,525</u>	<u>188,860</u>	<u>227,385</u>
Deferred charges and credits, net		-	(178)	(1,928)	(2,106)
Unredeemed bonds		-	<u>327</u>	-	<u>327</u>
Total		<u>\$381,355</u>	<u>\$38,674</u>	<u>\$186,932</u>	<u>\$225,606</u>

Included in current liabilities are unredeemed portions of bonds outstanding at June 30, 2002.

Changes to LAX's outstanding debt consisted of bond principal payments of \$22,300,000, retirement of unredeemed bonds of \$5,000 and issuance of commercial paper notes of \$15,500,000 for the year ended June 30, 2002. For the year ended June 30, 2001, changes to LAX's outstanding debt consisted of bond principal payments of \$22,975,000.

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**(5) Bonds Payable (continued)**

Future annual debt service requirements are as follows (dollars in thousands):

Fiscal year ending June 30:	Principal	Interest	Total
2003	\$38,525	\$12,187	\$50,712
2004	23,160	10,554	33,714
2005	22,390	9,151	31,542
2006	23,375	7,828	31,203
2007	22,910	6,584	29,493
2008-2012	83,110	14,270	97,380
2013-2015	13,915	1,564	15,479
Total	<u>\$227,385</u>	<u>\$62,138</u>	<u>\$289,523</u>

The interest rate used to determine the future annual debt service requirements for the variable rate commercial paper notes was based on the actual average interest rate of 1.35% paid throughout the year ended June 30, 2002.

**(6) Other Long-Term Liabilities**

Other long-term liabilities activity for the year ended June 30, 2002 was as follows:

	Balance at July 1, 2001	Additions	Deductions	Balance at June 30, 2002	Due in one year
Employee Benefits	\$24,638	\$25,607	\$(28,655)	\$21,591	\$6,191
Other Liabilities	20,798	312,463	(310,629)	22,632	4,265
Total	<u>\$45,436</u>	<u>\$338,070</u>	<u>\$(339,284)</u>	<u>\$44,223</u>	<u>\$10,456</u>

Other long-term liabilities activity for the year ended June 30, 2001 was as follows:

	Balance at July 1, 2000	Additions*	Deductions*	Balance at June 30, 2001	Due in one year
Employee Benefits	\$20,829	\$3,809	\$ -	\$24,638	\$12,143
Other Liabilities	7,363	13,435	-	20,798	2,431
Total	<u>\$28,192</u>	<u>\$17,244</u>	<u>\$ -</u>	<u>\$45,436</u>	<u>\$14,574</u>

\* Additions and deductions shown net.

**(7) Related Party Services**

The City provides certain administrative, crash-fire-rescue police services and water and power to LAX. The payments for these services, included in operating expenses for the years ended June 30, 2002 and 2001, was \$45,928,000 and \$56,693,000, respectively. Amounts due and payable for these services at June 30, 2002 and 2001 totaled \$106,000 and \$2,226,000, respectively.

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**(7) Related Party Services (continued)**

In addition, LAX collects parking taxes on behalf of the City. Parking taxes collected and remitted to the City were \$5,123,000 and \$8,072,000 for the years ended June 30, 2002 and 2001, respectively.

The amounts reported as due from other agencies of \$45,731,000 and \$49,666,000 as of June 30, 2002 and 2001, respectively, represent cash advanced to the Van Nuys Airport and the Palmdale Regional Airport funds for operations.

**(8) Retirement System**

***(a) Retirement Plan Description***

All full-time employees of LAX are eligible to participate in the City Employees' Retirement System of the City of Los Angeles, California (the System); a single employer defined benefit pension plan. The System serves as a common investment and administrative agent for various City departments and agencies that participate in the System. Copies of the System's Annual Financial Report can be obtained at 360 E. Second Street, 2<sup>nd</sup> Floor, Los Angeles, California 90012. LAX makes contributions to the System for its pro rata share of retirement costs attributable to its employees.

The System provides retirement, disability, death benefits, postemployment healthcare and annual cost-of-living adjustments based on the employees' years of service, age and final compensation. Employees with ten or more years of service may retire if they are at least 55 years old. Normal retirement allowances are reduced for employees under age 60 at the time of retirement, unless they have 30 or more years of service and are age 55 or older. Employees aged 70 or above may retire at any time with no required minimum period of service. The System does not have a mandatory retirement age.

***(b) Funding Policy and Contributions***

The Board of Administration of the System establishes and may amend the contribution requirements of System members and the City. Covered employees contribute to the System at a rate (8.22% to 13.33%) established through the collective bargaining process for those whose membership began prior to February 1, 1983 and at a fixed rate of 6% of salary for those who entered membership on or after February 1, 1983. The City subsidizes member contributions as determined by the actuarial consultant of the System. LAWA's actuarially required and actual contributions to the System were \$6,169,000, \$7,750,000, and \$8,637,000 for the years ended June 30, 2002, 2001, and 2000, respectively, representing 4.7%, 5.8%, and 8.4% of covered payroll for the respective years. LAX's share of such contributions, based on LAX's salaries relative to total salaries for LAWA as a whole, was \$4,923,000, \$6,617,000, and \$7,222,000 for the years ended June 30, 2002, 2001, and 2000, respectively.

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**(8) Retirement System (continued)**

*(c) Other Postemployment Benefits*

LAX, as a participant in the System, also provides a Retiree Health Insurance Premium Subsidy. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for this health insurance premium subsidy. This subsidy is to be funded entirely by the City, including LAX. Employees with ten or more years of service who retire after age 55, or employees who retire at age 70 with no minimum service requirement, are eligible for a health premium subsidy with a City-approved health carrier. The System is advance funding the retiree health benefits on an actuarially determined basis.

The City's actuarially required and actual contributions for the health care subsidy were \$27,591,000 (2.17% of covered payroll) for fiscal year 2002. The number of active participants for the City as a whole was 25,930. Separate information for LAX contributions and participants is not available.

**(9) Self-Insurance**

LAX is part of the City's self-administered and self-funded workers' compensation system. Claims and judgments are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The liability for workers' compensation claims includes a provision for incurred but not reported claims and loss adjustment expenses. Payment to the Workers' Compensation Division of the City Personnel Department has been made based on cash payments for workers' compensation claims. LAWA's estimated liability for workers' compensation claims is based on the results of an actuarial study and has been allocated to LAX based on a ratio of LAX salaries to total LAWA salaries. A reconciliation of the accrued workers' compensation liability (included in employee benefits) is as follows (dollars in thousands):

	<b>Year ended June 30</b>	
	<b>2002</b>	<b>2001</b>
Beginning balance	\$ 9,711	\$ 9,193
Provision for claims	5,641	3,794
Claims paid	(2,237)	(3,276)
Ending balance	\$ 13,115	\$ 9,711

For other types of claims, commercial insurance is used when it is either legally or contractually required or judged to be the most effective way to finance risk. LAWA's Risk Management Bureau estimates the risk exposure and uses the estimate together with past loss experience to determine maximum insurance coverage. For fiscal years 2002, 2001, and 2000, no claims were in excess of LAWA's insurance coverage. LAWA maintains approximately \$2.5 billion coverage of property, casualty and other

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**(9) Self-Insurance (continued)**

insurance. LAWA also maintains an insurance trust accounts to pay for the deductible for property damage and any claims in excess of the insurance coverage.

**(10) Commitments and Contingencies**

As of June 30, 2002, a number of claims and lawsuits are pending against LAWA that arose in the normal course of operations at LAX. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. The following is a summary of certain matters related to LAX's operations.

***(a) City Services and Reimbursements***

Air Transport Association of America v. City of Los Angeles, City of Los Angeles Department of Airports, and Los Angeles Board of Airport Commissioners, Formal Complaint No. 13-95-05 (Federal Aviation Administration); and Aircraft Owners and Pilots Association v. City of Los Angeles, City of Los Angeles Department of Airports, and Los Angeles Board of Airport Commissioners, Formal Complaint No. 13-95-09 (Federal Aviation Administration) – two nearly identical administrative proceedings involving formal complaints filed in March and June 1995 are pending before the Secretary. These proceedings concern a transfer to the City's General Fund in the amount of approximately \$58 million (plus any accrued interest). The actions challenge the transfer of funds related to a condemnation award received from the State of California in connection with real estate acquired by the State for the Century Freeway Project. The complainants, the ATA and Aircraft Owners and Pilots Association, allege that the transfer is a violation of the Airport and Airways Improvement Act of 1982 (AAIA) governing the use of airport revenues and certain grant assurances executed pursuant to AAIA.

The complainants seek an order barring the City from expending the funds for non-airport uses, directing the City to repay to LAWA amounts already transferred, suspending LAX's eligibility for grant funds pending compliance with its grant assurances and imposing a civil penalty of \$50,000. The Federal Aviation Administration (the FAA) failed to act on the complainants' request for a preliminary ruling that the City be barred from using the funds while proceedings are pending. Answers to both complaints have been filed. In December 1995, the FAA denied respondents' motion to dismiss the complaints. There has been no decision by the FAA as to whether or not to institute an investigation on the complaints or to hold full hearings.

***(b) Environmental Issues***

Through the normal course of operations, LAWA and its facilities are subject to potential environmental contamination and other environmental concerns. Accordingly, LAWA has established a comprehensive hazardous materials management plan for all facilities under its control. This plan calls for the evaluation of all property utilized by LAWA and the

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**(10) Commitments and Contingencies (continued)**

***(b) Environmental Issues***

environmental cleanup of any sites found to be contaminated. This evaluation has not been completed to date.

LAWA bears the financial responsibility for the cleanup of environmental contamination on property owned by it. However, LAWA believes that if the contamination originated based on contractual arrangements, the primary responsibility for any such cleanup would be borne by the tenants, even if they declare bankruptcy. LAWA, as property owner, however, assumes the ultimate responsibility for cleanup of such contamination in the event that the tenant is unable to make restitution.

As a result of the hazardous materials management plan noted above, LAWA has already begun cleanup on several sites, is in the process of implementing additional safeguards to prevent additional hazardous substance contamination and is completing the environmental evaluation of LAWA's facilities. However, the extent of the cleanup and/or the ability of the original tenants to reimburse LAWA for such cleanup cannot be determined at the present time. Therefore, it is reasonably possible that losses could be incurred; however, until such matters are resolved, the range of loss, if any, cannot be reasonably estimated.

***(c) Other***

Commitments for construction, the purchase of real property, equipment and materials and supplies amounted to \$6,751,000 and \$184,260,000 as of June 30, 2002 and 2001, respectively.

***(d) Terrorist Activities***

LAWA, like the rest of the North American air transportation system, has been adversely affected by the terrorist attacks that occurred in the United States on September 11, 2001 (the "September 11 Events"). As a result of the September 11 Events, there was a temporary suspension of air carrier operations in the United States, including operations at LAWA. Since the September 11 Events, due in part to the September 11 Events and in part to the slowdown in the national economy, significant declines have been experienced in aviation activity and enplaned passenger traffic, as well as in activity-based revenues consisting primarily of landing fees, passenger facility charges, concession revenues and parking revenue. For the fiscal year ended June 30, 2002 LAWA experienced a 16% reduction in passenger levels and a 20% reduction in air traffic movements.

As part of its program of proactively addressing heightened security concerns and requirements, LAWA has engaged in a review of its rates and charges, and has implemented revenue enhancements and expenditure controls that affect a variety of operating expenses. Capital expenditures were reevaluated and many such expenditures were suspended except

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**(10) Commitments and Contingencies (continued)**

*(d) Terrorist Activities (continued)*

where the affected projects were near completion or essential from a security or safety standpoint.

Reductions in operating levels at LAX from those which existed prior to the September 11 Events may continue for a period of time and to a degree that is uncertain. The future level of aviation activity and enplaned passenger traffic at LAX will depend upon several factors directly and indirectly related to the September 11 Events, including, among others, the financial condition of individual airlines and the viability of continued service. A number of airlines were experiencing economic difficulties prior to the September 11 Events. This situation was worsened by the September 11 Events and most of the airlines have been downgraded by the rating agencies. Two smaller airlines which together accounted for less than 1% of LAX's Fiscal 2002 revenues have filed for bankruptcy protection and one of them has suspended its operations. In addition, UAL Corporation, the parent company of United Airlines, which accounted for approximately 19% of enplanements at LAX in Fiscal Year 2002 and approximately 17% of revenues, announced that it may file for bankruptcy protection during 2002.

As of June 30, 2002, the ratings of LAX's outstanding revenue bonds has not changed. LAWA is unable to predict (i) the duration of current reduced air traffic volume, (ii) the long-term impact of the above-described events on costs and revenues of LAWA, (iii) the future financial condition of the airlines using LAWA's airports, or (iv) the likelihood of future incidents of terrorism or other air transportation disruptions.

**(11) Capital Lease Agreements**

LAX has entered into various lease agreements with certain airlines. These agreements are classified as capital leases and are for certain public areas at LAX. Final terms regarding some of these agreements have not yet been agreed upon. Nonetheless, the agreements generally provide for the payment of amounts over various terms between 27 and 35 years, with interest at the rate incurred by the lessor on their related borrowings, which include improvement bonds. The property capitalized under these lease agreements amount to \$184,423,000 at June 30, 2002 and 2001. Accumulated depreciation with respect to such property for the respective years was \$69,145,000 and \$66,004,000.

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**(11) Capital Lease Agreements**

Estimated future minimum lease payments under these agreements are as follows (dollars in thousands):

Fiscal year ending June 30:		
2003	S	8,509
2004		8,538
2005		8,566
2006		8,591
2007		8,671
2008-2012		44,310
2013-2017		54,335
2018-2022		49,252
2023-2026		29,933
Total minimum lease payments		220,705
Less portion consisting of interest		(96,151)
Present value of minimum lease payments	S	124,554

LAWA currently uses rental credits to finance its obligations on capital leases with certain airlines. These rental credits are applied as an offset of amounts owed to LAWA by such airlines for terminal leases and landing fees.

**(12) Passenger Facility Charges**

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act, which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that must meet at least one of the following criteria: (1) preserve or enhance safety, security or capacity of the national air transportation system, (2) reduce noise or mitigate noise impacts resulting from an airport or (3) furnish opportunities for enhanced competition between or among carriers.

In April 1993, the FAA approved LAWA's application to collect PFCs at LAX for specifically approved airport improvement projects. The collection authority was for \$360,000,000 for 5 years. Effective July 1, 1993, LAWA began collecting PFCs in the amount of \$3 per passenger. In 1996, LAWA received approval to transfer a portion of PFC revenue collected at LAX to fund projects at Ontario. Effective January 1, 1996, the FAA approved LAWA's amended application to cease PFC collections at LAX after collecting approximately \$152,600,000. In May 1996, the FAA approved LAWA's request to transfer a portion of PFC revenues collected at LAX to fund approved projects at Ontario. Accordingly, PFC charges totaling \$126,090,000 imposed and collected at LAX, have been transferred for Ontario's project expenditures as of June 30, 2002. In November 1997 and April 1998, the FAA approved LAWA's application to impose PFCs at LAX and Ontario, respectively, for noise mitigation projects. LAWA began collecting PFCs in the amount of \$3 per passenger effective February 1, 1998 and July 1, 1998 at LAX and Ontario, respectively. Approved collections at LAX of \$150,000,000 are to be used for the soundproofing of City of Los Angeles residences and soundproofing of nearby residences.



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**(12) Passenger Facility Charges (continued)**

Approved collections of \$45,680,000 at Ontario are to be used for land acquisition and sound insulation of the City of Ontario residences. Of the Ontario-approved PFC, an estimated \$33,680,000 will be used to reimburse LAX for funds previously utilized to acquire land for Ontario.

In October 2, 1998, the FAA approved LAWA's application to amend PFCs at LAX for noise mitigation projects. The amendment increased the total approved PFC revenue from \$150,000,000 to \$440,000,000. The noise mitigation project was modified to decrease residential soundproofing in the City of Los Angeles and to increase the amount of land to be acquired for noise mitigation purposes.

The PFC funds are recognized on the accrual basis of accounting, and the funds collected are restricted and may be used on specifically approved projects. Due to their restricted use, PFCs are categorized as nonoperating revenues. All funds collected must be maintained in an interest-bearing account with the City Treasurer prior to disbursement. Cumulative PFC collections and the related interest earned as reported to the FAA were as follows (dollars in thousands):

	June 30	
	2002	2001
Amount collected	\$ 475,240	\$ 406,356
Interest earned	44,228	38,403
Cumulative PFC collections	\$ 519,468	\$ 444,759

Collected but unexpended PFC revenue is included on the statement of net assets as restricted cash and pooled investments held by the City Treasurer. Related accrued interest income and PFC receivables are also reported as restricted assets.

**(13) Events (Unaudited) Subsequent to the Date of the Independent Auditor's Report**

***Los Angeles International Airport (LAX) Indebtedness***

Subsequent to October 25, 2002, LAX issued the following debt (dollar amounts in millions):

Issue Date	Description	Amount	Interest Rate
December 19, 2002	Revenue Bonds 2002 Series A	\$ 32.45	4.10% - 5.25%
December 19, 2002	Subordinate Revenue Bonds 2002 Subseries C1	37.40	Variable
December 19, 2002	Subordinate Revenue Bonds 2002 Subseries C2	20.00	Variable
February 26, 2003	Subordinate Revenue Bonds 2003 Series A	23.70	Variable

**COMPLIANCE SECTION**



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The Members of the Board of Airport Commissioners  
of the City of Los Angeles, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the accompanying financial statements of Los Angeles International Airport (LAX), a departmental component of the Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA), an Enterprise Fund of the City of Los Angeles, California, as of and for the year ended June 30, 2002 and have issued our report thereon October 25, 2002, which included an explanatory paragraph on LAX's adoption of the provisions of Governmental Accounting Standards Board Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, effective July 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Compliance*

As part of obtaining reasonable assurance about whether the financial statements of LAX are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

*Internal Control over Financial Reporting*

In planning and performing our audit, we considered LAX's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Offices Located Throughout California

This report is intended solely for the information and use of the Board of Airport Commissioners, management of LAWA and federal or pass-through grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Inoué, Jini & Company LLP*

Certified Public Accountants

Los Angeles, California  
October 25, 2002

## APPENDIX C

### SUMMARIES OF THE MASTER INDENTURE AND THE EIGHTH SUPPLEMENTAL INDENTURE

The following summary describes certain provisions of the Master Indenture and the Eighth Supplemental Indenture and is qualified in its entirety by reference to the documents themselves for a full statement of their provisions. Additionally, the Master Indenture Amendments have been incorporated in the following summary of the Master Indenture.

#### DEFINITIONS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Indenture and the Eighth Supplemental Indenture.

*“Accreted Value”* means (a) with respect to any Capital Appreciation Bonds, as of any date of calculation, the sum of the amount set forth in a Supplemental Indenture as the amount representing the initial principal amount of such Capital Appreciation Bond plus the interest accumulated, compounded and unpaid thereon as of the most recent compounding date, or (b) with respect to Original Issue Discount Bonds, as of the date of calculation, the amount representing the initial public offering price of such Capital Appreciation Bonds plus the amount of the discounted principal which has accreted since the date of issue; in each case the Accreted Value will be determined in accordance with the provisions of the Supplemental Indenture authorizing the issuance of such Capital Appreciation Bond.

*“Aggregate Annual Debt Service”* means for any Fiscal Year the aggregate amount of Annual Debt Service on all Outstanding Bonds and Unissued Program Bonds. For purposes of calculating 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 Bonds, and Unissued Program Bonds in accordance with any amortization schedule established by the governing documents setting forth the terms of such Bonds, including, as a principal payment, the Accreted Value of any Capital Appreciation Bonds or Original Issue Discount 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 Bonds will be excluded to the extent such payments are to be paid from Capitalized Interest for such Fiscal Year;

(ii) if all or any portion or portions of an Outstanding Series of Bonds, or Unissued Program Bonds constitute Balloon Indebtedness (excluding Program Bonds or Unissued 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 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 Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; with respect to any Series of Bonds, Unissued Program

Bonds or 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 Program Bonds or 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 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 Board Representative stating that the Board intends to refinance such maturity and stating the probable terms of such refinancing and that the debt capacity of the Department is sufficient to successfully complete such refinancing; upon the receipt of such certificate, such Balloon Indebtedness will be assumed to be refinanced in accordance with the probable terms set out in such certificate and such terms will be used for purposes of calculating Aggregate Annual Debt Service, provided that such assumption will not result in an amortization period longer than or an interest rate lower than that which would be assumed under provision (ii) above;

(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 will be treated as if 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; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes; and with respect to all principal and interest payments becoming due prior to the year in which such Tender Indebtedness is first subject to tender, such payments will be treated as described in (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 Bonds constitute Variable Rate Indebtedness (except to the extent subsection (ii) or (iii) relating to Balloon Indebtedness or (iv) relating to Tender Indebtedness or subsection (vi) relating to Synthetic Fixed Rate Indebtedness or (viii) relating to Qualified Swaps applies), the interest rate on such 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 Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vi) with respect to any Program Bonds or Unissued Program Bonds (other than a Commercial Paper Program) (a) debt service on Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (b) with respect to Unissued Program Bonds, it will be assumed that the full principal amount of such Unissued Program Bonds will be amortized over a term certified by an Authorized Board Representative at the time the initial Program Bonds of such Program are issued to be the expected duration of such Program or, if such expectations have changed, over a term certified by an Authorized Board Representative to be the

expected duration of such Program at the time of such calculation, but not to exceed 30 years from the date the initial Program Bonds of such Program are issued and it will be assumed that debt service will be paid in substantially level Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(vii) debt service on Repayment Obligations, to the extent such obligations constitute Bonds under the Master Indenture, will be calculated as provided in the Master Indenture;

(viii) (a) for purposes of computing the Annual Debt Service of 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 Annual Debt Service on all other Bonds with respect to which a Qualified Swap is in effect, such 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 Qualified Swap will be treated as amortized over the remaining term of the Qualified Swap and the annualized gain or loss payment thereunder will be added to or subtracted from Annual Debt Service for such Bonds;

(ix) if moneys or Permitted Investments have been irrevocably deposited with and are held by the Trustee or another fiduciary or Capitalized Interest has been set aside exclusively to be used to pay principal and/or interest on specified Bonds, then the principal and/or interest to be paid from such moneys, Permitted Investments, or Capitalized Interest or from the earnings thereon will be disregarded and not included in calculating Annual Debt Service; and

(x) with respect to any Commercial Paper Program which has been Implemented and not then terminated or with respect to any Commercial Paper Program then proposed to be Implemented, the principal and interest thereon will be calculated as if the entire Authorized Amount of such Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Commercial Paper Program is Implemented and with substantially level Annual Debt Service payments; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes.

*“Aggregate Annual Debt Service For Reserve Requirement”* means the computation of Aggregate Annual Debt Service with respect to all Outstanding Bonds 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 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 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 Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Bonds containing Balloon Indebtedness or Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*Airport System*” means all airports, airport sites, and all equipment, accommodations and facilities for aerial navigation, flight, instruction and commerce belonging to or pertaining to the City and under the jurisdiction and control of the Department, including Los Angeles International Airport, the Ontario International Airport, the Van Nuys Airport and Palmdale Regional Airport and any successor entities thereto; and including or excluding, as the case may be, such property as the Board may either acquire or which will be placed under its control, or divest or have removed from its control.

“*Airport Revenue Fund*” means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and maintained separate and apart from all other funds and accounts of the City Treasury.

“*Annual Debt Service*” means, with respect to any Bond, the aggregate amount of principal and interest becoming due and payable during any Fiscal Year, and if a Qualified Swap is in effect for such Bond, plus the amount payable by the Department (or the Trustee) under the Qualified Swap in accordance with the terms thereof, less any amount to be received by the Department from the Qualified Swap Provider pursuant to the Qualified Swap, calculated using the principles and assumptions set forth in the definition of Aggregate Annual Debt Service which is authorized pursuant to the Master Indenture.

“*Authorized Amount*” means, 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 the Master Indenture 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 the Master 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 will be deemed to be the “Authorized Amount.”

“*Authorized Board 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 Board 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 Trustee.

“*Authorized Denominations*” means \$5,000 principal amount and integral multiples thereof.

“*Balloon Indebtedness*” means, with respect to any Series of Bonds 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 Bonds of a Series maturing on a single date or within a Fiscal Year must equal or exceed 150% of the amount of such Series which matures during any preceding Fiscal Year. For purposes of this definition, the principal amount maturing on any date will be reduced by the amount of such Bonds, scheduled to be amortized by prepayment or redemption prior to their stated maturity date. A Commercial Paper Program and the Commercial Paper constituting part of such Program will not be Balloon Indebtedness.

“*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. Any action required or authorized to be taken by the Board in the Master Indenture may be taken by the Authorized Board Representative with such formal approvals by the Board as are required by the policies and practices of the Board and applicable laws; provided, however, that any action taken by the Authorized Board Representative in accordance with the provisions of the Master Indenture will



conclusively be deemed by the Trustee and the Owners to be the act of the Board without further evidence of the authorization thereof by the Board.

“*Bond*” or “*Bonds*” means any debt obligation of the Department issued under and in accordance with the provisions of the Master Indenture, including, but not limited to, bonds, notes, bond anticipation notes, commercial paper and other instruments creating an indebtedness of the Department, and obligations incurred through lease or installment purchase agreements or other agreements or certificates of participation therein and Repayment Obligations to the extent provided in the Master Indenture. The term “*Bond*” or “*Bonds*” in the Master Indenture does not include any Subordinate Obligation; provided, however, that the Board may provide in a Supplemental Indenture to the Master Indenture that Subordinated Obligations may be thenceforth issued pursuant to the Master Indenture having the terms applicable to the Bonds, except that such Subordinated Obligations will be junior and subordinate in payment of such Subordinated Obligations from the Pledged Revenues. The term “*Bond*” and “*Bonds*” includes Program Bonds.

“*Bond Counsel*” means a firm or firms of attorneys which are nationally recognized as experts in the area of municipal finance and which are familiar with the transactions contemplated under the Master Indenture and which are acceptable to the Board.

“*Bondholder*,” “*holder*,” “*owner*” or “*registered owner*” means the person in whose name any Bond or Bonds are registered on the books maintained by the Registrar and will include any Credit Provider or Liquidity Provider to which a Repayment Obligation is then owed, to the extent that such Repayment Obligation is deemed to be a Bond under the provisions of the Master 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 Trustee is located are open, provided that such term may have a different meaning for any specified Series of Bonds if so provided by Supplemental Indenture.

“*Capital Appreciation Bonds*” means 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 Indenture and is payable only upon redemption or on the maturity date of such Bonds. Bonds which are issued as Capital Appreciation Bonds, but later convert to Bonds on which interest is paid periodically will be Capital Appreciation Bonds until the conversion date and from and after such conversion date will no longer be Capital Appreciation Bonds, but will be treated as having a principal amount equal to their Accreted Value on the conversion date.

“*Capitalized Interest*” means the amount of interest on Bonds, if any, funded from the proceeds of the Bonds or other monies that are deposited with the Trustee upon issuance of Bonds to be used to pay interest on the Bonds.

“*Charter*” means the Charter of the City of Los Angeles, as amended from time to time, and any other article or section of the Charter of the City of Los Angeles, as amended from time to time, in which the provisions relating to the Board and the Department are set forth or may hereafter be set forth, and any predecessor provisions thereof which will be deemed to continue in force.

“*Chief Financial Officer*” means the person at a given time who is the chief financial officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Trustee by the Department.

“*Chief Operating Officer*” means the person at a given time who is the chief operating officer of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Trustee by the Department.

“*City*” means the City of Los Angeles, California.

“*City Attorney*” means legal counsel to the Board and staff of the Department who otherwise acts as provided for in the Charter.

“*City Treasury*” means the official depository of the City established pursuant to Section 301 of the Charter which is under the control of the Treasurer.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations applicable with respect thereto.

“*Commercial Paper*” means notes of the Department with a maturity of not more than 270 days from the date of issuance and which are issued and reissued from time to time pursuant to a Program adopted by the Board.

“*Commercial Paper Program*” means a Program authorized by the Board pursuant to which Commercial Paper will be issued and reissued from time to time, up to the Authorized Amount of such Program.

“*Construction Fund*” means any of the Construction Funds authorized to be created and described in the Master Indenture.

“*Consultant*” means any Independent consultant, consulting firm, engineer, architect, engineering firm, architectural firm, accountant or accounting firm, or other expert recognized to be well-qualified for work of the character required and retained by the Board to perform acts and carry out the duties provided for such consultant in the Master Indenture.

“*Costs*” or “*Costs of a Project*” means all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Independent Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, the Reserve Fund, 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 Issuance*” means all costs and expenses incurred by the Department in connection with the issuance of the Series 2003B Bonds, including, but not limited to, costs and expenses of printing and copying documents, the official statement, the feasibility studies and the Series 2003B Bonds, any bond insurance premium, any reserve fund surety policy premium, underwriters’ compensation, and the fees, costs and expenses of rating agencies, the Trustee, counsel, accountants, financial advisors, feasibility consultants and other consultants.

“*Credit Facility*” means a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Reserve Fund Surety Policy, a Debt Service Reserve Fund Surety Policy (other than a Reserve Fund Surety Policy) or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

“*Credit Provider*” means the party obligated to make payment of principal of and interest on the Bonds under a Credit Facility.

“*Debt Service Fund*” or “*Debt Service Funds*” means a Debt Service Fund or any of the Debt Service Funds required to be created and described in the Master Indenture.

“*Debt Service Reserve Fund*” means any Debt Service Reserve Fund (other than the Reserve Fund) created by the Board pursuant to a Supplemental Indenture in connection with the issuance of any Series of Bonds and that is required to be funded for the purpose of providing additional security for such Series of Bonds and under certain circumstances to provide additional security for such other designated Series of Bonds issued pursuant to the terms of the Master Indenture and as specified in any Supplemental Indenture.

“*Debt Service Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit (other than a Reserve Fund Surety Policy) deposited with the Trustee for the credit of a Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy 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 Bonds and S&P if S&P is then maintaining a rating on the Bonds at the time such instrument is provided.

“*Department*” means the Department of Airports of The City of Los Angeles, or any successor thereto performing the activities and functions under the Charter.

“*Designated Debt*” means a specific indebtedness designated by the Board 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 Bonds.

“*DTC*” means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

“*Eighth Supplemental Indenture*” means the Eighth Supplemental Trust Indenture, by and between the Department and the Trustee, dated as of April 1, 2003, pursuant to which the Series 2003B Bonds are being issued.

“*Estimated Completion Date*” means 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 will 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.

“*Event of Default*” means any occurrence or event specified in the Master Indenture.

“*Executive Director*” means the person at a given time who is the executive director of the Department or such other title as the Department may from time to time assign for such position, and the officer or officers succeeding to such position as certified to the Trustee by the Department.

“*Facilities Construction Credit*” and “*Facilities Construction Credits*” means the amounts further described in the Master Indenture resulting from an arrangement embodied in a written agreement of the Board and another person or entity pursuant to which the Board permits such person or entity to make a payment or payments to the Board which is reduced by the amount owed by the Board to such person or entity under such agreement, resulting in a net payment to the Board by such person or entity. The “*Facilities Construction Credit*” will be deemed to be the amount owed by the Board under such agreement which is “netted” against the payment of such person or entity to the Board. “*Facilities Construction Credits*” will include any credits extended to airlines or other users of LAX Airport Facilities related to RAIC projects.

“*Fiscal Year*” means the period of time beginning on July 1 of each given year and ending on June 30 of the immediately subsequent year, or such other similar period as the Board designates as its fiscal year.

“*Fitch*” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and its assigns, and, if such corporation will for any reason no longer perform the functions of a securities

rating agency, "Fitch" will be deemed to refer to any nationally recognized rating agency designated by the Board (other than Moody's or S&P).

"*Government Obligations*" means (a) United States Obligations (including obligations issued or held in book-entry form) and (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 Moody's if Moody's then maintains a rating on any of the Bonds and by S&P if S&P then maintains a rating on any of the Bonds.

"*Implemented*" means, when used with respect to a Program, a Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Program, the applicable certificates and other items required by the Master Indenture have been filed with the Trustee.

"*Independent*" means, when used with respect to any specified firm or individual, such a firm or individual who (a) does not have any direct financial interest or any material indirect financial interest in the operations of the Department or the City, other than the payment to be received under a contract for services to be performed, and (b) is not connected with the Department or the City as an official, officer or employee.

"*Initial Bonds*" means those Bonds issued prior to December 15, 1995 and issued in an aggregate Principal Amount for all Series not exceeding \$466,200,000.

"*Investment Agreement*" means an investment agreement or guaranteed investment contract (a) with or guaranteed by a national or state chartered bank or savings and loan, an insurance company or other financial institution whose unsecured debt is rated in the highest short-term rating category (if the term of the Investment Agreement is less than three years) or in either of the two highest long-term rating categories (if the term of the Investment Agreement is three years or longer) by S&P if S&P then maintains a rating on any of the Bonds and by Moody's if Moody's then maintains a rating on any of the Bonds or (b) which investment agreement or guaranteed investment contract is fully secured by obligations described in item (a) or (b) of the definition of Permitted Investments which are (i) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to 105% of the principal amount of the investment, together with the interest accrued and unpaid thereon, (ii) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (iii) subject to a perfected first lien on behalf of the Trustee, and (iv) free and clear from all third-party liens.

"*LAX Airport Facilities*" or "*LAX Airport Facility*" means a facility or group of facilities or category of facilities which constitute or are part of Los Angeles International Airport (excluding privately owned or leased property, except for any portion thereof which is governmentally owned or leased and which is a source of Pledged Revenues).

"*LAX Maintenance and Operation Expenses*" means, for any given period, the total operation and maintenance expenses of Los Angeles International Airport as determined in accordance with generally accepted accounting principles as in effect from time to time, excluding depreciation expense and any operation and maintenance expenses of Los Angeles International Airport payable from moneys other than Pledged Revenues.

"*LAX Maintenance and Operation Reserve Account*" means the Los Angeles International Airport Maintenance and Operation Reserve Account authorized to be created by Ordinance No. 173232 and established pursuant to Section 23.10(d)(2) of the Los Angeles Administrative Code.

*“LAX Revenue Account”* means the account established pursuant to the Master Indenture and Section 23.10(a) of the Los Angeles Administrative Code and held by the Treasurer within the Airport Revenue Fund.

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

*“LAX Special Facilities Revenue”* means the contractual payments and all other revenues derived by or available to the Board from an LAX Special Facility, which are pledged to secure LAX Special Facility Obligations.

*“LAX Special Facilities”* or *“LAX Special Facility”* means, with respect to Los Angeles International Airport, a facility or group of facilities or category of facilities which are designated as an LAX Special Facility or LAX Special Facilities pursuant to the provisions of the Master Indenture. LAX Special Facilities do not include facilities financed by the RAIC.

*“LAX Special Facility Obligations”* means bonds or other debt instruments issued pursuant to an indenture other than the Master 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 Bonds.

*“Liquidity Provider”* means the entity, including the Credit Provider, which is obligated to provide funds to purchase Bonds under the terms of a Liquidity Facility.

*“Los Angeles International Airport”* and *“LAX”* means that portion of the Airport System commonly known by such name which is located in the City of Los Angeles and generally bounded by Westchester Parkway on the north, the San Diego (405) Freeway on the east, Imperial Highway on the south and the Pacific Ocean on the west; including all facilities and property related thereto, real or personal, under the jurisdiction or control of the Board at such location or in which the Board has other rights or from which the Board derives revenues at such location.

*“Mail”* means by first-class United States mail, postage prepaid.

*“Maintenance and Operation Expenses of the Airport System”* means, for any given period, the total operation and maintenance expenses, exclusive of depreciation expense, of the Airport System as determined in accordance with generally accepted accounting principles as modified from time to time.

*“Maintenance and Operation Reserve Fund”* means the fund established by and existing pursuant to Section 635(a) of the Charter or any successor provision and pursuant to the terms of the Master Indenture.

“*Master Indenture*” means the Master Trust Indenture, dated as of April 1, 1995, between the Department and the Trustee, together with all Supplemental Indentures.

“*Maximum Aggregate Annual Debt Service*” means the maximum amount of Aggregate Annual Debt Service with respect to all Bonds, Unissued Program Bonds and the Authorized Amount of all Bonds then proposed to be issued in the then current or any future Fiscal Year.

“*Maximum Aggregate Annual Debt Service For Reserve Requirement*” means the computation of Maximum Aggregate Annual Debt Service with respect to all Outstanding Bonds 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 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 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 Maximum Aggregate Annual Debt Service For Reserve Requirement, the annual debt service requirements assumed at the time of issuance of a Series of Bonds containing Balloon Indebtedness or Tender Indebtedness will not, with respect to such Series, require subsequent increases.

“*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 Board.

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

“*Net Proceeds*” means insurance proceeds received as a result of damage to or destruction of LAX Airport Facilities or any condemnation award or amounts received by the Board from the sale of LAX Airport Facilities under the threat of condemnation less expenses (including attorneys’ fees and expenses and any fees and expenses of the Trustee) incurred in the collection of such proceeds or award.

“*1995 Series A Bonds*” means the Department’s Los Angeles International Airport Refunding Revenue Bonds 1995 Series A, issued in the original aggregate principal amount of \$125,740,000.

“*1995 Series B Bonds*” means the Department’s Los Angeles International Airport Refunding Revenue Bonds 1995 Series B, issued in the original aggregate principal amount of \$34,240,000.

“*1995 Series C Bonds*” means the Department’s Los Angeles International Airport Refunding Revenue Bonds 1995 Series C, issued in the original aggregate principal amount of \$30,275,000.

“*1995 Series D Bonds*” means the Department’s Los Angeles International Airport Revenue Bonds 1995 Series D, issued in the original aggregate principal amount of \$84,375,000.

“*Non-Qualified Swap*” means any Swap which is not a Qualified Swap.

“*Notes*” means Bonds issued under the provisions of the Master Indenture which have a maturity of one year or less from their date of original issuance and which are not part of a Commercial Paper Program.

“*Ordinance No. 173232*” means the City of Los Angeles Ordinance No. 173232 which became effective on June 19, 2000.

“*Original Issue Discount Bonds*” means 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 Bonds by the Supplemental Indenture under which such Bonds are issued.

“*Outstanding*” when used with respect to Bonds means all Bonds which have been authenticated and delivered under the Master Indenture, except:

- (a) Bonds cancelled or purchased by the Trustee for cancellation or delivered to or acquired by the Trustee for cancellation and, in all cases, with the intent to extinguish the debt represented thereby;
- (b) Bonds deemed to be paid in accordance with the provisions of the Master Indenture;
- (c) Bonds in lieu of which other Bonds have been authenticated under the provisions of the Master Indenture;
- (d) 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 Trustee or a Paying Agent;
- (e) Bonds which, under the terms of the Supplemental Indenture pursuant to which they were issued, are deemed to be no longer Outstanding;
- (f) Repayment Obligations deemed to be Bonds under the Master Indenture to the extent such Repayment Obligation arose under the terms of a Liquidity Facility and are secured by a pledge of Outstanding 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 Bonds under the Master Indenture, Bonds held by or for the account of the Board or by any person controlling, controlled by or under common control with the Board, unless such Bonds are pledged to secure a debt to an unrelated party.

“*Passenger Facility Charges*” means charges collected by the Board pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 Pub. L. 101-508, Title IX, Subtitle B, Sections 9110 and 9111, the Wendel H. Ford Aviation Investment and Reform Act for the 21<sup>st</sup> Century, Pub. L. 106-181 and 14 CFR Part 158, all as amended from time to time, in respect of any component of the Airport System and interest earnings thereon net of amounts that collecting air carriers are entitled to retain for collecting, handling and remitting such passenger facility charge revenues.

“*Paying Agent*” or “*Paying Agents*” means, with respect to the Bonds or any Series of Bonds, the banks, trust companies or other financial institutions or other entities designated in a Supplemental Indenture or a resolution of the Department as the place where such Bonds will be payable. The Trustee will act as the Paying Agent with respect to the Series 2003B Bonds.

“*Payment Date*” means, with respect to any Bonds, each date on which interest is due and payable thereon and each date on which principal is due and payable thereon whether by maturity or redemption thereof.

“*Permitted Investments*” means, to the extent permitted to be invested by the Board by applicable law, the Charter and investment policy of the City, any of the following:

- (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 Bonds and by S&P if S&P then maintains a rating on any of the 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 Bonds and by S&P if S&P then maintains a rating on any of the 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 Bonds are then rated by Moody's and at least "A-1" or "AA" by S&P if any of the Bonds are then rated by S&P or (ii) fully secured by obligations described in item (a) or (b) of this definition of Permitted Investments (1) 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, (2) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (3) subject to a perfected first lien in favor of the Trustee, and (4) 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 Bonds and from S&P if S&P then maintains a rating on any of the Bonds and (ii) fully secured by investments specified in Section (a) or (b) of this definition of Permitted Investments (1) 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, (2) held by the Trustee (who will not be the provider of the collateral) or by any Federal Reserve Bank or a depository acceptable to the Trustee, (3) subject to a perfected first lien in favor of the Trustee and (4) 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 Bonds and at least "A-1" by S&P if S&P then maintains a rating on any of the 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 Trustee or any state or federal bank that is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Bonds and at least "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Bonds or whose one bank holding company parent is rated at least "P-1" or "Aa" by Moody's if Moody's then maintains a rating on any of the Bonds and "A-1" or "AA" by S&P if S&P then maintains a rating on any of the Bonds or that has a combined capital and surplus of not less than \$50,000,000;

(j) Investment Agreements; and

(k) Any other type of investment consistent with City policy in which the Board directs the Trustee to invest provided that there is delivered to the Trustee a certificate of an Authorized Board Representative stating that each of the rating agencies then maintaining a rating on the Bonds has been informed of the proposal to invest in such investment and each of such rating agencies has confirmed that



such investment will not adversely affect the rating then assigned by such rating agency to any of the Bonds.

*“Pledged Revenues”* means, except to the extent specifically excluded in the Master Indenture or under the terms of any Supplemental Indenture, LAX Revenues. *“Pledged Revenues”* also includes such additional revenues, if any, as are designated as *“Pledged Revenues”* under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of *“LAX Revenues”* which are restricted by their terms to purposes inconsistent with the payment of debt service on the 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 (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 Construction Fund established by any Supplemental Indenture are specifically excluded from *“Pledged Revenues,”* unless otherwise provided for in such Supplemental Indenture.

*“President”* or *“President of the Board”* means the president of the Board or such other title as the Board may from time to time assign for such position.

*“Principal Amount”* or *“principal amount”* means, as of any date of calculation, (i) with respect to any Capital Appreciation 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 Bond, the Accreted Value thereof, unless the Supplemental Indenture under which such Bond was issued will specify a different amount, in which case, the terms of the Supplemental Indenture will control, and (iii) with respect to any other Bonds, the principal amount of such Bond payable at maturity.

*“Program”* means a financing program, including but not limited to a Commercial Paper Program, (i) which is authorized and the terms thereof approved by a resolution adopted by the Board and the documents required under the Master Indenture have been filed with the Trustee, (ii) wherein the Board has authorized the issuance, from time to time, of notes, commercial paper or other indebtedness in an Authorized Amount, and (iii) the Authorized Amount of which has met the additional bonds test set forth in the Master Indenture and the Outstanding amount of which may vary from time to time, but not exceed the Authorized Amount.

*“Program Bonds”* means Bonds issued and Outstanding pursuant to a Program, other than Unissued Program Bonds.

*“Project”* means any and all facilities financed in whole or in part with proceeds of Bonds.

*“Qualified Self-Insurance”* has the meaning as provided for in *“THE MASTER INDENTURE—Insurance; Application of Insurance Proceeds”* below.

*“Qualified Swap”* means 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 Annual Debt Service is being made; (d) 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) which has been designated in writing to the Trustee by the Department as a Qualified Swap with respect to such Bonds; and (f) 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.

“*Qualified Swap Provider*” means 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 Debt.

“*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 Bonds and such Rating Agencies are then maintaining a rating on any of the Bonds.

“*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 Board pursuant to a Supplemental Indenture in connection with the issuance of the Bonds or any Series of Bonds for the purpose of complying with the Code and providing for the collection and holding for and payment of amounts to the United States of America.

“*Record Date*” means, with respect to any Series of Bonds, the record date as specified in the Supplemental Indenture which provides for the issuance of such Series. With respect to the Series 2003B 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.

“*Redemption Account*” or “*Redemption Accounts*” means a Redemption Account or any of the Redemption Accounts created pursuant to the Master Indenture and further described in a Supplemental Indenture.

“*Refunding Bonds*” means any Bonds issued pursuant to the Master Indenture to refund or defease all or a portion of any series of Outstanding Bonds or any Subordinated Obligation.

“*Registrar*” means, with respect to the Bonds or any Series of Bonds, the bank, trust company or other entity designated in a Supplemental Indenture or a resolution of the Department to perform the function of Registrar under the Master Indenture or any Supplemental Indenture, and which bank, trust company or other entity has accepted the position in accordance with the Master Indenture. The Trustee will act as the Registrar with respect to the Series 2003B 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 Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board’s resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SIXTH as set forth below under the heading “THE MASTER INDENTURE—Withdrawals from LAX Revenue Account,” or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that

will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SIXTH as set forth below under the heading "THE MASTER INDENTURE—Withdrawals from LAX Revenue Account," 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 the Master 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 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 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 will no longer be included in Pledged Revenues and will be excluded from the pledge and lien of the Master Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of the Master Indenture pursuant to a Supplemental Indenture.

*"Repayment Obligations"* means an obligation arising under a written agreement of the Board and a Credit Provider pursuant to which the Board agrees to reimburse the Credit Provider for amounts paid through a Credit Facility to be used to pay debt service on any Bonds or an obligation arising under a written agreement of the Board and a Liquidity Provider pursuant to which the Board agrees to reimburse the Liquidity Provider for amounts paid through a Liquidity Facility to be used to purchase Bonds.

*"Reserve Fund"* means the trust fund created pursuant to the Master Indenture and that is required to be funded for the purpose of providing additional security for the Outstanding Bonds issued pursuant to the terms of the Master Indenture and as specified in any Supplemental Indenture.

*"Reserve Requirement"* means an amount equal to the lesser of (i) Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund or a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture, (ii) ten percent of the principal amount of the Bonds that have been issued and are participating in the Reserve Fund or in a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture, less the amount of original issue discount with respect to any Bond if such original issue discount exceeded 2% on such Bond at the time of its original sale and (iii) 125% of the average Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund or a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture.

“*Reserve Fund Surety Policy*” means an insurance policy or surety bond, or a letter of credit, deposited with the Trustee for the credit of the Reserve Fund in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Reserve Fund Surety Policy will be rated in one of the two highest 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.

“*Resolution*” means Resolution No. 21990 adopted by the Board on March 18, 2003 and approved by the City Council on April 2, 2003, as amended or supplemented.

“*Responsible Officer*” means an officer or assistant officer of the Trustee assigned by the Trustee to administer the Master Indenture.

“*Serial Bonds*” means Bonds for which no sinking installment payments are provided.

“*Series*” means Bonds designated as a separate Series by a Supplemental Indenture and, with respect to a Commercial Paper Program, means the full Authorized Amount of such program, regardless of when or whether issued, unless portions thereof are, by Supplemental Indenture, designated as separate Series.

“*Series 2003B Bonds*” means the Department’s Los Angeles International Airport Revenue Refunding Bonds 2003 Series B, issued in the original aggregate principal amount of \$103,625,000.

“*Seventh Supplemental Indenture*” means the Seventh Supplemental Trust Indenture, by and between the Department and the Trustee, dated as of December 1, 2002.

“*Significant Portion*” means, any LAX Airport Facilities or portions thereof which, if such facilities had been sold or disposed of by the Department at the beginning of an annual period which includes the month of commencement of the 12-month period ending on the day of such disposition would have resulted in a reduction in Net Pledged Revenues for such annual period of more than 4% when the actual Net Pledged Revenues for such annual period are decreased by the Pledged Revenues directly attributable to such LAX Airport Facilities and increased by the expenses of the Department directly attributable to such LAX Airport Facilities. The Department will notify Moody’s, if Moody’s then maintains a rating on any of the Bonds, and S&P, if S&P then maintains a rating on any of the Bonds, prior to the selling or disposing of a Significant Portion of any LAX Airport Facilities or portions thereof.

“*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 Board.

“*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 Board Representative delivered to the Consultant preparing the certificate required under the Master Indenture prior to the issuance of any Series of Bonds, the revenues and expenses of which Project or of the alternative Projects are to be taken into account by such Consultant in preparing said certificate.

“*State*” means the State of California.

“*Subordinated Obligation*” means any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund and any Debt Service Reserve Fund. “Subordinated Obligations” are not Bonds for purposes of the Master Indenture; provided, however, that the Board may henceforth by Supplemental Indenture elect to have the provisions of the Master Indenture applicable to the Bonds apply to the Subordinated Obligations issued thereunder, except that such Subordinated Obligations will be secured on a junior

and subordinate basis to the 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 Indenture and payable on a subordinated basis from Pledged Revenues unless specifically designated by the Board as a "Subordinated Obligation" in a Supplemental Master 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. In connection with any Bonds with respect to which a Qualified Swap is in effect or proposed to be in effect, the term "Subordinated Obligation" includes any Swap Termination Payment.

"*Supplemental Indenture*" means any document supplementing or amending the Master Indenture or providing for the issuance of Bonds and entered into as provided in the Master Indenture.

"*Swap*" means any financial arrangement between the Board 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) on a Designated Debt, and payable from time to time or at a designated time or times (whether before, during or after the term of the arrangement); (b) if such amount is to be paid *before* it is deemed to have accrued, the amount paid will reflect the present value of such future amount (i.e., an upfront premium), while an amount to be paid after it is deemed to have accrued will reflect the time value of such funds; (c) payment dates and calculated accrual rates need not be the same for each payor, but to the extent payment dates coincide, the arrangement may (but need not) provide that one will pay to the other any net amount due under such arrangement.

"*Swap Provider*" means a party to a Swap with the Board.

"*Swap Termination Payment*" means an amount payable by the Board or a Qualified Swap Provider, in accordance with a Qualified Swap, to compensate the other party to the Qualified Swap for any losses and costs that such other party may incur as a result of an event of default or the early termination of the obligations, in whole or in part, of the parties under such Qualified Swap.

"*Synthetic Fixed Rate Debt*" means indebtedness issued by the Board which: (i) is combined, as Designated Debt, with a Qualified Swap and creates, in the opinion of a Consultant, a substantially fixed-rate maturity or maturities for a term not exceeding such maturity or maturities, or (ii) consisting of an arrangement in which two inversely related variable-rate securities are issued in equal principal amounts with interest based on off-setting indices resulting in a combined payment which is economically equivalent to a fixed rate.

"*Tax Compliance Certificate*" means the certificate or the agreement of the Board prepared by Bond Counsel and delivered by the Board at the time of issuance and delivery of any Series of Bonds, 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 Board as to the status of such Bonds under the Code.

"*Tender Indebtedness*" means any Bonds or portions of Bonds a feature of which is an obligation on the part of the Bondholders, under the terms of such Bonds, to tender all or a portion of such Bonds to the Board, the Trustee, the Paying Agent or other fiduciary or agent or Credit Provider for payment or purchase and requiring that such Bonds or portions of Bonds be purchased if properly presented.

"*Term Bonds*" means Bonds of a series which are payable on or before their specified maturity dates from sinking installment payments established pursuant to the Supplemental Indenture for such series for that purpose and calculated to retire the Bonds on or before their specified maturity dates.

"*2002 Series A Bonds*" means the Department's Los Angeles International Airport Revenue Bonds 2002 Series A, issued in the original aggregate principal amount of \$32,450,000.

“*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 set forth below under the heading “THE MASTER 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.

“*Trustee*” means BNY Western Trust Company until a successor replaces it and, thereafter, means such successor.

“*Unissued Program Bonds*” means the bonds, notes or other indebtedness authorized to be issued pursuant to a Program and payable from 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 documents required under the Master Indenture have been filed with the Trustee but which have not yet been authenticated and delivered pursuant to the Program documents.

“*United States Bankruptcy Code*” means Title 11 U.S.C., Section 101 et seq., as amended or supplemented from time to time, or any successor federal act.

“*United States Obligations*” means direct and general obligations of the United States of America, or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including, with respect only to direct and general obligations and not to guaranteed obligations, evidences of ownership of proportionate interests in future interest and/or principal payments of such obligations, provided that investments in such proportionate interests must be limited to circumstances wherein: (a) a bank or trust company acts as custodian and holds the underlying United States Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States Obligations; and (c) the underlying United States Obligations are held in a special account separate from the custodian’s general assets and are not available to satisfy any claim of the custodian, any person claiming through the custodian or any person to whom the custodian may be obligated. “United States Obligations” will include any stripped interest or principal portion of United States Treasury securities and any stripped interest portion of Resolution Funding Corporation securities.

“*Variable Rate Indebtedness*” means any Bond or Bonds the interest rate on which is not, at the time in question, fixed to maturity, excluding any commercial paper program.

## THE MASTER INDENTURE

In addition to certain information contained under the captions “DESCRIPTION OF THE SERIES 2003B BONDS,” “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS” and “OUTSTANDING OBLIGATIONS AND DEBT SERVICE SCHEDULE” in this Official Statement, the following is a summary of certain provisions of the Master 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 Indenture.

### **Grant to Secure the Bonds; Pledge of Pledged Revenues**

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 in the Master Indenture or contained in the Bonds, the Board has pledged and assigned to the Trustee and granted to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that, 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 Trustee under the Master 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 defined in the Master Indenture, 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) above (except to the extent excluded from the definition of "Pledged Revenues" by the Master 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 under the Master Indenture, 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, will, with respect to the security provided by the Master Indenture, 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, will not be included as security for all Bonds under the Master Indenture and moneys and securities held in trust 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 in full will be held solely for the payment of such specific Bonds.

### **Additional Bonds**

Subject to the provisions under subsection (a) or (b) of the last paragraph of this section and excepting the Initial Bonds, as a condition to the issuance of any Series of Bonds, there will first be delivered to the Trustee either:

(a) a certificate prepared by an Authorized Board Representative showing the Net Pledged Revenues for any 12 consecutive months out of the most recent 18 consecutive months 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 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, 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 Bonds or the establishment of a Program were at least equal to 125% of 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 Board Representative, the Consultant estimates that the Board will be in compliance with the rate covenant under the Master Indenture; 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 Board Representative, will be at least equal to 125% of Maximum Aggregate Annual Debt Service calculated as if the proposed Series of Bonds and the full Authorized Amount of such proposed Program Bonds (if applicable) were then Outstanding.

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

For purposes of subparagraph (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 from 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 Consultants will use such assumptions as the Consultant believes to be reasonable, taking into account: (i) historical LAX Maintenance and Operation Expenses, (ii) LAX Maintenance and Operation Expenses associated with the Specified LAX Projects and any other new LAX Airport Facilities, and (iii) such other factors, including inflation and changing operations or policies of the Board, as the Consultant believes to be appropriate. The Consultant will include in the certificate or in a separate accompanying report or description of the assumptions used and the calculations made in determining the estimated Net Pledged Revenues and will also set forth the calculation of Maximum Aggregate Annual Debt Service, which calculations may be based upon information provided by another Consultant.

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

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

(a) if 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 Aggregate Annual Debt Service after the issuance of such Refunding Bonds will not exceed Maximum Aggregate Annual Debt Service prior to the issuance of such Refunding Bonds; or

(b) 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 Pledged Revenues for any 12 consecutive months out of the 18 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 will be in compliance with the rate covenant of the Master Indenture.

### **Repayment Obligations Afforded Status of Bonds**

If a Credit Provider or Liquidity Provider makes payment of principal of a Bond or advances funds to purchase or provide for the purchase of Bonds and is entitled to reimbursement thereof, pursuant to a separate written agreement with the Board, but is not reimbursed, the Board's Repayment Obligation under such written agreement may, if so provided in the written agreement, be afforded the status of a Bond issued under the Master Indenture, and, if afforded such status, the Credit Provider or Liquidity Provider will be the Bondholder and such Bond will be deemed to have been issued at the time of the original Bond for which the Credit Facility or Liquidity Facility was provided and will not be subject to the provisions of the Master Indenture; provided, however, notwithstanding the stated terms of the Repayment Obligation, the payment terms of the Bond held by the Credit Provider or Liquidity Provider under the Master Indenture will be as follows (unless otherwise provided in the Supplemental Indenture pursuant to which the Bonds are issued): 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 (a) 30 years or, if shorter, (b)(i) a term extending to the maturity date of the enhanced Bonds or (ii) if later, the final maturity of the Repayment Obligation under the written agreement, and providing substantially level Annual Debt Service payments, using the rate of interest set forth in the written repayment agreement which would apply to the Repayment Obligation as of the date such amortization schedule is fixed. The principal amortized as described in the prior sentence will bear interest in accordance with the terms of the Repayment Obligation. Any amount which comes due on the Repayment Obligation by its terms and which is in excess of the amount treated as principal of and interest on a Bond will be a Subordinated Obligation of the Board. This provision will not defeat or alter the rights of subrogation which any Credit Provider may have under law or under the terms of any Supplemental Indenture. The Trustee may conclusively rely on a written certification by the



Credit Provider or Liquidity Provider of the amount of such non-reimbursement and that such Repayment Obligation is to be afforded the status of a Bond under the Master Indenture.

#### **Withdrawals from LAX Revenue Account**

(a) Subject to the provisions of the Master Indenture, the Board 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 Board has covenanted and agreed that all LAX Revenues, when and as received by or on behalf of the Department, will be deposited by the Board in the LAX Revenue Account and will, immediately upon receipt thereof, become subject to the lien and pledge of the Master Indenture. The Board will notify the Treasurer of the pledge of, lien on, and interest in LAX Revenues granted by the Master Indenture and will instruct the Treasurer that all such LAX Revenues, will be accounted for separately and apart from all other revenues, funds, accounts or other resources of the Board or the City.

Earnings on the various funds and accounts created under any Supplemental Indenture will 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 will 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 the provisions of the Master 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 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. The Authorized Board 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 the Master Indenture.

The provisions in the Master 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 Debt Service Funds pursuant to the Master Indenture;

**SECOND** To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Master Indenture, or any Debt Service Reserve Fund created pursuant to a Supplemental 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 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 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 Board pursuant to the Master 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 Board for discretionary purposes as authorized by the Charter which include capital projects, defraying the expenses of any pension or retirement system applicable to the employees of the Department, for reimbursement to another department or office of the City on account of services rendered, or materials, supplies or equipment furnished to support purposes of the Department, for transfer to the City General Fund of money determined by the Board to be surplus, but only to the extent not inconsistent with federal or state law, regulation or contractual obligations and for any other lawful purpose of the Department, 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 Board for application for such purposes, to pay the amounts required by such subparagraphs.

Notwithstanding the provisions of the Master Indenture, nothing therein precludes the Board from making the payments described in paragraphs FIRST through SEVENTH 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 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 Board or any legal requirements otherwise applicable to the use of such moneys.

#### **Deposits and Withdrawals from the Debt Service Funds**

*Deposits into the Debt Service Funds.* So long as any of the Bonds are Outstanding, the Authorized Board Representative will deliver to the Treasurer, 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, 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, will be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date each installment of interest becomes due, (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, will be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such principal amount becomes due and (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 will be set aside in that Debt Service Fund by not later than the first Business Day of the month prior to the date such sinking installment payment becomes due. No such transfer need be made in respect of any series 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 will be transferred and paid from the LAX Revenue Account to the Debt Service

Fund established for that Series of Bonds, sums at least sufficient together with other transfers required to be made, commencing not later than the first day of the calendar month immediately succeeding the issuance of the Bonds with the first interest payment fully funded by the first Business Day prior to the date the first installment of interest is due, and commencing on the first day of the calendar month which is at least twelve months prior to the first Payment Date on which any maturing principal amount of Bonds of such Series or any sinking fund installment of Bonds is due, sums at least sufficient, together with the other transfers required to be made not later than the first date of each calendar month thereafter, to provide in said Debt Service Fund at least one month prior to the first installment of interest the full amount of such installment and at least one month prior to the first maturity the full amount of the principal amount then due. On any day on which the Trustee receives funds from the Treasurer to be used to pay principal of or interest on Bonds, the Trustee will, if the amount received is fully sufficient to pay all amounts of principal and interest then due or becoming due on the next Payment Date, deposit such amounts into the respective Debt Service Funds for the Series of 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 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 will be credited by the Treasurer 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 will 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 will 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 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 Debt Service Fund may be temporarily invested as provided in the Master Indenture, but such investment will 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 will 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 will be held by the Trustee or any agent of the Trustee, and amounts to be used to pay principal and interest on such Series, as received by the Trustee or its agent, will be deposited therein and used for such purpose. Accounts and subaccounts will be created by the Trustee or any agent of the Trustee in the various Debt Service Funds as requested in writing by the Authorized Board Representative and will be held by the Trustee or such agents as will be provided by Supplemental Indenture.

The moneys in each Debt Service Fund established for any issue or Series will be held in trust and applied as provided in the Master Indenture and in the Supplemental Indenture, and pending the application of such amounts in accordance herewith and with the provisions of such Supplemental Indenture will be subject to a lien on and security interest in favor of the holders of the Outstanding Bonds of such Series.

***Withdrawals From Debt Service Funds.*** On or before each Interest Payment Date, the Board will direct the Trustee to pay the Owners of the Bonds of a given Series from the appropriate Debt Service Fund or Debt Service Funds, an amount equal to the principal and interest becoming due on such Series of Bonds.

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in the Reserve Fund or any Debt Service Reserve Fund) to pay in full with respect to Bonds of all Series all amounts of principal and/or interest due on such date, the Trustee will allocate the total amount which is available to make payment on such day (without regard to any amounts in the Reserve Fund or any Debt Service Reserve Fund) as follows: first to the payment of past due interest on Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Bonds of each Series due on such Payment Date and, if the amount available will not be sufficient to pay in full all interest on the Bonds then due, then pro rata among the Series according to the amount of interest then due and second to the payment of principal then due on the Bonds and, if the amount available will not be sufficient to pay in full all principal on the Bonds then due, then pro rata among the Series according to the Principal Amount then due on the Bonds.

If the Reserve Fund or any Debt Service Reserve Fund has been used to make payments on the Bonds, then the Board will replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the provider thereof from Pledged Revenues; provided that (1) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable will have been paid in full as provided in the Master Indenture and (2) the required payments to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the provider thereof will be due in no less than 12 substantially equal monthly installments commencing in the month following any such withdrawal.

Notwithstanding the foregoing, the Board may, by Supplemental Indenture, provide for different provisions and timing of deposits with the Trustee and different methods of paying principal of or interest on Bonds of any Series depending upon the terms of such Series of Bonds 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 of Bonds for which such Credit Facility is provided.

If the cash amount of Pledged Revenues is 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.

#### **Payment of Principal and Interest**

Under the Master Indenture, the Board 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 Bond at the place and on the dates and in the manner stated in the Master Indenture, 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 in the Master Indenture 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 will be limited to payment from the Pledged Revenues, the funds and accounts pledged therefor in the Master Indenture and any other source which the Board may specifically provide for such purpose and no Bondholder will have any right to enforce payment from any other funds of the Board.

#### **Subordinate Obligation**

The Board may, from time to time, incur indebtedness which is subordinate to the Bonds and which indebtedness is, in the Master Indenture, referred to as Subordinated Obligations. Such indebtedness will be incurred at such times and upon such terms as the Board will determine, provided that: (a) any Supplemental Indenture authorizing the issuance of any Subordinate 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 (b) payment of principal of and interest on such Subordinated Obligations will be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish the Reserve Fund or any Debt Service Reserve Fund are then current in accordance with the Master Indenture.

## **LAX Special Facilities and LAX Special Facility Obligations**

The Board is permitted to designate new or existing LAX Airport Facilities as LAX Special Facilities. The Board may, from time to time, and subject to the terms and conditions of the Master Indenture, (a) designate a separately identifiable existing facility or planned facility as an "LAX Special Facility," (b) pursuant to an indenture other than the Master 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, (c) provide that the contractual payments derived from 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 (a) 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 (d) 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 Board 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 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 will undertake the operation of an LAX Special Facility.

No LAX Special Facility Obligations will be issued by the Board unless there will have been filed with the Trustee a certificate of an Authorized Board Representative stating that:

(a) 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 Board and all sinking fund, reserve or other payments required by the resolution authorizing the LAX Special Facility Obligations as the same become due; and

(b) 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 Board will be in compliance with the sections of the Master Indenture regarding the rate covenant, during each of the first five complete Fiscal Years immediately following the anticipated closing date of such transaction or financing; and

(c) No Event of Default then exists under the provisions of the Master Indenture.

To the extent LAX Special Facilities Revenue received by the Board during any Fiscal Year exceed the amounts required to be paid pursuant to clause (a) 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.

## **Maintenance and Operation of LAX Airport Facilities**

Subject to the transfer of any LAX Airport Facilities pursuant to the Master Indenture, the Board 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 Board 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 Master Indenture, the Board 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 Board, 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:

(a) the Board 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 Board, 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;

(b) the Board will procure and maintain reasonable fidelity insurance or bonds on the position of Chief Accountant and on any other employees of the Board who handle or are responsible for funds of the Board; and

(c) the Board will place on file with the Trustee annually within 120 days after the close of each Fiscal Year a certificate of an Authorized Board 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 Board. The Trustee may conclusively rely upon such certificate and will not be responsible for the sufficiency or adequacy of any insurance required in the Master Indenture or obtained by the Board.

*“Qualified Self Insurance”* means insurance maintained through a program of self insurance or insurance maintained with a fund, company or association in which the Board may have a material interest and of which the Board 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 Board 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 Board 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 Board 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 Board.

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 Board 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 Bonds, or (4) create an escrow fund pledged to pay specified Bonds and thereby cause such Bonds to be deemed to be paid as provided in the Master Indenture; provided, however, that the Board will first deliver to the Trustee a certificate of a Consultant showing that, after taking into account the use of the Net Proceeds for the redemption of such specified Bonds, the test set forth in the Master Indenture.

## **Transfer of LAX Airport Facilities**

The Board 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 Board retains substantial control in accordance with the terms of such transfer will not, for so long as the Board has such control, be deemed a disposition of an LAX Airport Facility or LAX Airport Facilities.

The Board 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 Board believes that such disposal will not prevent it from fulfilling its obligations under the Master Indenture; or
- (c) Prior to the disposition of such property, there is delivered to the 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 Board as evidenced by a certificate of an Authorized Board Representative, the Consultant estimates that Board will be in compliance with the rate covenant set forth in the Master 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 Board has first received a written opinion of Bond Counsel to the effect that such disposition 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 Board to be in default of any other covenant contained in the Master Indenture.

## **Investments**

Moneys held by the Trustee in the funds and accounts created under the Master Indenture and under any Supplemental Indenture will be invested and reinvested as directed by the Board, in Permitted Investments subject to the restrictions set forth in the Master Indenture and such Supplemental Indenture and subject to the investment restrictions imposed upon the Board by the Charter and the laws of the State. The Board will direct such investments by written certificate (upon which the Trustee may conclusively rely) of an Authorized Board Representative or by telephone instruction followed by prompt written confirmation by an Authorized Board Representative; in the absence of any such instructions, the Trustee will, to the extent practicable, invest in Permitted Investments set forth in clause (i) of the definition of Permitted Investments. The Trustee will not be liable for any loss resulting from following the written directions of the Board or as a result of liquidating investments to provide funds for any required payment, transfer, withdrawal or disbursement from any fund or account in which such Permitted Investment is held. The Trustee may buy or sell any Permitted Investment through its own (or any of its affiliates) investment department.

## **Defeasance**

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 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 the Master Indenture have been paid in full or are deemed to have been paid in full, and all other sums payable under the Master

Indenture 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 Pledged Revenues and the other assets pledged to secure the Bonds under the Master Indenture will thereupon cease, terminate and become void, and thereupon the Trustee will cancel, discharge and release the Master Indenture, will execute, acknowledge and deliver to the Board such instruments as will be requisite to evidence such cancellation, discharge and release and will assign and deliver to the Board any property and revenues at the time subject to the Master 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.

A Bond will be deemed to be paid 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 Bonds and the Master Indenture or (b) will have been provided for by depositing with the Trustee in trust and setting aside exclusively for such payment, (i) moneys sufficient to make such payment and/or (ii) noncallable Government Obligations, maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment. At such times as Bonds will be deemed to be paid under the Master Indenture, such Bonds will no longer be secured by or entitled to the benefits of the Master 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 Bonds. Once such deposit will have been made, the Trustee will notify all holders of the affected bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the Master 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 Indenture under which such Bonds were issued. The Board may at any time, prior to issuing such notice of redemption as may be required by the Supplemental Indenture under which such Bonds were issued, modify or otherwise change the scheduled date for the redemption or payment of any Bond deemed to be paid under the terms of the foregoing paragraph in accordance with the terms of the Bonds or the Master 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 Bond or 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 Bonds. Notwithstanding anything in the Master Indenture to the contrary, monies from the trust or escrow established for the defeasance of Bonds may be withdrawn and delivered to the Board so long as the requirements of subparagraphs (a) and (b) above are met prior to or concurrently with any such withdrawal.

### **Events of Default and Remedies**

***Events of Default.*** Each of the following events will constitute and is referred to in the Master Indenture as an "Event of Default":

- (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 will become due and payable at maturity or upon redemption;
- (b) a failure to pay any installment of interest on any of the Bonds when such interest will become due and payable;
- (c) a failure to pay the purchase price of any Bond when such purchase price will be due and payable upon an optional or mandatory tender date as provided in the Supplemental Indenture;
- (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) above) that are to be observed or performed by the Board and which are contained in the Master Indenture or a Supplemental Indenture, which failure, except for a violation of the rate covenant which will be controlled by the provisions set forth in the Master Indenture, 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 Board by the Trustee, which notice may be given at the



discretion of the Trustee and will be given at the written request of holders of 25% or more of the Principal Amount of the 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, will agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee or the Trustee and the holders of such principal amount of Bonds will 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;

(e) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, including without limitation proceedings under Chapter 9 of 11 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 Board and, if instituted against the Board, said proceedings are consented to or are not dismissed within 60 days after such institution; or

(f) the occurrence of any other Event of Default as is provided in a Supplemental Indenture.

***Remedies.***

(a) Upon the occurrence and continuance of any Event of Default, the Trustee in its discretion may, and upon the written direction of the holders of 25% or more of the Principal Amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction, will, in its own name and as the Trustee of an express trust:

(i) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders, and require the Board to carry out any agreements with or for the benefit of the Bondholders and to perform its or their duties under the Charter or any other law to which it is subject and the Master Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Master Indenture;

(ii) bring suit upon the Bonds;

(iii) commence an action or suit in equity to require the Board to account as if it were the trustee of an express trust for the Bondholders; or

(iv) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(b) The Trustee will be under no obligation to take any action with respect to any Event of Default unless the Trustee has actual knowledge of the occurrence of such Event of Default.

***Bondholders' Right To Direct Proceedings.*** Anything in the Master Indenture to the contrary notwithstanding, holders of a majority in Principal Amount of the Bonds then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under the Master Indenture to be taken in connection with the enforcement of the terms of the Master Indenture or exercising any trust or power conferred on the Trustee by the Master Indenture; provided that such direction will not be otherwise than in accordance with the provisions of the law and the Master Indenture and that there will have been provided to the Trustee security and indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred as a result thereof by the Trustee.

***Limitation on Right To Institute Proceedings.*** No 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 Indenture, or any other remedy under the Master Indenture or on such Bonds, unless such Bondholder or Bondholders previously will have given to the Trustee written notice of an Event of Default as hereinabove provided and unless also holders of 25% or more of the Principal Amount of the Bonds then Outstanding will have made written request of the Trustee

to do so, after the right to institute such suit, action or proceeding will have accrued, and will have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also will have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee will not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are thereby declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of such suit, action or proceeding; it being understood and intended that no one or more of the Bondholders will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Master Indenture, or to enforce any right under the Master Indenture or under the Bonds, except in the manner provided in the Master 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 Indenture and for the equal benefit of all Bondholders.

### **The Trustee**

**Standard of Care** If an Event of Default has occurred and is continuing, the Trustee will exercise its rights and powers and use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Trustee will perform the duties set forth in the Master Indenture and no implied duties or obligations will be read into the Master Indenture against the Trustee. Except during the continuance of an Event of Default, in the absence of any negligence on its part or any knowledge to the contrary, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Master Indenture. However, the Trustee will examine the certificates and opinions to determine whether they conform to the requirements of the Master Indenture.

The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that: (a) the Trustee will not be liable for any error of judgment made in good faith by a Responsible Officer unless the Trustee was negligent in ascertaining the pertinent facts; and (b) the Trustee will not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from Bondholders or the Board in the manner provided in the Master Indenture.

The Trustee will not, by any provision of the Master 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 Indenture, or in the exercise of any of its rights or powers, if repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

**Notice of Defaults.** If (a) an Event of Default has occurred or (b) an event has occurred which with the giving of notice and/or the lapse of time would be an Event of Default and, with respect to such events for which notice to the Board is required before such events will become Events of Default, such notice has been given, then the Trustee will promptly, after obtaining actual notice of such Event of Default or event described in (b) of the first sentence of this section, give notice thereof to each Bondholder. Except in the case of a default in payment or purchase on any Bonds, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Bondholders.

**Eligibility of Trustee.** The Master Indenture will always have a Trustee that is a trust company, banking association or a bank having the powers of a trust company and is organized and doing business under the laws of the United States or any state or the District of Columbia, is authorized to conduct trust business under the laws of the State, is subject to supervision or examination by United States, state or District of Columbia authority and has (together with its corporate parent) a combined capital and surplus of at least \$100,000,000 as set forth in its most recent published annual report of condition.

**Replacement; Successor Trustee by Merger.** The Trustee may resign by notifying the Board in writing prior to the proposed effective date of the resignation. The holders of a majority in Principal Amount of the Bonds may remove the Trustee by notifying the removed Trustee and may appoint a successor Trustee with the Board's consent. The Board may remove the Trustee, by notice in writing delivered to the Trustee at least 60 days prior to the proposed removal date; provided, however, that the Board will have no right to remove the Trustee during any

time when an Event of Default has occurred and is continuing or when an event has occurred and is continuing or condition exists which with the giving of notice or the passage of time or both would be an Event of Default.

No resignation or removal of the Trustee under this section will be effective until a new Trustee has taken office and delivered a written acceptance of its appointment to the retiring Trustee and to the Board. Immediately thereafter, the retiring Trustee will transfer all property held by it as Trustee to the successor Trustee, the resignation or removal of the retiring Trustee will then (but only then) become effective and the successor Trustee will have all the rights, powers and duties of the Trustee under the Master Indenture.

If the Trustee resigns or is removed or for any reason is unable or unwilling to perform its duties under the Master Indenture, the Board will promptly appoint a successor Trustee. If a Trustee is not performing its duties under the Master Indenture and a successor Trustee does not take office within 60 days after the retiring Trustee delivers notice of resignation or the Board delivers notice of removal, the retiring Trustee, the Board or the holders of a majority in Principal Amount of the Bonds may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, any Paying Agent or Registrar consolidates with, merges or converts into, or transfers all or substantially all its assets (or, in the case of a bank or trust company, its corporate trust assets) to, another corporation and meets the qualifications set forth in the Master Indenture, the resulting, surviving or transferee corporation without any further act will be the successor Trustee, Paying Agent or Registrar.

## **Amendments**

***Amendments Without Consent of Bondholders.*** The Board may, from time to time and at any time, without the consent of or notice to the Bondholders, execute and deliver Supplemental Indentures supplementing and/or amending the Master Indenture or any Supplemental Indenture as follows:

- (a) to provide for the issuance of a Series or multiple Series of Bonds under the provisions the Master Indenture and to set forth the terms of such Bonds and the special provisions which will apply to such Bonds;
- (b) to cure any formal defect, omission, inconsistency or ambiguity in, or answer any questions arising under, the Master Indenture or any Supplemental Indenture, provided such supplement or amendment is not materially adverse to the Bondholders;
- (c) to add to the covenants and agreements of the Board in the Master Indenture or any Supplemental Indenture other covenants and agreements, or to surrender any right or power reserved or conferred upon the Board, provided such supplement or amendment will not adversely affect the interests of the Bondholders;
- (d) to confirm, as further assurance, any interest of the Trustee in and to the 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 the Master Indenture or to otherwise add additional security for the Bondholders;
- (e) to evidence any change made in the terms of any Series of Bonds if such changes are authorized by the Supplemental Indenture at the time the Series of Bonds is issued and such change is made in accordance with the terms of such Supplemental Indenture;
- (f) to comply with the requirements of the Trust Indenture Act of 1939, as from time to time amended;
- (g) to modify, alter, amend or supplement the Master Indenture or any Supplemental Indenture in any other respect which is not materially adverse to the Bondholders;

(h) to provide for uncertificated Bonds or for the issuance of coupons and bearer Bonds or Bonds registered only as to principal;

(i) to qualify the Bonds or a Series of Bonds for a rating or ratings by Moody's and/or S&P;

(j) to accommodate the technical, operational and structural features of Bonds which are issued or are proposed to be issued or of a Program which has been authorized or is proposed to be authorized, including, but not limited to, changes needed to accommodate commercial paper, auction bonds, variable rate or adjustable rate bonds, discounted or compound interest bonds or other forms of indebtedness which the Board from time to time deems appropriate to incur;

(k) to accommodate the use of a Credit Facility or Liquidity Facility for specific Bonds or a specific Series of Bonds;

(l) to comply with the requirements of the Code as are necessary, in the opinion of Bond Counsel, to prevent the federal income taxation of the interest on the Bonds, including, without limitation, the segregation of Pledged Revenues into different funds.

Before the Board will, without Bondholder consent, execute any Supplemental Indenture, there will have been delivered to the Board and Trustee an opinion of Bond Counsel to the effect that such Supplemental Indenture is authorized or permitted by the Master 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 Board in accordance with its terms and will not cause interest on any of the 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.

***Amendments With Consent of Bondholders.*** Except for any amendments described above and any amendments affecting less than all Series of Bonds as described in the following paragraph, the holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding will have the right from time to time to consent to and approve the execution by the Board of any Supplemental Indenture deemed necessary or desirable by the Board for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in a Supplemental Indenture; provided, however, that, unless approved in writing by the holders of all the Bonds then Outstanding or unless such change affects less than all Series of Bonds and the following paragraph is applicable, nothing contained in the Master Indenture will permit, or be construed as permitting, (a) a change in the scheduled times, amounts or currency of payment of the principal of, interest on or Accreted Value of any Outstanding Bonds or (b) a reduction in the principal amount or redemption price of any Outstanding Bonds or the rate of interest thereon; and provided that nothing contained in the Master Indenture, including the paragraph below, will, unless approved in writing by the holders of all the Bonds then Outstanding, permit or be construed as permitting (c) the creation of a lien (except as expressly permitted by the Master Indenture) upon or pledge of the Pledged Revenues created by the Master Indenture, ranking prior to or on a parity with the claim created by the Master Indenture, (d) except with respect to additional security which may be provided for a particular Series of Bonds, a preference or priority of any Bond or Bonds over any other Bond or Bonds with respect to the security granted therefor under the Granting Clauses hereof, or (e) a reduction in the aggregate Principal Amount of Bonds the consent of the Bondholders of which is required for any such Supplemental Indenture.

The Board may, from time to time and at any time, execute a Supplemental Indenture which amends the provisions of an earlier Supplemental Indenture under which a Series or multiple Series of Bonds were issued. If such Supplemental Indenture is executed for one of the purposes set forth in the second preceding paragraph, no notice to or consent of the Bondholders will be required. If such Supplemental Indenture contains provisions which affect the rights and interests of less than all Series of Bonds Outstanding and the second preceding paragraph is not applicable, then the holders of not less than 51% in aggregate Principal Amount of the Bonds of all Series which are affected by such changes will have the right from time to time to consent to any Supplemental Indenture deemed necessary or desirable by the Board for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in such Supplemental Indenture and affecting only the Bonds of such Series; provided, however, that, unless approved in writing by the holders of all the Bonds of all the affected Series then Outstanding, nothing contained in the Master 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 Bonds of such Series or (ii) a reduction in the principal amount or redemption price of any Outstanding Bonds of such Series or the rate of interest thereon.

### **Rights of Credit Provider**

The Master Indenture states that if a Credit Facility is provided for a Series of Bonds or for specific Bonds, the Board may in the Supplemental Indenture under which such Bonds are issued, provide any or all of the following rights to the Credit Provider as the Board will deem to be appropriate: (a) the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings all as provided in the Master Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Bonds; (b) the right to act in place of the owners of the Bonds which are secured by the Credit Facility for purposes of removing a Trustee or appointing a Trustee under the Master Indenture; and (c) the right to consent to Supplemental Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Principal Amount of the Bonds, entered into pursuant to the provisions described under the heading "Amendments—Amendments With Consent of Bondholders" above, except with respect to any amendments described in clauses (a) through (d) of the first paragraph under the heading "Amendments—Amendments With Consent of Bondholders" above and clauses (i) and (ii) of the second paragraph under the heading "Amendments—Amendments With Consent of Bondholders" above which consent of the actual Bondholders will still be required, of the Master Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider will be deemed to be the Bondholder of such Bonds.

## **EIGHTH SUPPLEMENTAL INDENTURE**

In addition to certain information contained under the captions "DESCRIPTION OF THE SERIES 2003B BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS" above, the following is a summary of certain provisions of the Eighth Supplemental 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 Eighth Supplemental Indenture.

### **Terms of the Series 2003B Bonds**

The Eighth Supplemental Indenture sets forth the terms of the Series 2003B Bonds, most of which terms are described earlier in the Official Statement under "DESCRIPTION OF THE SERIES 2003B BONDS."

### **Establishment of Funds**

The Eighth Supplemental Indenture establishes the following funds and accounts: the Series 2003B Debt Service Fund and therein an Interest Account and a Principal Account, the Series 2003B Costs of Issuance Fund, the Series 2003B Reserve Account to be established in the Reserve Fund and the Series 2003B Rebate Fund.

The funds and accounts will be initially funded by the proceeds of the sale of the Series 2003B Bonds and from other sources as described earlier in the Official Statement under "ESTIMATED SOURCES AND USES OF FUNDS."

**Debt Service Fund.** The Trustee will deposit into the Interest Account the amount received from the sale of the Series 2003B Bonds representing accrued interest and will, thereafter, deposit into the Interest Account amounts received from the Department, as provided in the Master Indenture, to be used to pay interest on the Series 2003B Bonds. The Trustee will also deposit into the Interest Account any other amounts deposited with the 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 an Event of Default exists under the Master Indenture, in which event the earnings will be retained in such account.

The Trustee will deposit into the Principal Account amounts received from the Department to be used to pay principal of the Series 2003B Bonds at maturity. The Trustee will also deposit into the Principal Account any other amounts deposited with the Trustee for deposit into the Principal Account or transferred from other funds and accounts for deposit therein. Earnings on the Principal Account will be withdrawn and paid to the Department on the Business Day following an Interest Payment Date for deposit into the LAX Revenue Account, unless an Event of Default exists under the Master Indenture, in which event the earnings will be retained in such account.

The Trustee will deposit into the Redemption Account 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 2003B 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 Trustee by an Authorized Board Representative at the time of such deposit.

The Debt Service Fund will be invested and reinvested in Permitted Investments as directed by an Authorized Board Representative.

#### **Reserve Fund**

For a description of the Reserve Fund, reference is made to the Official Statement under the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS—Reserve Fund."

#### **Rebate Fund**

The Eighth Supplemental Indenture creates the Series 2003B Rebate Fund for the Series 2003B Bonds established for the purpose of complying with certain provisions of the Code which require that the Department pay to the United States of America the excess, if any, of the amounts earned on certain funds held by the Trustee with respect to the Series 2003B 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 2003B Bonds. Such excess is to be deposited into the Series 2003B Rebate Fund and periodically paid to the United States of America. The Series 2003B Rebate Fund while held by the Trustee is held in trust for the benefit of the United States of America and is not pledged as security for nor available to make payment on the Series 2003B Bonds.

#### **Additional Event of Default**

The occurrence of any event or failure to comply with any provision of the Tax Compliance Certificate executed by the Department at the time of issuance of the Series 2003B Bonds which results in interest on the Series 2003B Bonds being includable in gross income for federal income tax purposes is an Event of Default under the Eighth Supplemental Indenture.

## APPENDIX D

### MASTER INDENTURE AMENDMENTS

(Additions to the Master Indenture are show in bold and double underline and deletions are shown in strikethrough)

The Master Indenture Amendments may not take effect until the Master Indenture Consent Requirement is met. By the purchase and acceptance of the Series 2003B Bonds, the Owners of the Series 2003B Bonds will be deemed to have irrevocably consented to the Master Indenture Amendments. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2003B BONDS—Consent to Master Indenture Amendments.”

#### GRANTING CLAUSE

*Amend Granting Clause to read as follows:*

To secure the payment of the interest, principal and premium, if any, on the Bonds and the performance and observance by the Board of all the covenants, agreements and conditions expressed or implied herein or contained in the Bonds, the Board hereby pledges and assigns to the Trustee and grants to the Trustee a lien on and security interest in all right, title and interest of the Department in and to all of the following and provides that such lien and security interest shall be prior in right to any other pledge, lien or security interest created by the Department in the following: (a) the Pledged Revenues, (b) all moneys and securities (excluding moneys and securities on deposit in any Rebate Fund) held from time to time by the Trustee under this Indenture, moneys and securities held in the Reserve Fund or any Debt Service Reserve Fund and any Reserve Fund Surety Policy or Debt Service Reserve Fund Surety Policy, as hereinafter defined, provided at any time in satisfaction of all or a portion of the Reserve Requirement, and to the extent provided in any Supplemental Indenture moneys and securities held in any Construction Fund whether or not held by the Trustee, (c) earnings on amounts included in provisions (a) and (b) of this Granting Clause (except to the extent excluded from the definition of “Pledged Revenues” by this Indenture), and (d) any and all other funds, assets, rights, property or interests therein, of every kind or description which may from time to time hereafter, by delivery or by writing of any kind, be sold, transferred, conveyed, assigned, pledged, mortgaged, granted or delivered to or deposited with the Trustee as additional security hereunder, for the equal and proportionate benefit and security of all Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall, with respect to the security provided by this Granting Clause, be of equal rank without preference, priority or distinction as to any Bond over any other Bond or Bonds, except as to the timing of payment of the Bonds. Any security or Credit Facility provided for specific Bonds or a specific Series of Bonds may, as provided by Supplemental Indenture, secure only such specific Bonds or Series of Bonds and, therefore, shall not be included as security for all Bonds under this Indenture and moneys and securities held in trust as provided in Section 4.10 exclusively for Bonds which have become due and payable and moneys and securities which are held exclusively to pay Bonds which are deemed to have been paid under Article VII hereof shall be held solely for the payment of such specific Bonds.

#### ARTICLE I – Definitions

The following definitions are to be amended to read as follows:

(a) Subparagraph (vi) of the definition of “Aggregate Annual Debt Service”

(vi) with respect to any Program Bonds or Unissued Program Bonds (other than a Commercial Paper Program) (a) debt service on Program Bonds then Outstanding will be determined in accordance with such of the foregoing provisions of this definition as will be applicable, and (b) with respect to Unissued Program Bonds, it will be assumed that the full

principal amount of such Unissued Program Bonds will be amortized over a term certified by an Authorized Board Representative at the time the initial Program Bonds of such Program are issued to be the expected duration of such Program or, if such expectations have changed, over a term certified by an Authorized Board Representative to be the expected duration of such Program at the time of such calculation, but not to exceed 30 years from the date the initial Program Bonds of such Program are issued and it will be assumed that debt service will be paid in substantially level Annual Debt Service payments over such assumed term; the interest rate used for such computation will be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under the Master Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes;

(b) Subparagraph (x) of the definition of "Aggregate Annual Debt Service"

(x) with respect to any Commercial Paper Program which has been Implemented and not then terminated or with respect to any Commercial Paper Program then proposed to be Implemented, the principal and interest thereon shall be calculated as if the entire Authorized Amount of such Commercial Paper Program were to be amortized over a term of 30 years commencing in the year in which such Commercial Paper Program is Implemented and with substantially level Annual Debt Service payments; the interest rate used for such computation shall be that rate quoted in The Bond Buyer 25 Revenue Bond Index, or such successor or replacement index, for the last week of the month preceding the date of calculation as published by The Bond Buyer, or if that index is no longer published, another similar index selected by the Department, or if the Department fails to select a replacement index, that rate determined by a Consultant to be a reasonable market rate for fixed-rate Bonds of a corresponding term issued under this Indenture on the date of such calculation, with no credit enhancement and taking into consideration whether such Bonds bear interest which is or is not excluded from gross income for federal income tax purposes.

(c) The definition of "Costs" or "Costs of a Project"

"Costs" or "Costs of a Project" shall mean all costs of planning, developing, financing, constructing, installing, equipping, furnishing, improving, acquiring, enlarging and/or renovating a Project and placing the same in service and will include, but not be limited to the following: (1) costs of real or personal property, rights, franchises, easements and other interests in property, real or personal, and the cost of demolishing or removing structures and site preparation, infrastructure development, and landscaping and acquisition of land to which structures may be removed; (2) the costs of materials and supplies, machinery, equipment, vehicles, rolling stock, furnishings, improvements and enhancements; (3) labor and related costs and the costs of services provided, including costs of consultants, advisors, architects, engineers, accountants, planners, attorneys, financial and feasibility consultants, in each case, whether an employee of the City or the Department or Independent Consultant; (4) costs of the Department properly allocated to a Project and with respect to costs of its employees or other labor costs, including the cost of medical, pension, retirement and other benefits as well as salary and wages and the allocable costs of administrative, supervisory and managerial personnel and the properly allocable cost of benefits provided for such personnel; (5) financing expenses, including costs related to issuance of and securing of Bonds, costs of Credit Facilities, Liquidity Facilities, Capitalized Interest, the Reserve Fund, ~~if any,~~ any Debt Service Reserve Fund (other than the Reserve Fund), Trustee's fees and expenses; (6) any Swap Termination Payments due in connection with a Series of Bonds or the failure to issue such Series of Bonds, and (7) such other costs and expenses that can be capitalized under generally accepted accounting principles in effect at the time the cost is incurred by the Department.



- (d) The definition of "Credit Facility"

"*Credit Facility*" shall mean a policy of municipal bond insurance, a letter of credit, surety bond, line of credit, guarantee, standby purchase agreement, Reserve Fund Surety Policy, a Debt Service Reserve Fund Surety Policy (other than the Reserve Fund Surety Policy), or other financial instrument which obligates a third party to make payment of or provide funds to the Trustee for the payment of the principal of and/or interest on Bonds whether such obligation is to pay in the first instance and seek reimbursement or to pay only if the Department fails to do so.

- (e) The definition of "Debt Service Reserve Fund"

"Debt Service Reserve Fund" shall mean any Debt Service Reserve Fund (other than the Reserve Fund) created by the Board pursuant to a Supplemental Indenture in connection with the issuance of any Series of Bonds and that is required to be funded for the purpose of providing additional security for such Series of Bonds and under certain circumstances to provide additional security for such other designated Series of Bonds issued pursuant to the terms of this Indenture and as specified in any Supplemental Indenture.

- (f) The definition of "Debt Service Reserve Fund Surety Policy"

"Debt Service Reserve Fund Surety Policy" shall mean an insurance policy or surety bond, or a letter of credit (other than a Reserve Fund Surety Policy) deposited with the Trustee for the credit of a Debt Service Reserve Fund created for one or more series of Outstanding Bonds in lieu of or partial substitution for cash or securities on deposit therein. The entity providing such Debt Service Reserve Fund Surety Policy shall be rated in one of the two highest long-term rating Categories by both Moody's if Moody's is then maintaining a rating on the Bonds and S&P if S&P is then maintaining a rating on the Bonds at the time such instrument is provided.

- (g) The definition of "Implemented"

"Implemented" shall mean, when used with respect to a Program, a Program which has been authorized and the terms thereof approved by a resolution adopted by the Board and, with respect to which Program, the items described in Section 2.09(a) through (g) have been filed with the Trustee.

- (h) The last sentence of the definition of "LAX Revenues"

"*LAX Revenues*" include all income, receipts and earnings from the investment amounts held in the LAX Revenue Account, any Construction Fund allowed to be pledged by the terms of a Supplemental Indenture, the Reserve Fund, any Debt Service Reserve Fund and allocated earnings on the Maintenance and Operation Reserve Fund.

- (i) The definition of "Pledged Revenues"

"*Pledged Revenues*" shall mean, except to the extent specifically excluded herein or under the terms of any Supplemental Indenture, LAX Revenues. "*Pledged Revenues*" shall also include such additional revenues, if any, as are designated as "*Pledged Revenues*" under the terms of any Supplemental Indenture. The following, including any investment earnings thereon, are specifically excluded from Pledged Revenues: (i) any amounts received by the Board from the imposition of ad valorem taxes, (ii) gifts, grants and other income (including any investment earnings thereon) otherwise included in the definition of "LAX Revenues" which are restricted by their terms to purposes inconsistent with the payment of debt service on the Bonds, (iii) Net Proceeds and other insurance proceeds, to the extent the use of such Net Proceeds or other

proceeds is restricted by the terms of the policy under which they are paid to a use inconsistent with the payment of debt service on the Bonds, (iv) any Transfer and (v) LAX Special Facilities Revenue. In addition, the following, including any investment earnings thereon, are specifically excluded from "Pledged Revenues," unless designated as "Pledged Revenues" under a terms of a Supplemental Indenture: (a) any Swap Termination Payments paid to the Board pursuant to a Qualified Swap, (b) Facilities Construction Credits, (c) Passenger Facility Charges unless otherwise so pledged under the terms of any Supplemental Indenture (provided that only Passenger Facility Charges in respect of LAX may be so pledged), and (d) unless otherwise so pledged, all revenues of the Airport System not related to Los Angeles International Airport and (e) Released LAX Revenues. Further, interest earnings or other investment earnings on any Construction Fund established by any Supplemental Indenture are specifically excluded from "Pledged Revenues," unless otherwise provided for in such Supplemental Indenture."

(j) The definition of "Released Revenues"

"Released LAX Revenues" shall mean LAX Revenues in respect of which the following have been filed with the Trustee:

(a) a resolution of the Board describing a specific identifiable portion of LAX Revenues and approving that such LAX Revenues be excluded from the term Pledged Revenues;

(b) either (i) a certificate prepared by an Authorized Board Representative showing that Net Pledged Revenues for each of the two most recent completed Fiscal Years, after the specific identifiable portion of LAX Revenues covered by the Board's resolution described in (a) above are excluded, were at least equal to the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SIXTH of Section 4.04 hereof, or (B) an amount not less than 150% of average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues; or (ii) a certificate prepared by a Consultant showing that the estimated Net Pledged Revenues (excluding the specific identifiable portion of LAX Revenues covered in the resolution adopted by the Board described in (a) above) for each of the first three complete Fiscal Years immediately following the Fiscal Year in which the resolution described in (a) above is adopted by the Board, will not be less than the larger of (A) the amounts needed for making the required deposits and payments pursuant to paragraphs FIRST through SIXTH of Section 4.04 hereof, or (B) an amount not less than 150% of the average Aggregate Annual Debt Service for each Fiscal Year during the remaining term of all Bonds that will remain Outstanding after the exclusion of such specific identifiable portion of LAX Revenues;

(c) an opinion of Bond Counsel to the effect that the exclusion of such specific identifiable portion of revenues from the definition of LAX Revenues and from the pledge and lien of this Indenture will not, in and of itself, cause the interest on any Outstanding Bonds to be included in gross income for purposes of federal income tax; and

(d) written confirmation from each of the Rating Agencies to the effect that the exclusion of such specific identifiable portion of revenues from the pledge and lien of this Indenture will not cause a withdrawal or reduction in any unenhanced rating then assigned to the Bonds.

For purposes of subparagraph (b) above, no Transfer shall be taken into account in the computation of Pledged Revenues.

Upon filing of such documents, the specific identifiable portion of LAX Revenues described in the resolution of the Board shall no longer be included in Pledged Revenues and shall be excluded from the pledge and lien of this Indenture, unless otherwise included in Pledged Revenues and in the pledge and lien of this Indenture pursuant to a Supplemental Indenture.

(k) The definition of "Reserve Requirement"

*"Reserve Requirement"* shall mean an amount equal to the lesser of (i) Maximum Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund or a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture, (ii) ten percent of the principal amount of the Bonds that have been issued and are participating in the Reserve Fund or in a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture, less the amount of original issue discount with respect to any Bond if such original issue discount exceeded 2% on such Bond at the time of its original sale and (iii) 125% of the average Aggregate Annual Debt Service For Reserve Requirement for all Series of Bonds participating in the Reserve Fund or a separately created Debt Service Reserve Fund created pursuant to a Supplemental Indenture.

(l) The first sentence of the definition of "Subordinated Obligation"

*"Subordinated Obligation"* shall mean any bond, note or other debt instrument issued or otherwise entered into by the Board which ranks junior and subordinate to the Bonds and which may be paid from moneys constituting Pledged Revenues only if all amounts of principal and interest which have become due and payable on the Bonds whether by maturity, redemption or acceleration have been paid in full and the Board is current on all payments, if any, required to be made to replenish the Reserve Fund and any Debt Service Reserve Fund.

(m) The definition of "Transfer"

"Transfer" shall mean for any Fiscal Year the amount of unencumbered funds on deposit or anticipated to be on deposit, as the case may be, on the first day of such Fiscal Year in the LAX Revenue Account (after all deposits and payments required by paragraphs FIRST through SEVENTH of Section 4.04 hereof have been made as of the last day of the immediately preceding Fiscal Year).

## OTHER PROVISIONS

*Amend Section 2.11 by adding the following sentence immediately after subparagraph (3) of Section 2.11(b):*

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

*Amend second paragraph of Section 4.04(a) to read as follows:*

Earnings on the various funds and accounts created under any Supplemental Indenture shall be deposited as provided in such Supplemental Indenture, except that (i) during the continuation of an Event of Default earnings on such funds and accounts shall be deposited into the Debt Service Funds created under the respective Supplemental Indentures, (ii) earnings on the Construction Funds may, if so provided by Supplemental Indenture, be retained in such Construction Fund, ~~and~~ (iii) pursuant to Section 4.07(d) of this Indenture, earnings on the Reserve Fund may be retained in such fund under the conditions therein described, and (iv) earnings on

any Debt Service Reserve Fund may, if so provided by Supplemental Indenture, be retained in such fund.

*Amend paragraph SECOND of Section 4.04(b) to read as follows:*

SECOND To the payment of amounts required to be deposited in the Reserve Fund, pursuant to Section 4.07 or any Debt Service Reserve Fund created pursuant to a Supplemental Indenture;

*Amend paragraphs seven and eight of Section 4.06 to read as follows:*

If, on any Payment Date, the Trustee does not have sufficient amounts in the Debt Service Funds (without regard to any amounts which may be available in the Reserve Fund or any Debt Service Reserve Fund) to pay in full with respect to Bonds of all Series all amounts of principal and/or interest due on such date, the Trustee shall allocate the total amount which is available to make payment on such day (without regard to any amounts in the Reserve Fund or any Debt Service Reserve Fund) as follows: first to the payment of past due interest on Bonds of any Series, in the order in which such interest came due, then to the payment of past due principal on Bonds of any Series, in the order in which such principal came due, then to the payment of interest then due and payable on the Bonds of each Series due on such Payment Date and, if the amount available shall not be sufficient to pay in full all interest on the Bonds then due, then *pro rata* among the Series according to the amount of interest then due and second to the payment of principal then due on the Bonds and, if the amount available shall not be sufficient to pay in full all principal on the Bonds then due, then *pro rata* among the Series according to the Principal Amount then due on the Bonds.

If the Reserve Fund or any Debt Service Reserve Fund has been used to make payments on the Bonds, then the Board shall replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the provider thereof from Pledged Revenues; provided that (1) no amount from Pledged Revenues may be used for such purpose until all payments of principal of and interest on all Bonds which have become due and payable shall have been paid in full as provided herein and (2) the required payments to replenish the Reserve Fund or any Debt Service Reserve Fund or reimburse the provider thereof shall be due in no less than 12 substantially equal monthly installments commencing in the month following any such withdrawal.

*Amend Section 4.09 to read as follows:*

Section 4.09. Construction Fund. Each Construction Fund established to pay the Costs of a Project may be held either by the Board in the City Treasury or by the Trustee or any agent of the Trustee or in part by the Board in the City Treasury and in part by the Trustee or any agent of the Trustee, all as provided by this Indenture, a Supplemental Indenture or Supplemental Indentures. All moneys in each Construction Fund shall be held and disbursed as provided in the Supplemental Indenture or Supplemental Indentures under which such fund or funds are created. Notwithstanding this provision, no Construction Fund shall be required for a given Series of Bonds if all of the proceeds thereof (except those deposited into the Reserve Fund, a Debt Service Reserve Fund or a Debt Service Fund) are spent at the time of issuance of such Series or are used to refund Bonds or otherwise the Board determines that there is no need to create a Construction Fund for such Series.

*Amend Section 4.13 to read as follows:*

Section 4.13. Creation of Debt Service Reserve Fund: Additional Funds and Accounts. Notwithstanding Section 4.07 hereof, instead of making or causing a deposit to be made to the Reserve Fund, the Board may, at the time of issuance of any Series of Bonds, except for such Series of Bonds designated as Variable Rate Indebtedness, provide by Supplemental Indenture for the creation of a Debt Service Reserve Fund as security for such Series, and in

its discretion reserving the right to allow a future Series of Bonds to participate in such Debt Service Reserve Fund, or provide that such Series of Bonds participate in a Debt Service Reserve Fund previously created for an Outstanding Series of Bonds. Any Debt Service Reserve Fund established under a Supplemental Indenture shall be funded in an amount equal to the Reserve Requirement. The Board shall, by such Supplemental Indenture, provide for the manner of funding and replenishing of such Debt Service Reserve Fund and shall establish such other terms with respect to such Debt Service Reserve Fund as the Board may deem to be appropriate, including providing a Credit Facility in lieu thereof. In addition, the Board may, by Supplemental Indenture, create additional funds and accounts for such purposes as the Board deems appropriate, including separate funds available only for specified Bonds or Series of Bonds. ~~The Board may, in its discretion, create additional funds and accounts for a particular Series of Bonds pursuant to the terms of a Supplemental Indenture.~~

*Amend Section 5.04(b) to read as follows:*

(b) The Board further agrees that it will establish, fix, prescribe and collect tolls, fees, rentals and charges in connection with Los Angeles International Airport and for services rendered in connection therewith, so that during each Fiscal Year the Net Pledged Revenues, together with any Transfer, will be equal to at least 125% of Aggregate Annual Debt Service on the Outstanding Bonds. For purposes of this subsection (b), the amount of any Transfer taken into account shall not exceed 25% of Aggregate Annual Debt Service on the Outstanding Bonds in such Fiscal Year.

*Amend Paragraph (2) of Section 5.06 to read as follows:*

(2) Payment of principal of and interest on such Subordinated Obligations shall be permitted, provided that all deposits required to be made to the Trustee to be used to pay debt service on the Bonds or to replenish the Reserve Fund or a Debt Service Reserve Fund are then current in accordance with Section 4.04 of this Indenture.

*Amend Article XI to read as follows:*

If a Credit Facility is provided for a Series of Bonds or for specific Bonds, the Board may in the Supplemental Indenture under which such Bonds are issued, provide any or all of the following rights to the Credit Provider as the Board shall deem to be appropriate:

(1) the right to make requests of, direct or consent to the actions of the Trustee or to otherwise direct proceedings all as provided in Article VII of this Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider shall be deemed to be the Bondholder of such Bonds; ~~and~~

(2) the right to act in place of the owners of the Bonds which are secured by the Credit Facility for purposes of removing a Trustee or appointing a Trustee under Article IX hereof; and

(3) the right to consent to Supplemental Indentures, which would otherwise require the consent of the holders of not less than 51% of the aggregate Principal Amount of the Bonds, entered into pursuant to Section 10.03, except with respect to any amendments described in Sections 10.03(a)(i) through (iv) and 10.03(b)(i) or (ii) which consent of the actual Bondholders shall still be required, of this Indenture to the same extent and in place of the owners of the Bonds which are secured by the Credit Facility and for such purposes the Credit Provider shall be deemed to be the Bondholder of such Bonds.

The rights granted to any such Credit Provider, with respect to the provisions of Articles VIII and IX hereof shall be disregarded and be of no effect if the Credit Provider is in default of its payment obligations under its Credit Facility.

## APPENDIX E

### PROPOSED FORM OF CO-BOND COUNSEL OPINION

[Closing Date]

Department of Airports of  
the City of Los Angeles  
Los Angeles, California

**\$103,625,000**  
**Department of Airports**  
**of the City of Los Angeles, California**  
**Los Angeles International Airport**  
**Refunding Revenue Bonds**  
**2003 Series B**

Ladies and Gentlemen:

We have acted as Co-Bond Counsel in connection with the issuance and sale by the Department of Airports of the City of Los Angeles, California (the "Department") acting through the Board of Airport Commissioners (the "Board") of \$103,625,000 aggregate principal amount of its Los Angeles International Airport Refunding Revenue Bonds, 2003 Series B (the "Series 2003B Bonds"). The proceeds of the Series 2003B Bonds are being used to (a) advance refund \$81,825,000 aggregate principal amount of the Department's outstanding Los Angeles International Airport Refunding Revenue Bonds 1995 Series A (the "Refunded Series 1995A Bonds"), (b) advance refund \$27,550,000 aggregate principal amount of the Department's outstanding Los Angeles International Airport Revenue Bonds 1995 Series D (the "Refunded Series 1995D Bonds" and together with the Refunded Series 1995A Bonds, the "Refunded Bonds") and (c) finance certain costs of issuance all as described in the hereinafter defined Eighth Supplemental Indenture.

The Series 2003B Bonds are being issued under the terms of the Charter of the City of Los Angeles, relevant ordinances of the City of Los Angeles, and Sections 11.28.1 et seq. of the Los Angeles Administrative Code (collectively, the "Charter"), a Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented (the "Master Indenture"), by and between the Department, acting through the Board, and BNY Western Trust Company, as successor to U.S. Trust Company of California, N.A., as trustee (the "Trustee"), and an Eighth Supplemental Trust Indenture, dated as of May 1, 2003 (the "Eighth Supplemental Indenture"), by and between the Department and the Trustee. Issuance of the Series 2003B Bonds has been authorized by Resolution No. 21990 adopted by the Board on March 18, 2003 and approved by the City Council on April 2, 2003 (the "Resolution").

The Series 2003B Bonds are revenue obligations of the Department payable from the Pledged Revenues, as defined in the Master Indenture. Neither the faith and credit nor the taxing power of the City of Los Angeles (the "City"), the State of California or any public agency, other than the Department to the extent of the Pledged Revenues, is pledged to the payment of the principal of, premium, if any, or interest on the Series 2003B Bonds. The Department has no power of taxation.

In connection with the issuance of the Series 2003B Bonds, we have examined the following:

- (a) a copy of the Charter;
- (b) a certified copy of the Resolution;
- (c) an executed counterpart of the Master Indenture;

- (d) an executed counterpart of the Eighth Supplemental Indenture;
- (e) certifications of the Department and others;
- (f) an executed counterpart of a Tax Compliance Certificate dated this date relating to the Series 2003B Bonds and other matters (the "Tax Certificate");
- (g) an opinion of the City Attorney with respect to the Department; 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, duly organized and operating pursuant to the Charter and has the power to execute the Master Indenture and the Eighth Supplemental Indenture and to issue the Series 2003B Bonds.

2. The Master Indenture and the Eighth Supplemental Indenture have been duly authorized, executed and delivered by the Department and, assuming due authorization, execution and delivery by the Trustee, represent valid and binding agreements of the Department and the Trustee enforceable in accordance with their terms.

3. The Series 2003B Bonds have been validly authorized, executed and issued in accordance with the Charter, the Resolution, the Master Indenture and the Eighth Supplemental Indenture and represent valid and binding limited obligations of the Department. The principal of, premium, if any, and interest on the Series 2003B Bonds shall be payable solely from and are secured by an assignment and pledge by the Department to the Trustee of the Pledged Revenues as defined in the Master Indenture and certain funds and accounts created under the Master Indenture and the Eighth Supplemental Indenture, and not out of any other fund or moneys of the Department or the City.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2003B Bonds (including original issue discount treated as interest, if any) is excluded from gross income for federal income tax purposes. Interest on the Series 2003B Bonds (including original issue discount treated as interest, if any) is not a specific preference item for purposes of the alternative minimum tax imposed on individuals and corporations, however, such interest is included in the alternative minimum taxable income of certain corporations which must be increased by 75% of the excess of the adjusted current earnings of such corporation over the alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses) of such corporations.

5. The opinions set forth in the first sentence of paragraph 4 regarding the exclusion of interest from gross income of the recipient is subject to continuing compliance by the Department with covenants regarding federal tax law contained in the Master Indenture, the Eighth Supplemental Indenture and the Tax Certificate. Failure to comply with such covenants could cause interest on the Series 2003B Bonds to be included in gross income retroactive to the date of issue of the Series 2003B Bonds. Although we are of the opinion that interest on the Series 2003B Bonds is excluded from gross income for federal tax purposes, the accrual or receipt of interest on the Series 2003B Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

6. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 2003B Bonds, including any original issue discount properly allocable to an owner of the Series 2003B Bonds, is exempt from present State of California personal income tax.

The obligations of the Department and the security provided therefor, as contained in the Series 2003B Bonds, the Master Indenture and the Seventh Supplemental Indenture, may be subject to general principles of equity which permit the exercise of judicial discretion, and are subject to the provisions of applicable bankruptcy,



insolvency, reorganization, arrangement, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect and to the limitations on legal remedies against cities in the State of California. Our engagement with respect to the Series 2003B Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

Very truly yours,

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## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

#### Introduction

*Unless otherwise noted, the information contained under the subcaption “– General” below has been provided by DTC. Neither the City nor the Department make any representations as to the accuracy or the completeness of such information. The beneficial owners of the Series 2003B Bonds should confirm the following information with DTC, the Direct Participants or the Indirect Participants.*

NEITHER THE CITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (B) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2003B BONDS UNDER THE INDENTURE, (C) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2003B 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 2003B BONDS; (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNERS OF SERIES 2003B BONDS; OR (F) ANY OTHER MATTER REGARDING DTC.

#### General

DTC will act as securities depository for the Series 2003B Bonds. The Series 2003B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2003B Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC or held by the Trustee.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of Series 2003B Bonds certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The Department undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on DTC’s website as described in the

preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2003B Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2003B 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 2003B 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 2003B Bonds, except in the event that use of the book-entry system for the Series 2003B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2003B 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 Series 2003B 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 2003B Bonds DTC records reflect only the identity of the Direct Participants to whose accounts such Series 2003B 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 2003B Bonds are in the book-entry-only system, redemption notices shall be sent to DTC. If less than all of the Series 2003B Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2003B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2003B 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 2003B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Series 2003B 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 2003B 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 2003B Bonds at any time by giving reasonable notice to the Department or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bond certificates are required to be printed and delivered. The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor Bonds depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

#### **No Assurance Regarding DTC Practices**

The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Department believes to be reliable, but the Department takes no responsibility for the accuracy thereof.

AS LONG AS CEDE & CO. OR ITS SUCCESSOR IS THE REGISTERED HOLDER OF THE SERIES 2003B BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE REGISTERED HOLDERS OF THE SERIES 2003B BONDS SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2003B BONDS. Each person for whom a Participant acquires an interest in the Series 2003B Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all communications to DTC, which may affect such person, forwarded in writing by such Participant and to receive notification of all interest payments.

THE DEPARTMENT WILL HAVE NO RESPONSIBILITY OR OBLIGATION WITH RESPECT TO THE PAYMENTS TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS, OR THE PROVISION OF NOTICE TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE SERIES 2003B BONDS. NO ASSURANCE CAN BE GIVEN BY THE DEPARTMENT THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS, THAT THEY WILL DISTRIBUTE NOTICES RECEIVED AS THE REGISTERED OWNER OF THE SERIES 2003B BONDS TO THE BENEFICIAL OWNERS, THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

In the event the Department determines not to continue the book-entry system or DTC determines to discontinue its services with respect to the Series 2003B Bonds and the Department does not select another qualified depository, the Department shall deliver one or more Series 2003B 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 2003B Bonds will be governed by the provisions of the Indenture.

#### **Risks of Book-Entry System**

The Department makes no assurance, and the Department shall incur no liability, regarding the fulfillment by DTC of its obligations under the book-entry system with respect to the Series 2003B Bonds.

In addition, Beneficial Owners of the Series 2003B Bonds may experience some delay in their receipt of distributions of principal of, premium, if any, and interest on, the Series 2003B 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 2003B Bonds can be effected only through DTC, Direct Participants, Indirect Participants and certain banks, the ability of a Beneficial Owner to pledge Series 2003B Bonds to persons or entities that do not participate in the DTC system, or otherwise to take actions in respect of such Series 2003B 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 2003B Bonds, and Beneficial Owners will only be permitted to exercise the rights of registered owners indirectly through DTC and its Participants.

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## APPENDIX G

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “**Certificate**”) is executed and delivered by the Department of Airports of the City of Los Angeles, California (the “**Issuer**”) acting through the Board of Airport Commissioners of the City of Los Angeles, California (the “**Board**”), in connection with the issuance by the Issuer of its \$103,625,000 Los Angeles International Airport Refunding Revenue Bonds, 2003 Series B (the “**Bonds**”), pursuant to a Master Trust Indenture, dated as of April 1, 1995, as amended and supplemented, by and between the Department, acting through the Board, and BNY Western Trust Company, as successor to U.S. Trust Company of California, N.A., as trustee (the “**Trustee**”), and an Eighth Supplemental Trust Indenture, dated as of May 1, 2003, by and between the Department, acting through the Board, and the Trustee. The Issuer covenants and agrees as follows:

Section 1. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Information” shall mean any Annual Information provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Certificate.

“Beneficial Owner” shall have the meaning set forth in Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30, or any twelve-month or fifty-two week period hereafter selected by the Issuer, with notice of such selection or change in fiscal year to be provided as set forth herein.

“GAAP” shall mean generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, as in effect from time to time in the United States.

“Holder” shall mean either the registered owners and any Beneficial Owner of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as the same may be amended from time to time.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth at: <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Depository, if any.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Depository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Depository.

Section 2. Purpose of this Certificate. This Certificate is being executed and delivered by the Issuer pursuant to the Rule for the benefit of the Holders of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

Section 3. Obligation to Provide Continuing Disclosure.

(a) The Issuer hereby undertakes, for the benefit of the Holders, to provide or cause to be provided:

(i) to each Repository no later than 180 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2003, the Annual Information relating to the prior Fiscal Year;

(ii) if not submitted as part of the Annual Information, to each Repository, audited financial statements of the Issuer for each Fiscal Year when and if they become available;

(iii) to each National Repository or to the MSRB, and to the State Depository, in a timely manner, notice of any of the following events with respect to the Bonds, if material:

(A) principal and interest payment delinquencies;

(B) non-payment related defaults;

(C) unscheduled draws on debt service reserves relating to financial difficulties;

(D) unscheduled draws on credit enhancements reflecting financial difficulties;

(E) substitution of credit or liquidity providers, or their failure to perform;

(F) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(G) modifications to the rights of security holders;

(H) Bond calls;

(I) defeasances;

(J) release, substitution or sale of property securing repayment of the Bonds; and

(K) rating changes; and

(iv) to each National Repository or to the MSRB, and to the State Depository, in a timely manner, notice of a failure to provide any Annual Information required by clause (a)(i) of this Section 3.

(b) Nothing herein shall be deemed to prevent the Issuer from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the



Issuer disseminates any such additional information, the Issuer shall have no obligation to update such information or include it in any future materials disseminated hereunder.

(c) The Annual Information may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 hereof.

Section 4. Annual Information.

(a) The required Annual Information shall contain or incorporate by reference the following, updated to incorporate information for the most recent Fiscal Year or calendar year, as applicable (the tables referred to below are those appearing in the Official Statement relating to the 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) Table 2 – Historical Debt Service Coverage for the preceding five Fiscal Years;

(iii) Table 3 – Existing Parity Bonds as of a recent date;

(iv) Table 4 – Debt Service Requirements on Bonds;

(v) Table 7 – Air Carriers Serving LAX as of the first day of the current Fiscal Year;

(vi) Table 9 – Air Traffic Data for the preceding ten Fiscal Years;

(vii) Table 10 – Historical Total Enplanements by Airline for the preceding five Fiscal Years;

(viii) Table 11 – Total Revenue Landed Weight for the preceding five Fiscal Years;

(ix) Table 12 – Cargo Traffic Data for the preceding ten Fiscal Years;

(x) Table 13 – Historical Operating Statements for the preceding five Fiscal Years;

(xi) Table 14 – Top Ten Revenue Providers (LAX) for the preceding Fiscal Year;  
and

(xii) Table 15 – Pooled Investment Fund as of the end of the preceding Fiscal Year.

(b) All or any portion of the Annual Information may be incorporated in the Annual Information by cross reference to any other documents which have been filed with (i) the Repositories, and, if the document is an official statement, the MSRB or (ii) the Securities and Exchange Commission.

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 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 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 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 Securities and Exchange Commission or its staff (whether required or optional);
- (b) to add a dissemination agent for the information required to be provided hereby and to make any necessary or desirable provisions with respect thereto;
- (c) to evidence the succession of another person to the Issuer and the assumption by any such successor of the covenants of the Issuer hereunder;
- (d) to add to the covenants of the Issuer for the benefit of the Holders, or to surrender any right or power herein conferred upon the Issuer; or
- (e) to modify the contents, presentation and format of the Annual Information from time to time as a result of a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or type of business conducted; provided that (i) the Certificate, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances; and (ii) the amendment or change does not materially impair the interests of Holders, as determined either by a party unaffiliated with the Issuer (such as Bond Counsel), or by the vote or consent of Holders of a majority in outstanding principal amount of the Bonds on or prior to the time of such amendment or change.

Section 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 Bonds shall have been paid in full or legally defeased pursuant to the Indenture. Upon any such legal defeasance, the Issuer shall provide notice of such defeasance to each Repository and the MSRB. Such notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

Section 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 May 7, 2003.

DEPARTMENT OF AIRPORTS ACTING THROUGH THE  
BOARD OF AIRPORT COMMISSIONERS OF THE CITY  
OF LOS ANGELES, CALIFORNIA

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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**APPENDIX H**

**FORM OF FINANCIAL GUARANTY INSURANCE POLICY**

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# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

\_\_\_\_\_  
President

\_\_\_\_\_  
Assistant Secretary

Attest:

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