

LOS ANGELES INTERNATIONAL AIRPORT



Los Angeles World Airports

February 27, 2014

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I. Introduction



Strong Credit Characteristics

LAX has demonstrated strong operational performance and robust financial metrics that support its “AA” ratings

LAX has maintained strong credit characteristics:

Market

LAX remains a dominant airport providing service to a vast, dynamic, and wealthy metropolitan area of more than **18 million people** (2nd largest in the nation)

Operational

- Over **32.5 million** enplanements in FY2013, 3.2% more than FY 2012, and almost 15% more than FY2009
- In the 6 months ending Dec. 31, 2013, total passenger traffic was up 5.2%, with domestic traffic up 4.9% and international traffic up 5.9%, versus the same period in 2012
- In CY2012, 76% of total enplaned passengers were O&D, with only 24% connecting to other airports
- Diverse carrier base and alliance networks with no carrier accounting for more than 20.2% of total enplaned passengers

Financial

For FY2013:

- Senior Lien Debt Service Coverage = 6.33x
- Total Debt Service Coverage = 3.02x**
- Concession Revenues were **\$304 million**, approximately 8.9% higher than FY2012
- Operating Revenues were up 5.3% to over **\$865 million**, while operating expenses grew only 1.6%

Management has completed several initiatives at LAX that are paving the way to meet future needs

LAX is well positioned for the future:

Recent Initiatives

- Implementation of a new terminal rate structure and airline agreements
- Southwest Airlines and United Airlines Leases were approved by the Board with provisions for capital investment
- Updated airport-wide concession program and new duty free merchandise concession agreement with DFS Group
- Approval of concession agreement with JCDecaux for development of indoor advertising, sponsorship and emerging media opportunities at LAX for a term through December 31, 2020, with guaranteed revenue to exceed \$180.0 million
- Settlement agreement with American Airlines resolving long-standing dispute over recovery of maintenance and operations expenses under Terminal 4 lease

Capital Development

- **The New Bradley West Terminal opened in September, 2013**
- Various improvements to Terminals 5 and 6 were completed
- The Department sold \$242 million of bonds in 2013 to help finance a connector from Terminal 4 to the Tom Bradley International Terminal, make improvements to Bradley West, and rehab Runway 7L-25R & Taxiway B East

II.

Market Overview



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LAX serves the Los Angeles Metropolitan Combined Statistical Area (CSA or Air Trade Area), a vast and dynamic market

- LAX maintains a strong and strategic position in the 2nd largest U.S. metropolitan service area
- In CY2012:
 - ▣ LAX accounted for 75.7% of all enplaned passengers in the Air Trade Area¹
 - ▣ LAX accounted for 99.7% of international enplaned passengers in the Air Trade Area¹

Ten Largest Metropolitan Regions * (CY2012)	Estimated Population
New York-Newark-Bridgeport CSA	22,297,764
Los Angeles Metropolitan Area CSA	18,273,449
Chicago-Naperville-Joliet CSA	9,683,116
Washington-Baltimore-Northern Virginia CSA	8,850,336
Boston-Worcester-Manchester CSA	7,642,502
San Jose-San Francisco-Oakland CSA	7,616,003
Dallas-Fort Worth CSA	7,040,382
Philadelphia-Camden-Vineland CSA	6,585,151
Houston-Baytown-Huntsville CSA	6,332,187
Atlanta-Sandy Springs-Gainesville CSA	5,825,794

* CSA = Combined Statistical Area.

Source: Woods & Poole Economics, Inc., 2013 Complete Economic and Demographic Data Source (CEDDS), January 2013.

Prepared by: Partners for Economic Solutions, April 2013.

Competitive advantages of the Los Angeles Air Trade Area include:

- ▣ Population size
- ▣ Cultural diversity
- ▣ Educated, high earning work force
- ▣ Diverse local economy
- ▣ High personal incomes
- ▣ Robust tourism industry

Traffic Growth



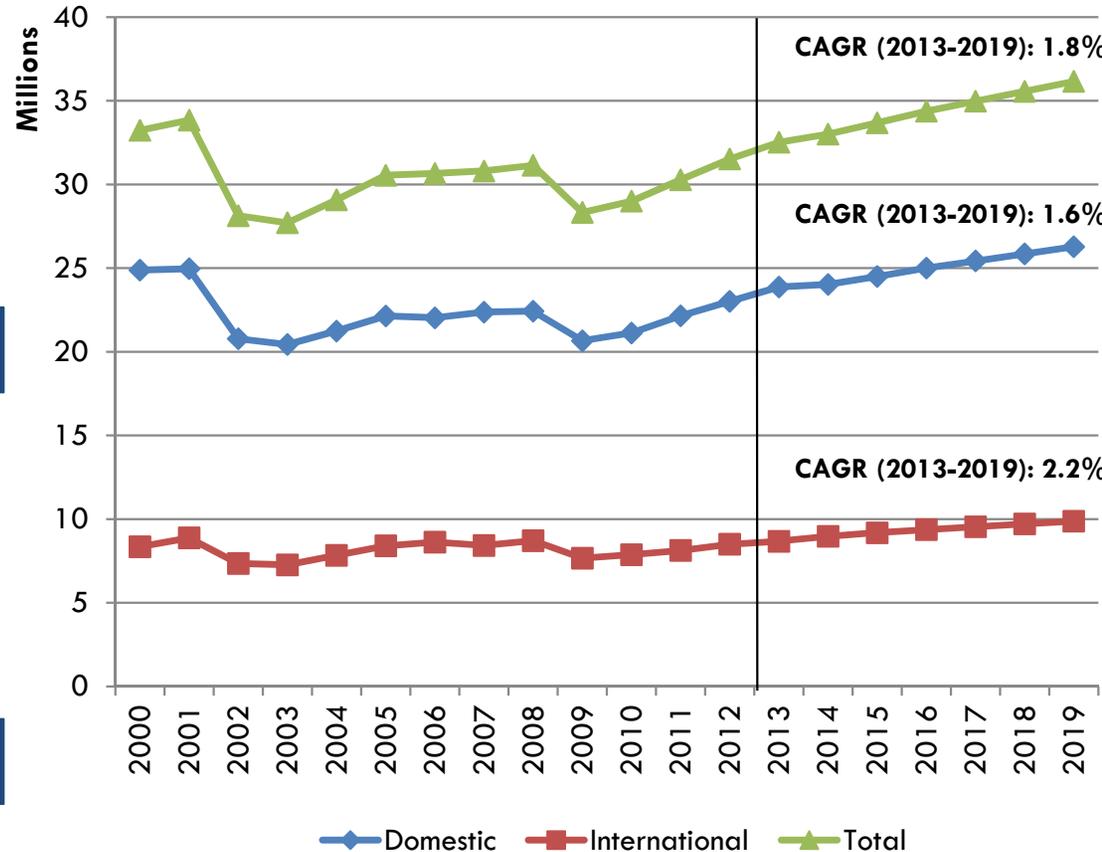
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The operational performance of LAX is robust

Total Passengers for 1st Half FY2014

Total Passengers	July 2013 to Dec. 2013	July 2012 to Dec. 2012	% Change
Domestic	25,099,801	23,925,317	4.9%
International	9,350,301	8,826,268	5.9%
Total	34,450,102	32,751,585	5.2%

Projected Total Enplaned Passengers



Enplanement Growth in FY2013

There were **32.5 million enplaned passengers (EPAX)** in FY2013, an increase of 3.2% over FY2012

- 3.7% growth in Domestic traffic and 2.1% growth in International traffic
- EPAX five-year Compound Annual Growth Rate from 2009-2013 was 3.5%

LAX is one of the busiest airports in the world

- Ranked 6th worldwide and 3rd in North America in terms of total passengers during CY2012*
- Ranked 1st nationwide in domestic O&D passengers and 3rd nationwide in international passengers during the 12 months ended June 30, 2012

Source: Department of Airports of the City of Los Angeles; U.S. DOT, Schedules T100 and 298C T1
* Airports Council International

Source: Department of Airports of the City of Los Angeles (Actual)
Ricondo & Associates, Inc. (projected), August 2013.

Diverse Carrier Mix and Distribution

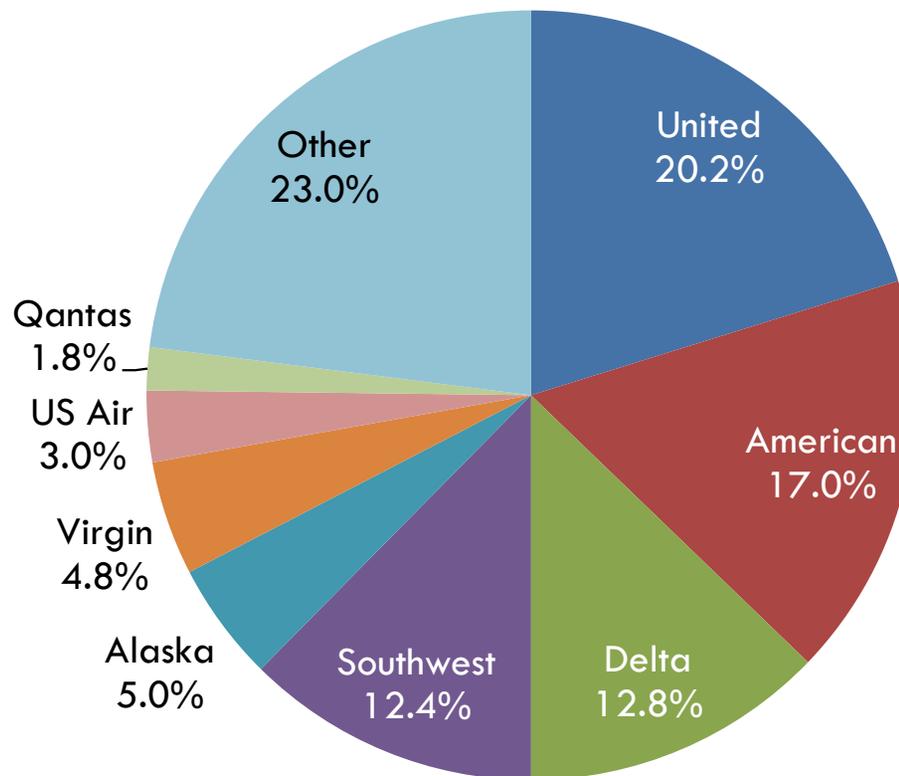


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LAX has a diverse air carrier mix serving airports throughout the U.S. and the world

- United has the largest market share at LAX with only 20.2% of total enplaned passengers

FY2013 Carrier Mix



Notes:
Reflects top eight carriers. United includes Skywest flying for United. American includes American Eagle.
All other carriers are included in the "Other" category.
Airline market shares include regional affiliates as applicable.
Source: Department of Airports of the City of Los Angeles

III.

Revenue Enhancement

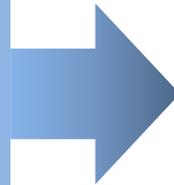


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Terminal Rate Characteristics

- ❖ Industry conventional approach
- ❖ “Self-financing” framework for capital investments
- ❖ Maximizes recovery of public space using “rentable” space methodology
- ❖ Hard coverage on debt service
- ❖ Amortized recovery of Department funds used on capital
- ❖ Uniform, equalized charging system
 - ❖ Single rate per square foot
 - ❖ Single FIS charge
 - ❖ 1 set of common use charges for all common use space



Rate Agreement Benefits

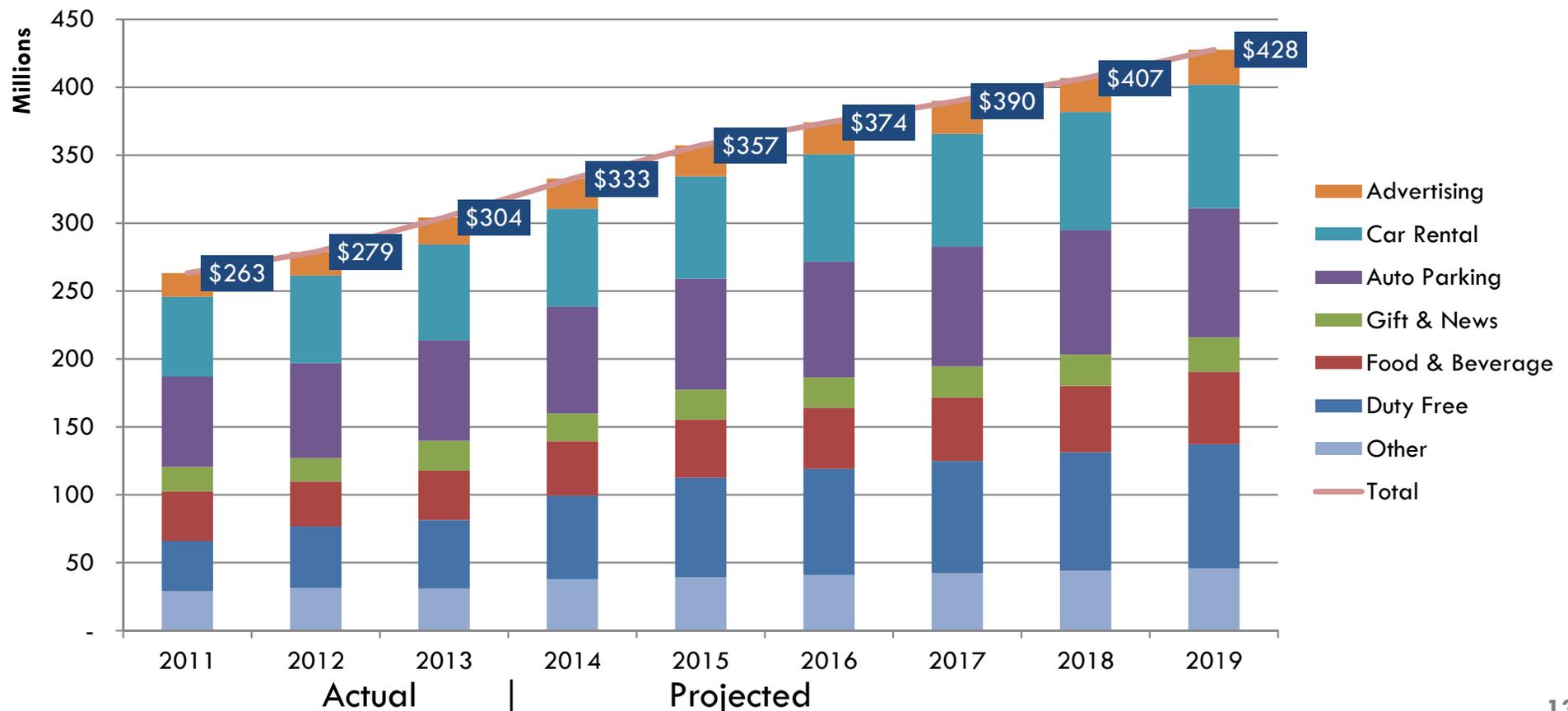
- ✓ Prevents further challenges to the method at the USDOT
- ✓ Demonstrates uncontested revenue stream to capital markets for future financings
- ✓ Economic stability and predictability for airlines and airport by requiring use of new methodology
- ✓ Rate transition program for airlines
- ✓ Opportunity to share in limited amounts of terminal concession revenue

Concession Revenues

The Concession program continues to support concession revenue growth

- Concession revenues increased \$25.4 million in FY2013 versus FY2012
- In FY2013, concession revenues accounted for approximately 35.1% of Total Pledged Revenues
- New concession agreements are expected to result in concession revenue growth through the Projection Period (FY2019)

Actual and Projected Concession Revenues



IV.

Capital Program Update



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Overview of Capital Program

LAWA has developed a strategically focused capital program to deliver world-class facilities and keep costs competitive

Capital Program Drivers

- Conform terminal complex to modern aeronautical standards
- Develop a long-term plan to improve passenger access to LAX
- Accommodate projected growth in passenger traffic

FY2013 – FY2019 Capital Program

- **Series 2013 Projects (\$480.6 million)** – funded in part with Series 2013 bond proceeds
- **Other Incorporated Projects (\$3.8 billion)** – future projects anticipated to be completed by FY2019
- **Ongoing Projects (\$3.0 billion)** - funding sources secured

Progress and Accomplishments

- Opening of Bradley West
- Completion of \$300 million of improvements to Terminals 5 and 6
- Strong airline support for Capital Program as exhibited by the signing of the Rate Agreements which include the planned terminal improvements

Cost Mitigation Strategies

- Construction phasing with specific stopping points
- Commercial paper as interim financing source
- Strategic use of PFC's

Bradley West Progress



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Bradley West (South Concourse) opened for operations on September 17, 2013

March 16, 2010



November 1, 2012



September 17, 2013



New Tom Bradley International Terminal



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New Tom Bradley International Terminal



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Westfield

New Tom Bradley International Terminal



Los Angeles World Airports



New Tom Bradley International Terminal



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Future projects will be pursued if there is demand and airline support

- **Airline Demand and Support**
 - ▣ Airline desire for terminal upgrades
 - ▣ Airline willingness to pay
- **Airport Control**
 - ▣ LAWA has gained control of the terminals to allow it to make strategic decisions regarding terminal improvements
 - ▣ LAWA has increased flexibility to manage gates
- **Future Projects will be:**
 - ▣ Need based, designed to match current and projected demand
 - ▣ Stakeholder supported, LAWA looks to pursue projects with the buy-in of various stakeholder groups

V.

Financial Results



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Actual and Projected Financial Results



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In FY2013:

- Operating Revenues increased by: 5.3%
- Operating Expenses increased by: 1.6%
- Net Operating income increased by: 14.1%

REVENUES	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2013 vs. FY2012 % Change	FY2014 Budget*
Aviation Revenue	501,236	539,909	558,544	3.5%	662,400
Concession Revenue	263,195	278,767	304,139	9.1%	332,700
Other Revenue	3,413	3,414	2,790	-18.3%	2,500
Total Operating Revenues	767,844	822,090	865,473	5.3%	997,600

EXPENSES	FY2011 Actual	FY2012 Actual	FY2013 Actual	FY2013 vs. FY2012 % Change	FY2014 Budget*
Salaries and benefits	323,522	339,551	338,004	-0.5%	370,800
Contractual services	143,684	162,071	162,661	0.4%	184,800
Administrative expense	3,197	5,895	1,126	-80.9%	4,000
Materials and supplies	32,699	35,986	47,908	33.1%	47,600
Utilities	29,606	30,664	32,472	5.9%	34,500
Advertising and public relations	6,219	3,186	3,421	7.4%	5,000
Other operating expenses	12,296	12,942	13,152	1.6%	18,000
Allocated administrative charges	(9,995)	(10,135)	(9,314)	-8.1%	(9,900)
Total Operating Expenses	541,228	580,160	589,430	1.6%	654,800

NET OPERATING INCOME	226,616	241,930	276,043	14.1%	342,800
Before Depreciation and Amortization					

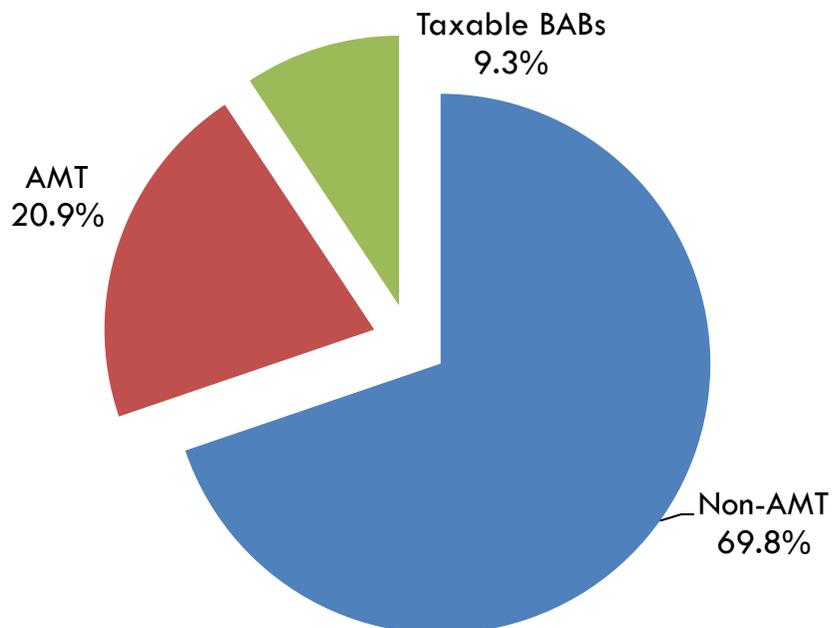
Amounts in thousands, rounded to nearest \$100,000; FY2013 Allocated administrative charges is estimated

\$3.9 billion of LAX long-term bonds are outstanding¹

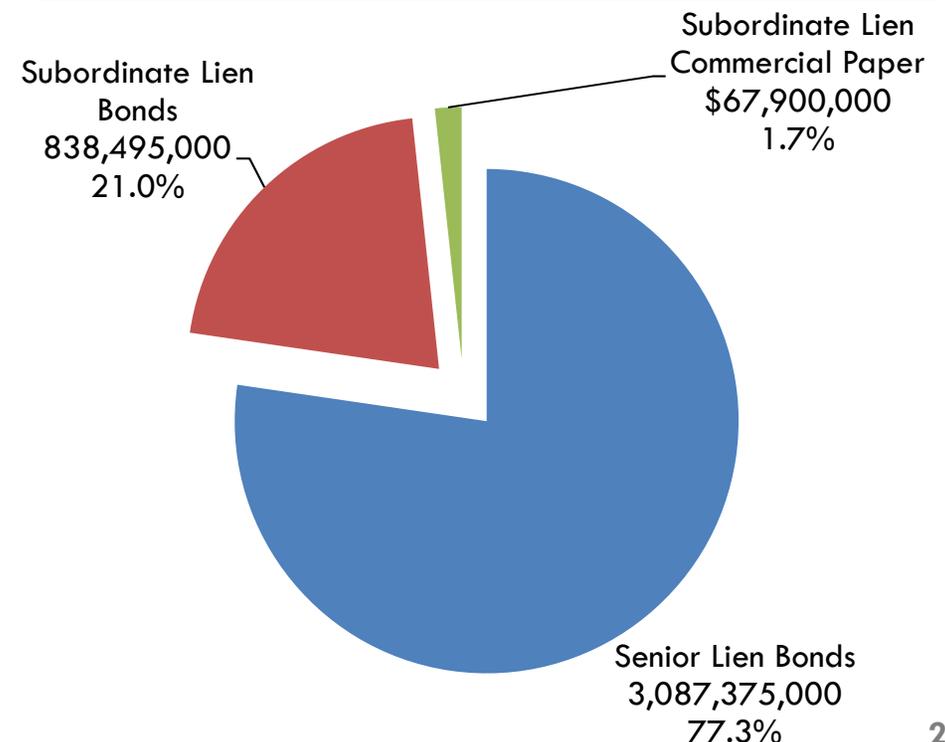
- LAX's outstanding long-term debt is 100% fixed-rate
- The final maturity of LAX debt is 2043
- The average life of the bonds is 16.1 years

Current Ratings			
	S&P	Moody's	Fitch
Senior Lien	AA	Aa3	AA
Subordinate Lien	AA-	A1	AA-

Tax Status Breakdown



Lien Breakdown²



¹ Estimate as of February 1, 2014

² Outstanding Commercial Paper as of February 1, 2014



Liquidity and Reserves have remained robust, even during the capital plan

- LAX's \$350.0 million Commercial Paper Program has a remaining capacity of \$282.1 million with only \$67.9 million drawn down ¹

- LAX had approximately \$723.5 million in PFC funds on hand at the end of FY2013

- Healthy Unrestricted Cash Position

- Debt Service Reserve Funds totaling approximately \$282.67 million are fully cash funded ²

¹ Commercial Paper outstanding as of February 1, 2014

² Debt Service Reserve Fund balances as of November 1, 2013

Source: Department of Airports of the City of Los Angeles

Debt Service Coverage



Debt service coverage is projected to remain strong

- While net debt service is anticipated to increase over the forecast period, total debt service coverage is projected to remain strong, well in excess of 2.00x in each year
- Projected Senior Bond debt service coverage ratio and the Subordinate Bond debt service coverage ratio are projected to exceed the 1.25 and 1.15 coverage ratio requirements, respectively, over the forecast period

Debt Service Coverage									
	Actual			Projected					
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Net Pledged Revenues (\$000s)	256,273	277,237	288,143	391,730	498,954	554,103	616,916	660,226	713,239
Senior Lien Net Debt Service* (\$000s)	60,095	60,577	45,486	59,908	131,443	120,188	151,976	161,627	156,507
Senior Lien Coverage	4.26x	4.58x	6.33x	6.54x	3.80x	4.61x	4.06x	4.08x	4.56x
Subordinate Lien Debt Service (\$000s)	40,649	45,508	49,904	70,776	61,475	66,233	76,341	81,099	101,081
Subordinate Lien Coverage	4.83x	4.76x	4.86x	4.69x	5.98x	6.55x	6.09x	6.15x	5.51x
Total Debt Service Coverage	2.54x	2.61x	3.02x	3.00x	2.59x	2.97x	2.70x	2.72x	2.77x

*Net of PFC Revenues used to pay senior debt service

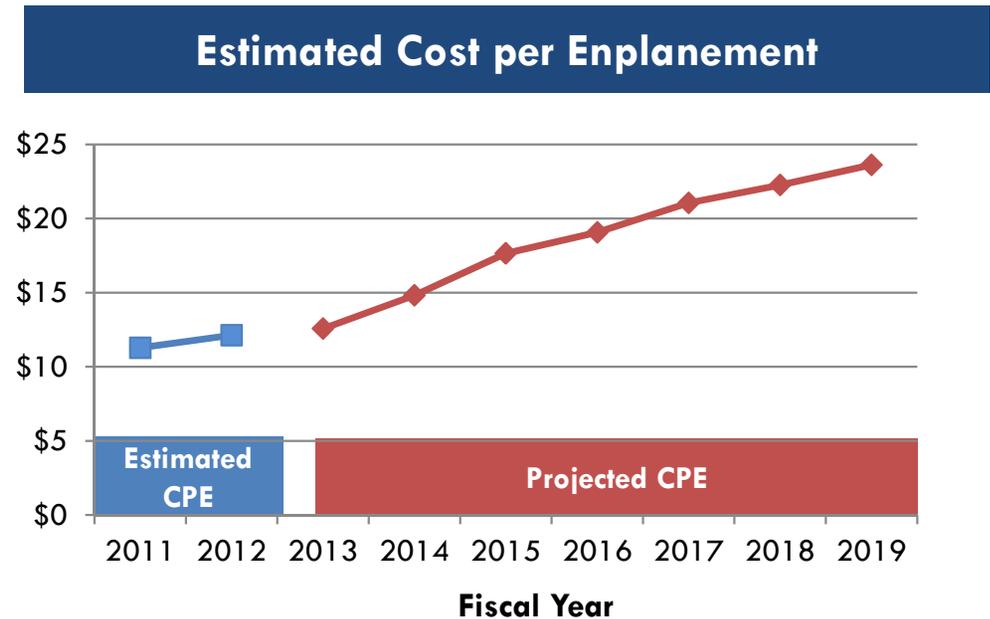
Cost per Enplaned Passenger



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CPE is projected to rise but levels are commensurate with capital program

- Projected CPE for FY2013 is \$12.57, up from the Estimated Actual FY2012 CPE of \$12.13
- The increases in CPE are expected given the size and scope of the Department's Capital Program
- Projected CPE levels are reasonable in light of high demand, strong O&D base, high yields, and the Airport's role as an international gateway



CPE	Estimated		Projected
	FY2011	FY2012	FY2013
Passenger Airline Payments:			
Landing Fees (Passengers only)	\$170,152,349	\$185,627,124	\$202,590,792
Terminal Rentals	\$171,310,959	\$196,707,758	\$206,277,000
Total Passenger Airline Payments	\$341,463,308	\$382,334,882	\$408,867,792
Annual Enplanements	30,280,571	31,519,124	32,524,178
Passenger Airline Cost Per Enplanement	\$11.28	\$12.13	\$12.57

VI.

Conclusion



Los Angeles World Airports

LAX's market dominance, expansive and diverse carrier mix, recent accomplishments, and extremely strong financial metrics support its credit strength

- LAX is the dominant airport serving a demographically favorable region
- LAX is the premier international gateway in the U.S.
- LAX benefits from a diverse carrier base and alliance network
- A strong balance sheet, large cash and PFC balances, a conservative debt portfolio, and robust debt service coverage help to manage risk

Management is successfully implementing the Capital Program, which provides significant benefits to passengers, the airlines, and the Los Angeles community

- For the past several years the Department has demonstrated its ability to plan, finance and construct the first components of the capital program
- The new terminal rate methodology, new airline agreements, and a refreshed concession program are designed to **provide strong revenue generation and demonstrate a common vision to improving airport facilities**