



Annual Financial Report

Fiscal Years Ended
June 30, 2019 and 2018

Department of Airports
Los Angeles, California



Los Angeles World Airports

Department of Airports
of the City of Los Angeles, California

**Los Angeles
International Airport**

Annual Financial Report

Fiscal years ended
June 30, 2019 and 2018





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Deborah Flint
Chief Executive Officer

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LOS ANGELES WORLD AIRPORTS EXECUTIVE STAFF

Deborah Flint, Chief Executive Officer
Justin Erbacci, Deputy Executive Director, Chief Operating Officer
Robert Gilbert, Strategic Advisor
Ryan Yakubik, Chief Financial Officer¹
Samantha Bricker, Chief Environmental and Sustainability Officer
Keith Wilschetz, Deputy Executive Director, Operations and Emergency Management
Hans Thilenius, Deputy Executive Director, Terminal Development and Improvement Program
Aura Moore, Deputy Executive Director, Chief Information Officer
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David Maggard, Deputy Executive Director, Law Enforcement and Homeland Security
Jacob Adams, Deputy Executive Director, LAMP Executive
Raymond Ilgunas, General Counsel

¹ Mr. Yakubik will leave LAX effective November 2019.





Message from the Chief Executive Officer

I am pleased to present the Annual Financial Report of the Los Angeles International Airport (LAX) for the fiscal year ended June 30, 2019.

Moss Adams LLP, Certified Public Accountants (Moss Adams), audited LAX's financial statements. Based upon its audit, Moss Adams rendered an unmodified opinion that LAX's financial statements, as of and for the fiscal years ended June 30, 2019 and 2018, were fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). Moss Adams' report is on pages 1 and 2.

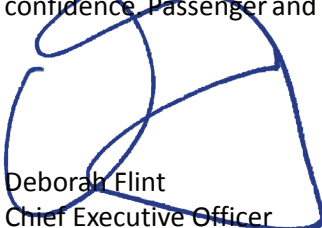
Moss Adams conducted an additional audit to determine LAX's compliance with the requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies* and concluded that LAX complied in all material respects with the requirements that could have a material effect on its passenger facility charge program for the fiscal year ended June 30, 2019. Moss Adams' report is on pages 117 and 118.

Moss Adams also conducted a third audit to determine LAX's compliance with the requirements described in the *California Civil Code Section 1939, as amended by Assembly Bill 2051*, and concluded that LAX complied in all material respects with the requirements that could have a material effect on its customer facility charge program for the fiscal year ended June 30, 2019. Moss Adams' report is on pages 123 and 124. GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of Management's Discussion and Analysis (MD&A). The MD&A is on pages 5 through 34.

The financial condition of LAX depends largely upon the demand for air transportation within the geographical area (the Air Trade Area) served by LAX and management decisions regarding operations and capital investment as they relate to market demand for travel. The Air Trade Area comprises the following five counties: Los Angeles, Orange, Riverside, San Bernardino, and Ventura. LAX is the largest airport in the Air Trade Area. Passenger and cargo traffic at LAX depend on the demographic characteristics and economic activity of the Air Trade Area. LAX is part of a system of Southern California airports - along with Van Nuys Airport and property retained for future aeronautical uses in the City of Palmdale - that are owned and operated by Los Angeles World Airports.

LAX has an important role in the international, national, State of California, regional, and local air transportation system. According to Airport Council International (ACI) statistics, in calendar year 2018, LAX ranked as the fourth busiest airport in the world, second busiest airport in the U.S. in terms of passenger traffic, and ranked tenth in the world and fourth in the U.S. in air cargo tonnage processed. LAX was named in Skytrax's 2017 top 10 world's most improved airports. Based on W J Advisors LLC's report, LAX is the busiest passenger origin and destination (O&D) airport in the world. In fiscal year 2019, approximately 44.2 million passengers enplaned at LAX, including an estimated 36.1 million originating passengers (81.6%) and 8.1 million connecting passengers (18.4%).

From fiscal year 2018 to 2019, the number of enplaned passengers at LAX increased approximately 1.5%, which includes a 1.8% increase in domestic enplaned passengers and a 0.7% increase in international enplaned passengers. The number of international enplaned passengers increased 2.3% during the first six months of fiscal year 2019 compared to the same period in fiscal year 2018 but decreased by 1.0% during the last six months of fiscal year 2019, potentially as the result of concerns regarding trade tensions, slowing economic growth, and declining business confidence. Passenger and other traffic activity highlights during the last three fiscal years are discussed in the MD&A.



Deborah Flint
Chief Executive Officer

October 28, 2019



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Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Annual Financial Report

Fiscal Years Ended June 30, 2019 and 2018

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Los Angeles International Airport ("LAX"), a department of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) ("LAWA"), an Enterprise Fund of the City of Los Angeles ("City"), which comprise the statement of net position as of June 30, 2019 and 2018, and the related statements of revenue, expenses, changes in net position, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of LAX as of June 30, 2019 and 2018, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Basis of Presentation

As discussed in Note 1, the financial statements of LAX are intended to present the net position, the changes in net position, and cash flows of only that portion of the business-type activities and each major fund of the City that is attributable to the transactions of LAX. They do not purport to, and do not, present fairly the net position of LAWA or the City as of June 30, 2019 and 2018, the changes in their net position, or, where applicable, their cash flows for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.



Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 to 34, the schedule of LAX's proportionate share of the net pension liability on page 109, the schedule of contributions – pension on pages 110 to 111, the schedule of LAX's proportionate share of the net other postemployment benefit (OPEB) liability on page 112, and the schedule of contributions – OPEB on pages 113 to 114 be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of LAX. The accompanying compliance section listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of LAX's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LAX's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LAX's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California
October 28, 2019

Management's Discussion and Analysis (Unaudited)

2019

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Management's Discussion and Analysis

(Unaudited)

2019

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Los Angeles International Airport



Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

Los Angeles World Airports (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles, California (City). LAWA is an enterprise fund that owns and operates Los Angeles International Airport (LAX) and Van Nuys Airport (VNY). LAWA also owns approximately 17,750 acres of land located east of United States Air Force (USAF) Plant 42 in the City of Palmdale, and retains the rights for future development of the Palmdale property. The management of LAWA presents the following narrative overview of LAX's financial activities for the fiscal years ended June 30, 2019 and 2018. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 37.

Using This Financial Report

LAX's financial report consists of this management's discussion and analysis (MD&A), and the financial statements that follow after the MD&A. The financial statements include:

The *Statements of Net Position* present information on all of LAX's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at June 30, 2019 and 2018. The difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources was reported as net position. Over time, increases and decreases in net position may serve as a useful indicator about whether LAX's financial condition is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* present the results of LAX's operations and information showing the changes in net position for the fiscal years ended June 30, 2019 and 2018. These statements can, among other things, be useful indicators of how LAX recovered its costs through rates and charges. All changes in net position were reported when the underlying events occurred, regardless of the timing of the related cash flows. Thus, revenues and expenses were recorded and reported in these statements for some items that will result in cash flows in future periods.

The *Statements of Cash Flows* relate to the inflows and outflows of cash and cash equivalents resulting from operating, noncapital financing, capital and related financing, and investing activities. Consequently, only transactions that affect LAX's cash and cash equivalents accounts were recorded in these statements. At the end of the statements, a reconciliation is provided to assist in understanding the difference between operating income and cash flows from operating activities.

The *Notes to the Financial Statements* present information that is not displayed on the face of the financial statements. Such information is essential to a full understanding of LAX's financial activities.



Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Passenger and Other Traffic Activity Highlights

The following table presents a summary of passenger and other traffic for the last three fiscal years:

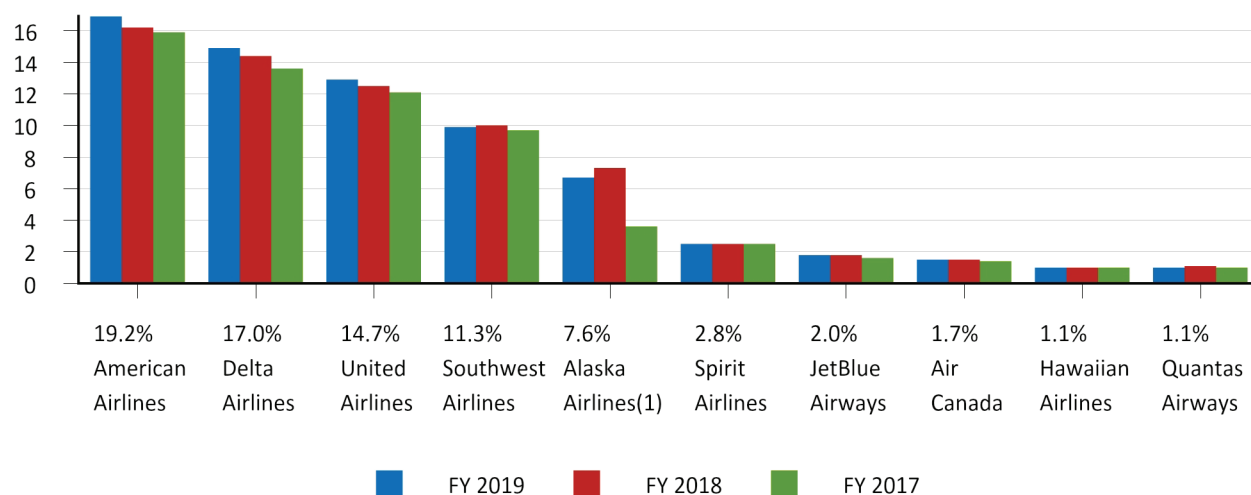
	FY 2019	FY 2018	FY 2017	% Change	
				FY 2019	FY 2018
Total passengers	87,905,468	86,633,058	82,923,839	1.5%	4.5%
Domestic passengers	61,983,392	60,903,699	58,934,016	1.8%	3.3%
International passengers	25,922,076	25,729,359	23,989,823	0.7%	7.3%
Departing passengers	44,207,464	43,553,015	41,602,124	1.5%	4.7%
Arriving passengers	43,698,004	43,080,043	41,321,715	1.4%	4.3%
Passenger flight operations					
Departures	316,179	319,677	316,704	-1.1%	0.9%
Arrivals	315,939	319,359	316,309	-1.1%	1.0%
Landing weight (thousand lbs)	64,746,783	64,226,608	62,635,426	0.8%	2.5%
Air cargo (tons)					
Mail	117,094	112,391	107,150	4.2%	4.9%
Freight	2,284,337	2,303,477	2,209,063	-0.8%	4.3%

Note: Prior years' data may change because of updated available information, however, in order to remain comparable and consistent with the published data, the passenger and other traffic numbers for prior fiscal years are not changed.

Passenger Traffic

The following chart presents the top ten airlines, by number of passengers, for fiscal year 2019 and the comparative passengers for fiscal years 2018 and 2017.

**FY 2019 Top Ten Carriers and FY 2019 Percentage of Market Share
(passengers in millions)**



(1) Alaska Airlines merged with Virgin America and combined data was reported starting FY 2018.

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Passenger Traffic, Fiscal Year 2019

Passenger traffic at LAX increased by 1.5% in fiscal year 2019 as compared to fiscal year 2018. Of the 87.9 million passengers that moved in and out of LAX, domestic passengers accounted for 70.5%, while international passengers accounted for 29.5%. American Airlines ferried the largest number of passengers at 16.9 million with a 4.3% increase in passenger traffic. Delta Airlines, ranked second with 14.9 million passengers posted a 3.5% increase in passenger traffic. United Airlines, ranked third with 12.9 million passengers posted a 3.2% increase in passenger traffic. Southwest Airlines (9.9 million) and Alaska Airlines (6.7 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.5 million passengers and was ranked eighth overall.

Passenger Traffic, Fiscal Year 2018

Passenger traffic at LAX increased by 4.5% in fiscal year 2018 as compared to fiscal year 2017. Of the 86.6 million passengers that moved in and out of LAX, domestic passengers accounted for 70.3%, while international passengers accounted for 29.7%. American Airlines ferried the largest number of passengers at 16.2 million with a 1.9% increase in passenger traffic. Delta Airlines, ranked second with 14.4 million passengers posted a 5.9% increase in passenger traffic. United Airlines, ranked third with 12.5 million passengers posted a 3.3% increase in passenger traffic. Southwest Airlines (10.0 million) and Alaska Airlines (7.3 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.5 million passengers and was ranked eighth overall.

Passenger Flight Operations, Fiscal Year 2019

Departures and arrivals at LAX decreased by 6,918 flights or 1.1% during fiscal year 2019 when compared to fiscal year 2018. Revenue landing pounds were up 0.8%. The top three carriers in terms of landing pounds were American Airlines, Delta Airlines, and United Airlines. In total, these three airlines contributed 40.9% of the total revenue pounds at LAX.

Passenger Flight Operations, Fiscal Year 2018

Departures and arrivals at LAX increased by 6,023 flights or 1.0% during fiscal year 2018 when compared to fiscal year 2017. Revenue landing pounds were up 2.5%. The top three carriers in terms of landing pounds were American Airlines, Delta Airlines, and United Airlines. In total, these three airlines contributed 40.2% of the total revenue pounds at LAX.

Air Cargo (tons), Fiscal Year 2019

Freight and mail cargo at LAX decreased by 0.6% in fiscal year 2019 as compared to fiscal year 2018. Freight was down by 19,140 tons, and mail was up by 4,703 tons. Domestic cargo was up by 7,921 tons or 0.9% and international cargo was down by 22,358 tons or 1.5%. Federal Express was the top air freight carrier accounting for 16.8% of total freight cargo, followed by China Southern Airlines with 4.3%. American Airlines was the top mail carrier accounting for 19.8% of total mail cargo.

Air Cargo (tons), Fiscal Year 2018

Freight and mail cargo at LAX increased by 4.3% in fiscal year 2018 as compared to fiscal year 2017. Freight and mail were up by 94,414 tons and 5,241 tons, respectively. Domestic cargo was up by 1,875 tons or 0.2% and international cargo was up by 97,780 tons or 6.9%. Federal Express was the top air freight carrier accounting for 16.2% of total freight cargo, followed by American Airlines with 4.3%. Delta Airlines was the top mail carrier accounting for 22.4% of total mail cargo.



Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2019

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.7 billion.
- Bonded debt had a net increase of \$1.8 billion.
- Operating revenue totaled \$1.5 billion.
- Operating expenses (including depreciation and amortization of \$402.6 million) totaled \$1.2 billion.
- Net nonoperating revenue was \$85.2 million.
- Federal and other government capital grants totaled \$29.9 million.
- Net position increased by \$428.4 million.

Financial Highlights, Fiscal Year 2018

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.3 billion.
- Bonded debt had a net increase of \$757.6 million.
- Operating revenue totaled \$1.4 billion.
- Operating expenses (including depreciation and amortization of \$360.6 million) totaled \$1.2 billion.
- Net nonoperating revenue was \$73.2 million.
- Federal and other government capital grants totaled \$54.3 million.
- Net position increased by \$318.1 million.



Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Net Position Summary

A condensed net position summary for fiscal years 2019, 2018, and 2017 is presented below:

Condensed Net Position (amounts in thousands)

	FY 2019	FY 2018	FY 2017	FY 2019 increase (decrease)	FY 2018 increase (decrease)
Assets					
Unrestricted current assets	\$ 1,067,124	\$ 1,003,517	\$ 917,431	\$ 63,607	\$ 86,086
Restricted current assets	2,997,978	1,951,519	1,920,872	1,046,459	30,647
Capital assets, net	10,799,574	9,650,510	8,588,837	1,149,064	1,061,673
Other noncurrent assets	28,179	35,984	67,630	(7,805)	(31,646)
Total assets	14,892,855	12,641,530	11,494,770	2,251,325	1,146,760
Deferred outflows of resources					
Loss on debt refundings	37,806	40,308	38,550	(2,502)	1,758
Pension and OPEB	211,160	159,620	203,352	51,540	(43,732)
Total deferred outflows of resources	248,966	199,928	241,902	49,038	(41,974)
Liabilities					
Current liabilities payable from unrestricted assets	441,547	396,871	385,024	44,676	11,847
Current liabilities payable from restricted assets	212,876	188,665	212,628	24,211	(23,963)
Noncurrent liabilities	7,828,006	6,091,457	5,335,668	1,736,549	755,789
Net pension liability	773,419	710,724	761,187	62,695	(50,463)
Net OPEB liability	77,769	76,310	—	1,459	76,310
Total liabilities	9,333,617	7,464,027	6,694,507	1,869,590	769,520
Deferred inflows of resources					
Gain on debt refundings	3,681	—	—	3,681	—
Pension and OPEB	88,810	90,101	72,915	(1,291)	17,186
Total deferred inflows of resources	92,491	90,101	72,915	2,390	17,186
Net Position					
Net investment in capital assets	4,782,855	4,551,404	4,165,479	231,451	385,925
Restricted for capital projects	814,098	672,951	782,153	141,147	(109,202)
Restricted for operations and maintenance reserve	221,137	210,207	185,897	10,930	24,310
Restricted for federally forfeited property & protested funds	1,526	1,336	1,463	190	(127)
Unrestricted	(103,903)	(148,568)	(165,742)	44,665	17,174
Total net position	\$ 5,715,713	\$ 5,287,330	\$ 4,969,250	\$ 428,383	\$ 318,080

Net Position, Fiscal Year 2019

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2019 and 2018, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.7 billion and \$5.3 billion, respectively, representing an increase of 8.1% or \$428.4 million.

The largest portion of LAX's net position (\$4.8 billion or 83.7%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position (\$1.0 billion or 18.1%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position increased by \$44.7 million from \$(148.6) million in fiscal year 2018 to \$(103.9) million in fiscal year 2019.

Unrestricted current assets increased by \$63.6 million or 6.3%, from \$1.0 billion at June 30, 2018 to \$1.1 billion at June 30, 2019. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2019) held in the City Treasury. Unrestricted cash inflows were from operating activities, investment activities, noncapital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2019) held in the City Treasury for future capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. Restricted current assets increased by \$1.0 billion or 53.6%, from \$2.0 billion at June 30, 2018 to \$3.0 billion at June 30, 2019. The increase in year-end investment portfolio held by fiscal agents of \$891.8 million, or 85.5% from \$1.0 billion in fiscal year 2018 to \$1.9 billion in fiscal year 2019 was mainly due to unspent bond proceeds as of June 30, 2019.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, new airport revenue and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by \$1.1 billion, or 11.9%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

Other noncurrent assets decreased by \$7.8 million or 21.7% primarily due to the shift of the long-term receivable from Ontario International Airport Authority (OIAA) to current assets. Based on the Ontario International Airport (ONT) Settlement Agreement in 2016, LAX is to receive \$70.0 million (before discount for early repayment) from ONT, over a period of approximately 10 years. The total outstanding OIAA receivable balance was approximately \$37.6 million and \$45.6 million as of June 30, 2019 and 2018, respectively.

Current liabilities payable from unrestricted assets increased by \$44.7 million or 11.3%. This was mainly due to an increase of \$3.5 million or 1.3% in contracts and accounts payable, an increase of \$39.0 million or 64.0% in commercial paper, and an increase of \$3.7 million or 25.7% in other current liabilities; offset by a decrease of \$6.1 million or 38.4% in obligations under securities lending transactions. The increase in contracts and accounts payable was due to the year-end accruals of capital expenditures for the on-going construction projects. The increase in commercial paper was a result of interim construction financing for capital projects. The increase in other current liabilities was primarily a result of an increase in customers' advance payments of \$13.4 million, offset by a decrease in LAX's share of the City Treasury's year-end pending investment trade of \$4.8 million in fiscal year 2019.



Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Current liabilities payable from restricted assets increased by \$24.2 million or 12.8%. This was mainly due to an increase of \$8.6 million or 113.8% in contracts and accounts payable, an increase of \$22.4 million in current maturities of bonded debt, and an increase of \$2.4 million in accrued interest payable, offset by a decrease of \$5.2 million or 33.5% in obligations under securities lending transactions and a decrease in LAX's share of the City Treasury's year-end pending investment trade of \$4.6 million in fiscal year 2019.

The increase in noncurrent liabilities was \$1.8 billion or 26.2%. This was primarily a result of bond issuances of \$1.9 billion with net change in premium of \$257.2 million, offset by refunding of \$247.6 million LAX senior revenue bonds Series 2009A, and the recognition of \$143.2 million as current bonded debt in fiscal year 2019. The increase was also attributable to the recognition of additional proportionate share of net pension liability (NPL) and net OPEB liability (NOL) for \$65.2 million in fiscal year 2019.

Net Position, Fiscal Year 2018

As noted earlier, net position may serve as a useful indicator of LAX's financial position. At the close of fiscal years 2018 and 2017, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.3 billion and \$5.0 billion, respectively, representing an increase of 6.4% or \$318.1 million.

The largest portion of LAX's net position (\$4.6 billion or 86.1%) reflects its investment in capital assets (e.g. land, air easements, buildings, improvements, equipment and vehicles) less accumulated depreciation and any related outstanding debt used to acquire those assets. An additional portion of LAX's net position (\$884.5 million or 16.7%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position increased by \$17.2 million from \$(165.7) million in fiscal year 2017 to \$(148.6) million in fiscal year 2018. LAX recognized \$76.3 million net OPEB liability (NOL) as a result of the implementation of GASB Statements No. 75 and 85 in fiscal year 2018. Net pension liability (NPL) reduced by \$50.5 million to \$710.7 million in fiscal year 2018.

Unrestricted current assets increased by \$86.1 million or 9.4%, from \$917.4 million at June 30, 2017 to \$1.0 billion at June 30, 2018. Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2018) held in the City Treasury. Unrestricted cash inflows were from operating activities, investment activities, noncapital grants, and federal grant reimbursements for eligible capital projects. Unrestricted cash outflows were for operating activities, capital acquisitions, and transfers to fiscal agents for debt service.

Restricted current assets include cash and investments (including reinvested cash collateral in 2018) held in the City Treasury for future capital projects funded by passenger facility charges (PFCs) and customer facility charges (CFCs). Also included are bond proceeds to be used for capital expenditures as well as bond debt service funds held by fiscal agents. Drawdowns from the amounts held by fiscal agents were used for capital expenditures incurred and for bond principal and interest payments. Restricted current assets increased by \$30.6 million or 1.6%, from \$1.9 billion at June 30, 2017 to \$2.0 billion at June 30, 2018. The increase in year-end investment portfolio held by fiscal agents of \$118.0 million or 12.8% from \$924.5 million in fiscal year 2017 to \$1.0 billion in fiscal year 2018 was mainly due to unspent proceeds of newly issued 2017 and 2018 series bonds as of June 30, 2018.

LAX's capital assets additions are financed through issuance of revenue bonds, grants from federal agencies, PFCs, CFCs, new airport revenue, and existing resources. Interim financing of such acquisition may be provided through the issuance of commercial paper notes. Capital assets, net of depreciation, increased by \$1.1 billion or 12.4%. Ongoing construction and improvements to modernize LAX terminals and facilities were the primary reasons for the increase.

Other noncurrent assets decreased by \$31.6 million or 46.8%. The decrease was primarily due to the transfer of \$17.6 million long-term investments with fiscal agent over one-year in fiscal year 2017 to current investments in fiscal year 2018; and the shift of \$9.6 million long-term receivable from OIAA and \$2.9 million long-term receivable from the City General Fund to current assets in fiscal year 2018.



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Current liabilities payable from unrestricted assets increased by \$11.8 million or 3.1%. This was mainly due to increase of \$47.1 million or 20.9% in contracts and accounts payable, increase of \$2.2 million or 27.2% in estimated claims payable, increase of \$12.1 million or 24.8% in commercial paper, increase of \$10.3 million or 181.3% in obligations under securities lending transactions; offset by decrease of \$59.3 million or 80.5% in other current liabilities, and decrease of \$1.3 million or 23.7% in accrued employee benefits. The increase in contracts and accounts payable was due to the year-end accruals of capital expenditures for the on-going construction projects including the Midfield Satellite Concourse (MSC) and Apron - North Project, Runway Safety Area (RSA) Improvements, and the Landside Access Modernization Program (LAMP) enabling project. The decrease in other current liabilities was primarily a result of a net decrease in customers' advance payments and unapplied credits issued to the airlines of \$19.7 million, and a decrease in LAX's share of the City Treasury's year-end pending investment trade of \$40.0 million in fiscal year 2018.

Current liabilities payable from restricted assets decreased by \$24.0 million or 11.3%. This was mainly due to decrease in LAX's share of the City Treasury's year-end pending investment trade of \$53.1 million in fiscal year 2018, offset by an increase of \$13.0 million in current maturities of bonded debt, an increase of \$8.4 million in accrued interest payable, and increase of \$8.2 million or 112.3% in obligations under securities lending transactions.

The net increase in noncurrent liabilities was \$781.6 million or 12.8%. The increase was primarily a result of bond issuances of \$1.0 billion with net change in premium of \$128.2 million, offset by refunding of \$265.0 million LAX senior revenue bonds Series 2008A, and the shift of \$120.8 million to current bonded debt in fiscal year 2018. The net increase was also attributable to the recognition of the proportionate share of NOL for \$76.3 million as a result of implementation of GASB Statements No. 75 and 85 in fiscal year 2018, offset by a decrease in the proportionate share of NPL for \$50.5 million in accordance with GASB Statements No. 68 and 71.



Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended 2019, 2018, and 2017 is presented below:

Condensed Changes in Net Position (amounts in thousands)

				FY 2019	FY 2018
				increase	increase
				(decrease)	(decrease)
	FY 2019	FY 2018	FY 2017		
Operating revenue	\$ 1,514,367	\$ 1,422,404	\$ 1,328,689	\$ 91,963	\$ 93,715
Less- Operating expenses	798,374	794,721	742,500	3,653	52,221
Operating income before depreciation and amortization	715,993	627,683	586,189	88,310	41,494
Less- Depreciation and amortization	402,646	360,638	298,176	42,008	62,462
Operating income	313,347	267,045	288,013	46,302	(20,968)
Other nonoperating revenue, net	85,172	73,234	18,784	11,938	54,450
Federal and other government grants	29,864	54,297	87,762	(24,433)	(33,465)
Inter-agency transfers	—	—	1,856	—	(1,856)
Transfer of residual operation from ONT	—	—	104,125	—	(104,125)
Changes in net position	428,383	394,576	500,540	33,807	(105,964)
Net position, beginning of year, as previously reported	5,287,330	4,969,250	4,468,710	318,080	500,540
Change in accounting principle	—	(76,496)	—	76,496	(76,496)
Net position, beginning of year, as adjusted	5,287,330	4,892,754	4,468,710	394,576	424,044
Net position, end of year	\$ 5,715,713	\$ 5,287,330	\$ 4,969,250	\$ 428,383	\$ 318,080



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(continued)

Operating Revenue

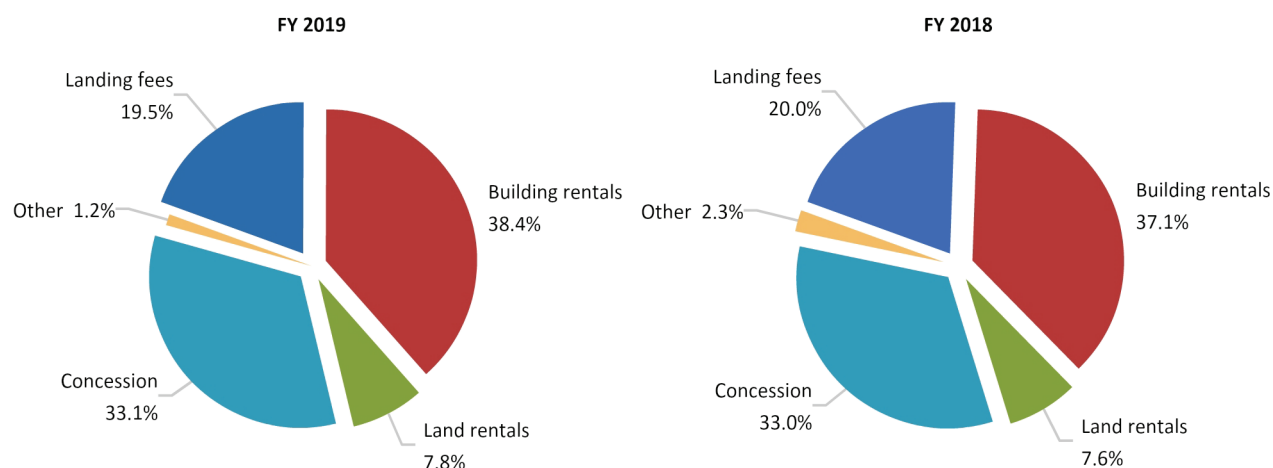
LAX derives its operating revenue from several major airport business activities. The following table presents a summary of these business activities during fiscal years 2019, 2018, and 2017:

Summary of Operating Revenue (amounts in thousands)

	FY 2019	FY 2018	FY 2017	FY 2019 increase (decrease)	FY 2018 increase (decrease)
Aviation revenue					
Landing fees	\$ 295,724	\$ 284,686	\$ 261,639	\$ 11,038	\$ 23,047
Building rentals	581,946	527,476	493,382	54,470	34,094
Land rentals	118,145	107,943	98,563	10,202	9,380
Other aviation revenue	7,390	6,431	7,036	959	(605)
Total aviation revenue	1,003,205	926,536	860,620	76,669	65,916
Concession revenue	501,167	469,187	441,623	31,980	27,564
Other operating revenue	9,995	27,353	27,114	(17,358)	239
Total operating revenue before reliever fee	1,514,367	1,423,076	1,329,357	91,291	93,719
Reliever airport fee (landing fees offset)	—	(672)	(668)	672	(4)
Total operating revenue	\$ 1,514,367	\$ 1,422,404	\$ 1,328,689	\$ 91,963	\$ 93,715

Operating Revenue, Fiscal Year 2019

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2019 and 2018. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2019, total operating revenue before reliever airport fees was \$1.5 billion, a \$91.3 million or 6.4% increase from the prior fiscal year. The growth in aviation related revenue was \$76.7 million. Non-aviation revenue had a net increase of \$14.6 million, with a \$32.0 million increase in concessions, offset by a decrease in other operating revenue of \$17.4 million.

As described in Note 1i of the notes to the financial statements, landing fees assessed to air carriers at LAX are based on cost recovery methodologies. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

Landing fees for the fiscal year ended June 30, 2019 were up by \$11.0 million, or 3.9%. The increase in landing fees was primarily due to the increase in actual capital and operating expenses allocable to the landing fee cost centers at LAX.

Total building rental revenue posted a growth of \$54.5 million, or 10.3%. The increase was primarily attributable to the increased costs in improvements and refurbishments in the terminals recovered under the Terminal Rate Agreement.

Land rental revenue increased by \$10.2 million or 9.5%. The increase in land rental revenue was mainly due to an overall increase in leased areas at LAX.

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(continued)

Total revenue from concessions was \$501.2 million in fiscal year 2019, a 6.8% growth from \$469.2 million in fiscal year 2018. In-terminal concession revenue includes rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, luggage cart rental, and security screening services. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, transportation network companies (TNC)² and other commercial ground transportation operations.

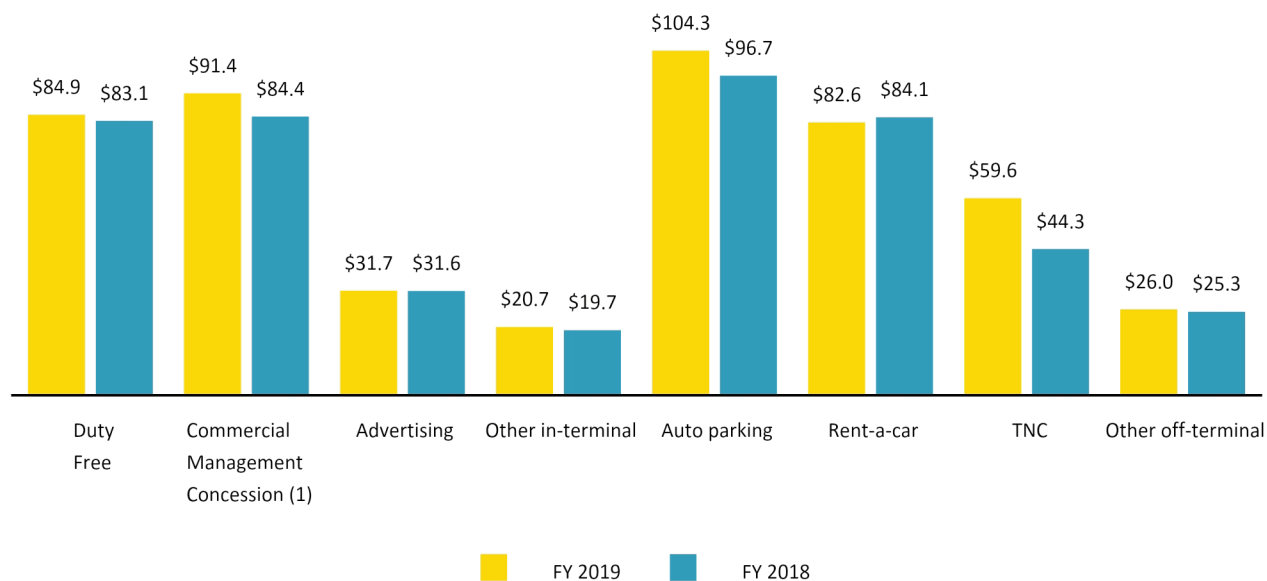
In-terminal concession revenue in fiscal year 2019 had a net increase of \$9.9 million or 4.5% as compared to fiscal year 2018. Duty free revenues increased by \$1.8 million, or 2.2%; commercial management concession revenue³ increased by \$7.0 million, or 8.3%; other in-terminal revenue increased by \$1.0 million, or 5.1%; and advertising revenue remained flat at approximately \$31.7 million. The increase in concession revenue was primarily driven by the increase in passenger traffic as well as the increase in spending per passenger in fiscal year 2019.

Off-terminal concession revenue in fiscal year 2019 was \$272.5 million as compared to \$250.4 million in fiscal year 2018, an increase of \$22.1 million, or 8.8%. The net increase was mainly driven by the increase in TNC revenue of \$15.3 million, or 34.5% from fiscal year 2018, an increase in auto parking of \$7.6 million, or 7.9% from fiscal year 2018, and offset by a decrease in rent-a-car revenue of \$1.5 million, or 1.8%. The increase in TNC revenue was a result of a one-time penalty fees of \$4.7 million in addition to the increase in ridership driven by popularity of TNC in fiscal year 2019. The increase in auto parking revenue was primarily attributed to parking rates increase in the Central Terminal Area parking structures. The charge for first hour or fraction thereof increased from \$3.00 to \$5.00; with a maximum fee per each 24 hours increased from \$30.00 to \$40.00 starting from January 2019.

² Transportation network companies currently permitted to operate at LAX include Uber, Lyft and Opoli.

³ Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

Comparative concession revenue by type for fiscal years 2019 and 2018 are presented in the following chart (amounts in millions).



1) Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

The decrease in other operating revenue was due to the recognition of ONT salary reimbursement of \$16.7 million in fiscal year 2018. LAX no longer provided staff augmentation services to OIAA since April 2018.

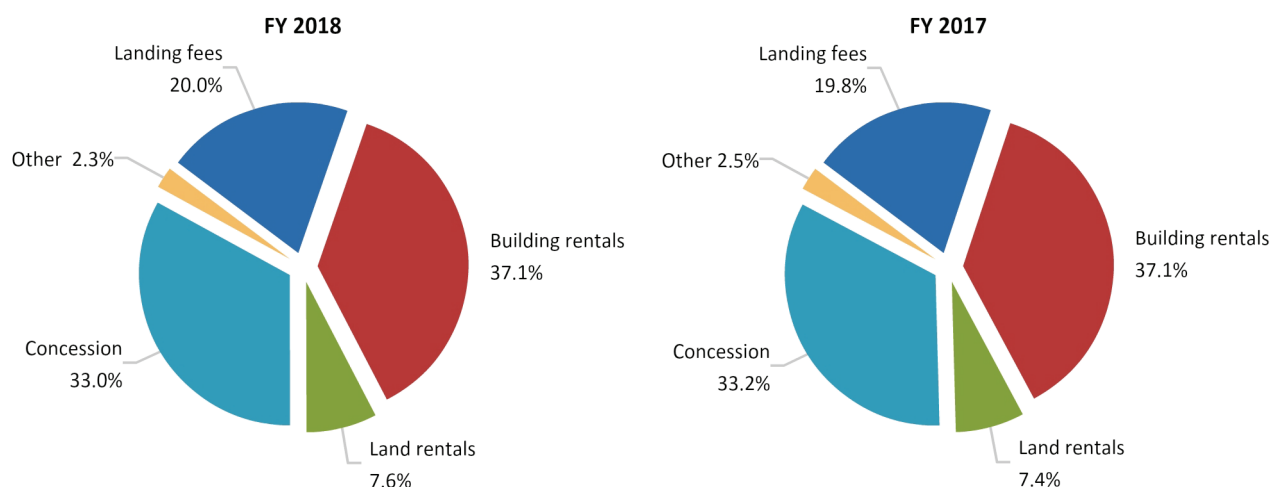
Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Operating Revenue, Fiscal Year 2018

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fees, for fiscal years ended June 30, 2018 and 2017. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2018, total operating revenue before reliever airport fees was \$1.4 billion, a \$93.7 million or 7.0% increase from the prior fiscal year. The growth in aviation related revenue was \$65.9 million. Non-aviation revenue had an increase of \$27.8 million, with a \$27.6 million increase in concessions.

As described in Notes 1i of the notes to the financial statements, landing fees assessed to air carriers at LAX are based on cost recovery methodologies. Rates are set using budgeted expenses and estimates of landed weight. The fees are reconciled at the end of the fiscal year using actual net expenses and actual landed weight, with differences credited or billed to the airlines accordingly. Terminal rental rates at LAX are calculated using a compensatory methodology. Rates are set based on operating and capital costs allocated to the terminal area and charged to users by leased space or activity in common-use areas.

Landing fees for the fiscal year ended June 30, 2018 were up by \$23.0 million or 8.8%. The increase in landing fees was primarily due to the increase in actual capital and operating expenses allocable to the landing fee cost centers.

Total building rental revenue posted a growth of \$34.1 million or 6.9%. The increase was primarily attributable to the improvements and refurbishments in the terminals, scheduled rate increases associated with the Terminal Rate Agreement, as well as the new and renegotiated leases signed with the airlines and other tenants.

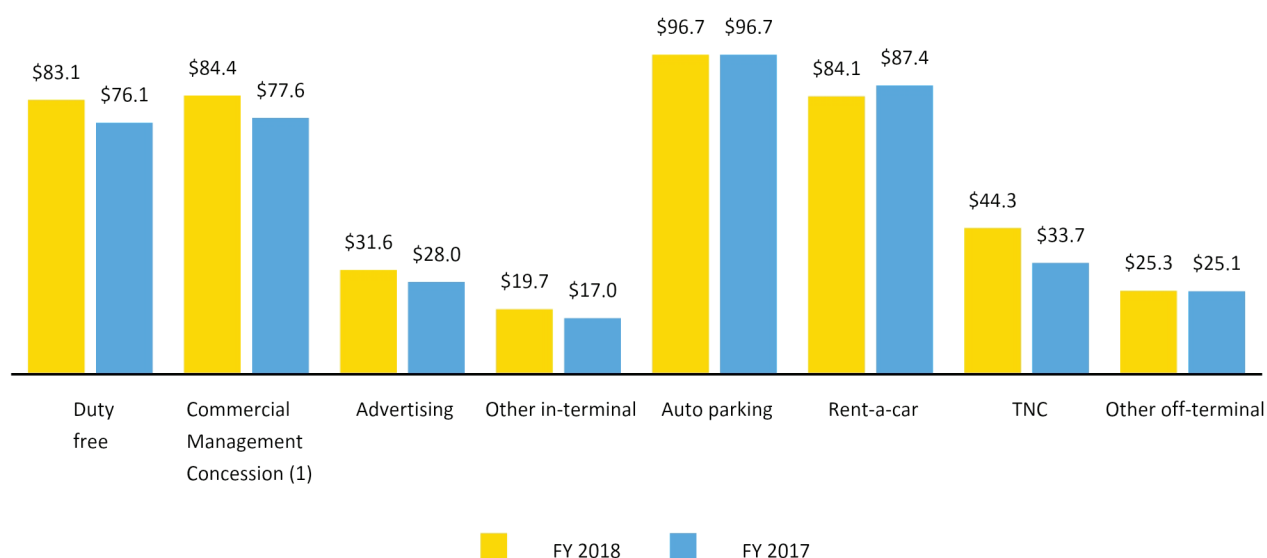
Land rental revenue increased by \$9.4 million or 9.5%. The increase in land rental revenue at LAX was mainly due to an overall increase in leased areas.

Total revenue from concessions was \$469.2 million in fiscal year 2018, a 6.2% growth from \$441.6 million in fiscal year 2017. In-terminal concession revenue includes rentals collected from commercial management concessionaires, food and beverage concessionaires; duty free and retail merchants (gifts, news, and novelty items); and concessionaires for advertising, foreign exchange booths, telecommunications, automated teller machines, luggage cart rental and security screening services. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, TNC and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 2018 had a net increase of \$20.1 million or 10.1% as compared to fiscal year 2017. Boosted by the increase in passenger level, duty free revenues increased by \$7.0 million, or 9.2%, commercial management concession revenue increased by \$6.8 million or 8.8%, other in-terminal revenue increased by \$2.7 million or 15.9%, and advertising revenue increased by \$3.6 million or 12.9%. The increase in other in-terminal revenue was primarily a result of the increase in foreign exchange revenue due to increased MAG; and the increase in advertising revenue was mainly due to the increased billboard revenue and recognition of amounts over MAG in fiscal year 2018.

Off-terminal concession revenue at LAX in fiscal year 2018 was \$250.4 million as compared to \$242.9 million in fiscal year 2017, an increase of \$7.5 million, or 3.1%. The increase was mainly driven by the increase of TNC revenue of \$10.6 million, or 31.5% from fiscal year 2017, offset by the decrease of rent-a-car revenue of \$3.3 million, or 3.8%. The increase in TNC revenue was a result of the increase in ridership driven by the popularity of TNC in addition to the increase in passenger traffic during fiscal year 2018.

Comparative concession revenue by type for fiscal years 2018 and 2017 are presented in the following chart (amounts in millions).



1) Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Operating Expenses

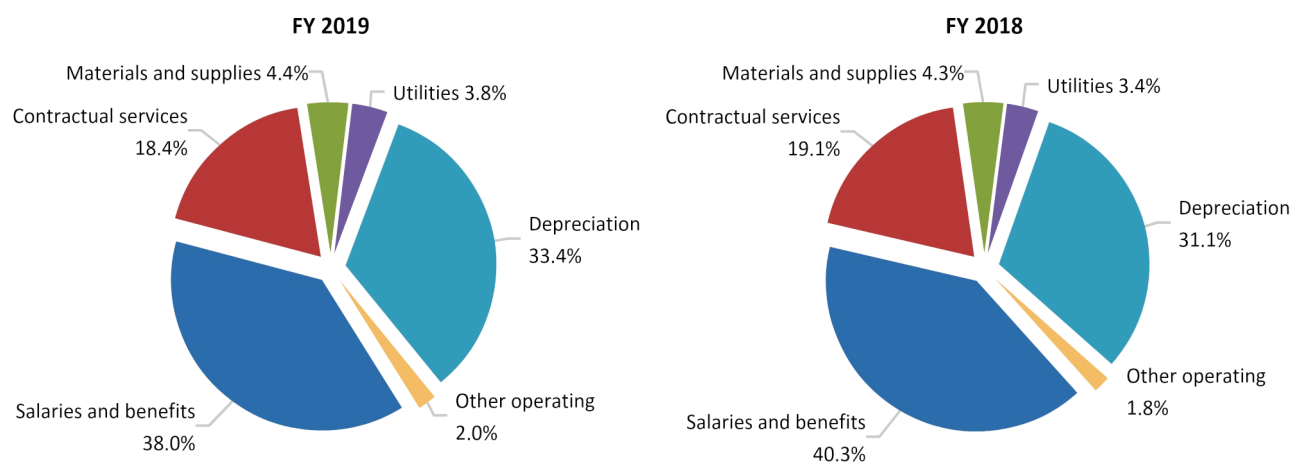
The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2019, 2018, and 2017. Included in other operating expenses are expenses for advertising and public relations, training and travel, insurance, lease, and other miscellaneous items.

Summary of Operating Expenses (amounts in thousands)

	FY 2019	FY 2018	FY 2017	FY 2019 increase (decrease)	FY 2018 increase (decrease)
Salaries and benefits	\$ 456,948	\$ 466,263	\$ 438,153	\$ (9,315)	\$ 28,110
Contractual services	220,990	221,421	203,277	(431)	18,144
Materials and supplies	53,414	49,703	43,830	3,711	5,873
Utilities	46,191	39,433	36,043	6,758	3,390
Other operating expenses	23,559	20,825	25,782	2,734	(4,957)
Operating expenses before depreciation	801,102	797,645	747,085	3,457	50,560
Depreciation	402,646	360,638	298,176	42,008	62,462
Total operating expenses	1,203,748	1,158,283	1,045,261	45,465	113,022
Less- allocation to ONT, VNY and PMD	2,728	2,924	4,585	(196)	(1,661)
Net operating expenses	<u>\$ 1,201,020</u>	<u>\$ 1,155,359</u>	<u>\$ 1,040,676</u>	<u>\$ 45,661</u>	<u>\$ 114,683</u>

Operating Expenses, Fiscal Year 2019

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2019 and 2018.



For the fiscal year ended June 30, 2019, operating expenses before allocation to other airports were \$1.2 billion, a \$45.5 million or 3.9% increase from the prior fiscal year. Expense categories that experienced notable changes were decrease in salaries and benefits of \$9.3 million, increase in materials and supplies of \$3.7 million, increase in utilities of \$6.8 million, increase in other operating expenses of \$2.7 million and increase in depreciation of \$42.0 million.

Salaries and benefits expense decreased by \$9.3 million or 2.0%. Within this category, salaries and overtime before capitalized charges had an increase of \$4.7 million or 1.4%. This increase was mainly due to the terms of bargaining agreements with employee unions. The combined increase in retirement contributions and healthcare subsidy was \$7.1 million or 5.5%. Workers' compensation decreased by \$20.8 million or 79.0% in fiscal year 2019 as additional projected year-end liability was recognized in fiscal year 2018 based on the actuarial report. Non-cash pension and OPEB expenses increased by \$1.1 million to \$11.3 million in fiscal year 2019.

LAX's materials and supplies expense were \$53.4 million and \$49.7 million in fiscal year 2019 and 2018, respectively. The \$3.7 million increase in materials and supplies was mainly due to increased purchases of computer equipments, asphalt for paving, and air-conditioning repair and materials. Utilities expense was \$46.2 million and \$39.4 million in fiscal year 2019 and 2018, respectively. The increase in utilities expense was mainly caused by an increase in the cost of electricity and additional load demands from terminal renovation projects. Other operating expenses increased by \$2.7 million to \$23.6 million in fiscal year 2019. The increase was mainly due to higher insurance premium and advertising expenses. Depreciation charges increased from \$360.6 million to \$402.6 million in fiscal year 2019. The \$42.0 million increase was mainly due to the \$190.0 million Terminal 4 Project acquisition and completion of the associated projects related to Terminals 1, 2 and 7.

A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs.

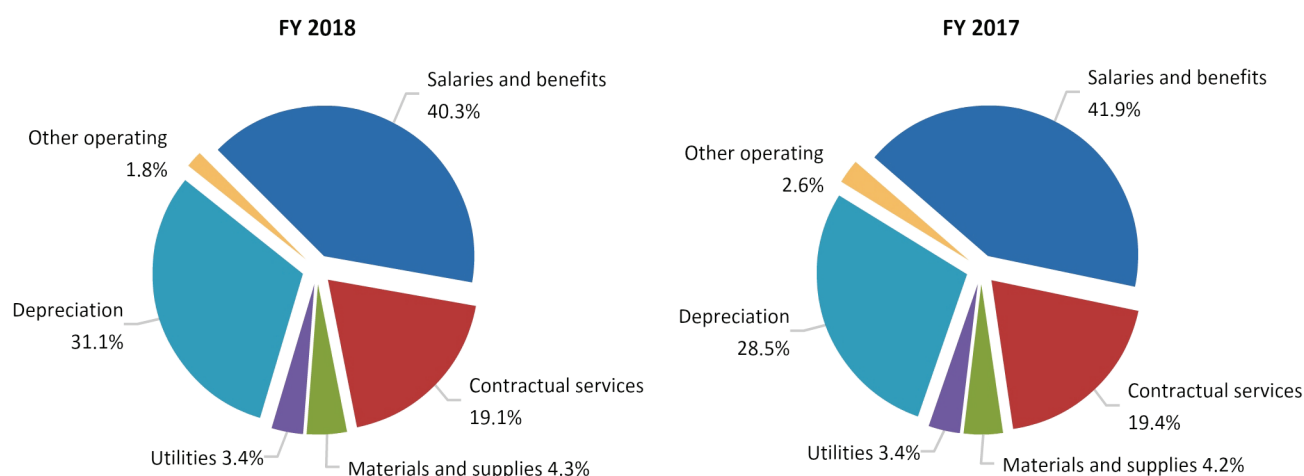
Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Operating Expenses, Fiscal Year 2018

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2018 and 2017.



For the fiscal year ended June 30, 2018, operating expenses before allocation to other airports were \$1.2 billion, a \$113.0 million or 10.8% increase from the prior fiscal year. Expense categories that experienced notable changes were salaries and benefits, up by \$28.1 million, contractual services, up by \$18.1 million, materials and supplies, up by \$5.9 million, utilities up by of \$3.4 million and depreciation, up by \$62.5 million, offset by the decrease in other operating expenses of \$5.0 million.

Salaries and benefits expense increased by \$28.1 million or 6.4%. Within this category, salaries and overtime before capitalized charges had an increase of \$13.9 million or 4.5%. This increase was mainly due to the increase in additional staffing to provide operational support and engagement needed to effectively manage the delivery of multiple large capital projects impacting terminals and passenger access at LAX in addition to the terms of bargaining agreements with employee unions. The combined increase in retirement contributions and healthcare subsidy was \$5.2 million or 4.2%. Workers' compensation increased by \$16.6 million from \$9.7 million to \$26.3 million in fiscal year 2018 as a result of the increase in projected year-end liability in accordance with the actuarial report. Non-cash pension and OPEB expenses decreased by \$6.9 million from \$17.2 million to \$10.3 million in fiscal year 2018.

Contractual services expense was \$221.4 million and \$203.3 million for LAX in fiscal year 2018 and 2017, respectively. The increase in contractual service expense was mainly due to increased city services charges of \$6.7 million, increased escalator and elevator preventive maintenance of \$3.5 million, and increased custom and border protection charges of \$2.7 million. The higher City services were mainly due to the increase in the City's cost allocation as a result of higher salaries and general overhead costs especially in the costs of Fire Department and Police Department, two of the largest providers of services to LAX.

LAX's materials and supplies expense was \$49.7 million and \$43.8 million in fiscal year 2018 and 2017, respectively. The increase in materials and supplies was mainly due to increased field paints and computer licenses and support fees. Utilities expense was \$39.4 million and \$36.0 million in fiscal year 2018 and 2017, respectively. Other operating expenses were \$20.8 million and \$25.8 million in fiscal year 2018 and 2017, respectively. The \$5.0 million decrease was mainly caused by the recognition of \$3.7 million property taxes in fiscal year 2017 for the Park One parking lot pursuant to the lease covering fiscal years 2014 to 2017 compared to \$0.9 million in fiscal year 2018.

The increase in depreciation charges from \$298.2 million to \$360.6 million in fiscal year 2018 was a result of the completion of the associated projects related to Bradley West core renovation, Terminal 7 renovation, and Terminal 1 renovation.

A 15% burden rate of their operating costs is allocated to the other airports for central services costs that are paid for by LAX. Such central service costs include general administration, financial and human resource services among other costs.

Nonoperating Transactions

Nonoperating transactions are activities that do not result from providing services or producing and delivering goods in connection with LAX's ongoing operations. The following table presents a summary of these activities during fiscal years 2019, 2018, and 2017.

Summary of Nonoperating Transactions (amounts in thousands)

	FY 2019	FY 2018	FY 2017	FY 2019 increase (decrease)	FY 2018 increase (decrease)
Nonoperating revenue					
Passenger facility charges	\$ 173,100	\$ 171,431	\$ 163,869	\$ 1,669	\$ 7,562
Customer facility charges	80,248	55,759	32,545	24,489	23,214
Interest and investment income	109,323	9,848	2,589	99,475	7,259
Other nonoperating revenue	23,996	43,421	15,743	(19,425)	27,678
	<u>\$ 386,667</u>	<u>\$ 280,459</u>	<u>\$ 214,746</u>	<u>\$ 106,208</u>	<u>\$ 65,713</u>
Nonoperating expenses					
Interest expense	\$ 294,767	\$ 205,308	\$ 193,469	\$ 89,459	\$ 11,839
Other nonoperating expenses	6,728	1,917	2,493	4,811	(576)
	<u>\$ 301,495</u>	<u>\$ 207,225</u>	<u>\$ 195,962</u>	<u>\$ 94,270</u>	<u>\$ 11,263</u>
Federal and other government grants	<u>\$ 29,864</u>	<u>\$ 54,297</u>	<u>\$ 87,762</u>	<u>\$ (24,433)</u>	<u>\$ (33,465)</u>
Inter-agency transfers	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,856</u>	<u>\$ —</u>	<u>\$ (1,856)</u>
Transfer of residual operation from ONT	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 104,125</u>	<u>\$ —</u>	<u>\$ (104,125)</u>



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(continued)

Nonoperating Transactions, Fiscal Year 2019

PFCs increased by \$1.7 million, or 1.0% from \$171.4 million to \$173.1 million as a result of the increase of 1.5% passenger traffic in fiscal year 2019. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, increased by \$24.5 million, or 43.9% from \$55.7 million to \$80.2 million in fiscal year 2019. The increase was primarily due to the change in CFCs rate from \$10.00 per transaction to \$7.50 per day for the first five days of each car rental contract beginning January 1, 2018.

Interest and investment income increased by \$99.5 million, or 1,010.1% from \$9.8 million to \$109.3 million in fiscal year 2019. This was mainly due to the higher interest rate and average balance of cash and pooled investments held in City Treasury, as well as the increase driven by the upward year-end net adjustment to the fair value of investment securities. Interest expenses increased by \$89.5 million, or 43.6% from \$205.3 million to \$294.8 million in fiscal year 2019 mainly due to the net additional issuances of \$1.6 billion revenue bonds (after refunding) to finance capital improvement projects at LAX.

Other nonoperating revenue decreased by \$19.4 million, or 44.7% from \$43.4 million to \$24.0 million in fiscal year 2019 primarily due to \$13.1 million noise mitigation funds returned to LAX in fiscal year 2019, offset by the litigation settlement of \$35.1 million pertaining to the Runway 25L Relocation and Center Taxiway Improvement Project at LAX in fiscal year 2018.

Other nonoperating expenses increased by \$4.8 million, or 251.0% from \$1.9 million to \$6.7 million in fiscal year 2019. The increase was mainly due to increase of \$2.3 million in bond issuance expenses in fiscal year 2019 in addition to the credit of \$2.5 million excessive environmental cleanup expenses related to the final settlement of the Palmdale Reclamation Plant contamination in fiscal year 2018.

Federal and other government grants decreased by \$24.4 million, or 45.0% from \$54.3 million to \$29.9 million mainly due to construction project re-sequencing. Construction activities on certain grant-funded projects were re-sequenced to align with future anticipated airfield and runway closures, which resulted in a decrease in grant-eligible costs incurred in fiscal year 2019.

Nonoperating Transactions, Fiscal Year 2018

PFCs increased by \$7.5 million, or 4.6% from \$163.9 million to \$171.4 million as a result of the increase of 4.5% passenger traffic in fiscal year 2018. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, increased by \$23.2 million, or 71.3% in from \$32.5 million to \$55.7 million in fiscal year 2018. The increase was due to the change in CFCs rate from \$10.00 per transaction to \$7.50 per day for the first five days of each car rental contract beginning January 1, 2018.

Interest and investment income increased by \$7.2 million, or 280.4% from \$2.6 million to \$9.8 million in fiscal year 2018 mainly due to higher average balance of cash and pooled investments held in City Treasury. Interest expenses increased by \$11.8 million, or 6.1% from \$193.5 million to \$205.3 million in fiscal year 2018 mainly due to the net additional issuances of \$737.3 million revenue bonds (after refunding) to finance capital improvement projects.

Other nonoperating revenue increased by \$27.7 million, or 175.8% from \$15.7 million to \$43.4 million in fiscal year 2018. The increase was mainly a result of the litigation settlement of \$35.1 million pertaining to the Runway 25L Relocation and Center Taxiway Improvement Project at LAX.

Other nonoperating expenses decreased by \$0.6 million, or 23.1% from \$2.5 million to \$1.9 million in fiscal year 2018. The decrease was mainly due to the credit of \$2.5 million excessive environmental cleanup expenses as a result of the final settlement of the Palmdale Reclamation Plant contamination issue as described in Note 16c; offset by the increase of \$1.9 million in bond issuance expenses in fiscal year 2018.

Federal and other government grants decreased by \$33.5 million, or 38.1% from \$87.8 million to \$54.3 million mainly due to the decrease of \$25.6 million TSA in-line baggage reimbursements grants from \$38.1 million in fiscal year 2017 to \$12.5 million in fiscal year 2018.

LAWA transferred the assets and liabilities of ONT to OIAA as contemplated by the ONT Settlement Agreement on November 1, 2016. As a result of the transfer, LAX recognized a transfer of residual operation from ONT of \$104.1 million in fiscal year 2017 and none in fiscal year 2018.



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(continued)

Long-Term Debt

As of June 30, 2019, LAX's outstanding long-term debt before unamortized premium and discount was \$7.1 billion. Issuances during the year amounted to \$1.9 billion, redemption and refunding totaled \$253.5 million, and payments for scheduled maturities were \$116.9 million. Together with the unamortized premium and discount, bonded debt of LAX increased by \$1.8 billion to a total of \$7.8 billion.

As of June 30, 2018, LAX's outstanding long-term debt before unamortized premium and discount was \$5.6 billion. Issuances during the year amounted to \$1.0 billion, refunding totaled \$265.0 million, and payments for scheduled maturities were \$107.9 million. Together with the unamortized premium and discount, bonded debt of LAX increased by \$757.6 million to a total of \$6.1 billion.

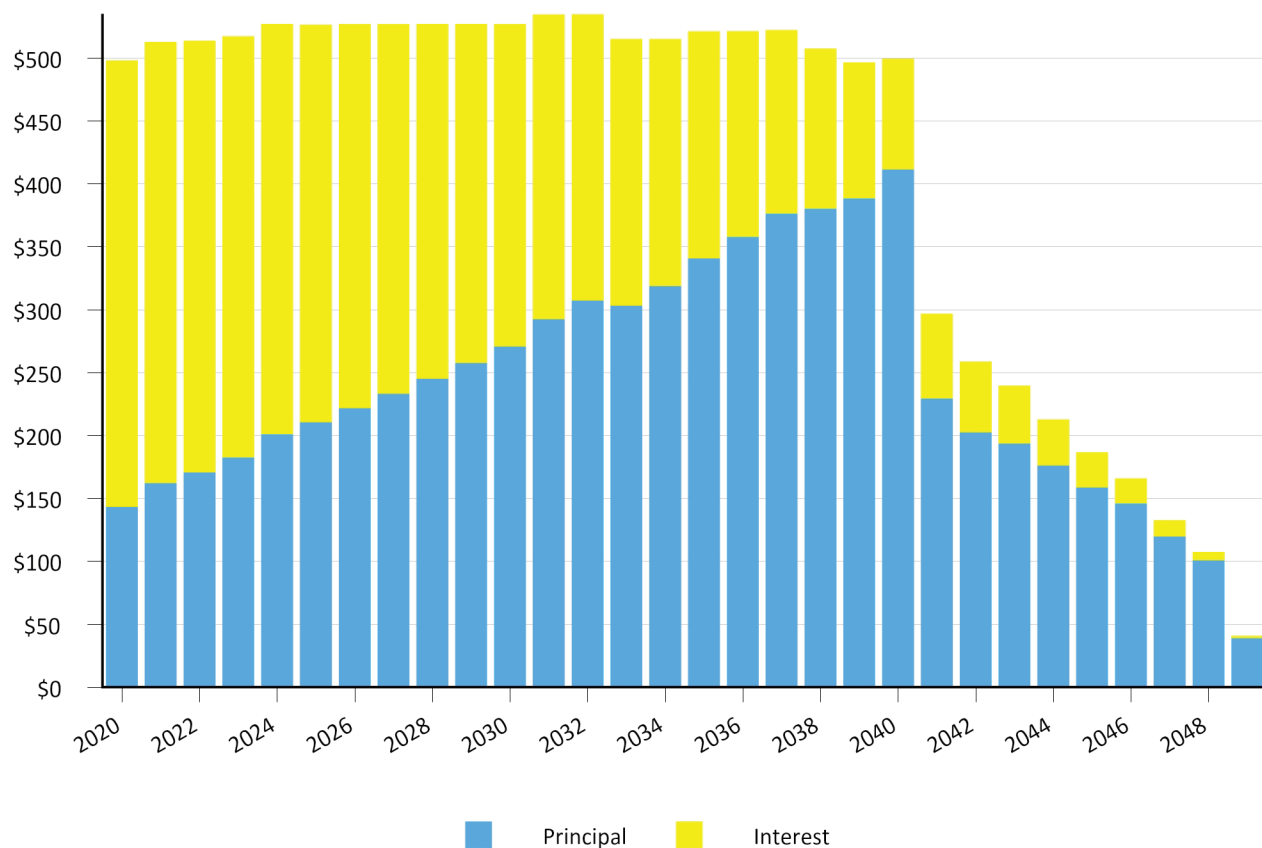
As of June 30, 2019 and 2018, LAX had \$672.4 million and \$521.1 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

LAX continues to maintain credit ratings of AA, Aa2 and AA on its senior revenue bonds and credit ratings of AA-, Aa3 and AA- on its subordinate revenue bonds from Fitch Ratings, Moody's Investor Service and Standard & Poor's Rating Services, respectively.

Additional information regarding LAX's bonded debt can be found in Note 6 of the notes to the financial statements.



Outstanding principal, plus scheduled interest as of June 30, 2019, is scheduled to mature as shown in the following chart (amounts in millions).



Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2019 and 2018 were \$10.8 billion and \$9.7 billion, respectively. This investment, which accounts for 72.5% and 76.3% of LAX's total assets as of June 30, 2019 and 2018, respectively, includes land, air easements, buildings, improvements, equipment and vehicles, emission reduction credits, and construction work in progress. LAX's policy affecting capital assets can be found in Note 1f of the notes to the financial statements. Additional information can be found in Note 4 of the notes to the financial statements.

Capital Assets, Fiscal Year 2019

Major capital expenditure activities during fiscal year 2019 included:

- \$470.1 million construction of Midfield Satellite Concourse (MSC)
- \$407.4 million project costs related to Landside Access Modernization Program (LAMP)⁴
- \$356.6 million renovations at Terminals 1 to 8
- \$29.4 million interior improvements and security upgrades at Tom Bradley International Terminal (TBIT) and Bradley West
- \$27.7 million construction of runways and taxiways
- \$14.5 million Central Terminal Area (CTA) curbside development project

Additional details of capital commitments can be found in Note 16a of the notes to the financial statements.

⁴ This amount included APM Milestone Payment of \$174.7 million made in March 2019.

Capital Assets, Fiscal Year 2018

Major capital expenditure activities during fiscal year 2018 included:

- \$478.9 million renovations at Terminals 1 to 8
- \$385.8 million construction of MSC
- \$167.9 million project costs related to LAMP
- \$100.4 million residential acquisition, soundproofing and noise mitigation
- \$79.8 million construction of runways and taxiways
- \$31.4 million interior improvements and security upgrades at TBIT and Bradley West
- \$15.0 million construction of TBIT baggage handling system
- \$14.2 million CTA curbside development project and Second Level Roadway Joint and Deck replacement
- \$11.4 million various IT network and system projects
- \$9.4 million in costs related to construction of west maintenance facility

Additional details of capital commitments can be found in Note 16a of the notes to the financial statements.



Management's Discussion and Analysis (Unaudited)

June 30, 2019 and 2018

(continued)

Landing Fees

The airline landing fees for fiscal year 2020, which became effective as of July 1, 2019 are as follows:

	Permitted air carriers	Non-permitted air carriers
For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less	\$66.00	\$83.00
For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds	127.00	159.00
Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds	3.93	4.91
Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds	5.08	6.35

The airline landing fees for fiscal year 2019, which became effective as of July 1, 2018 are as follows:

	Permitted air carriers	Non-permitted air carriers
For each landing of aircraft having a maximum gross landing weight of 12,500 pounds or less	\$62.00	\$78.00
For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds	119.00	149.00
Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier cargo having a maximum gross landing weight of more than 25,000 pounds	3.72	4.65
Per 1,000 pounds of maximum gross landing weight for each landing by an air carrier passenger having a maximum gross landing weight of more than 25,000 pounds	4.75	5.94

Landing fee rates were based on budgeted operating expenses and revenues. Reconciliation between actual revenues and expenses and amounts estimated in the initial calculation result in a fiscal year-end adjustment. The resulting net overcharges or undercharges are recorded as a reduction or addition to unbilled receivables.

Request for Information

This report is designed to provide a general overview of the Los Angeles International Airport's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Chief Financial Officer, Los Angeles World Airports, 1 World Way, Los Angeles, CA 90045.

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Los Angeles International Airport



Financial Statements

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Los Angeles International Airport



Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Statements of Net Position

June 30, 2019 and 2018

(amounts in thousands)

	2019	2018
ASSETS		
Current Assets		
Unrestricted current assets		
Cash and pooled investments held in City Treasury	\$ 920,496	\$ 901,543
Investments with fiscal agents	2,565	1,933
Accounts receivable, net of allowance for uncollectible accounts: 2019 - \$82 ; 2018 - \$0	3,782	—
Unbilled receivables	49,795	21,831
Accrued interest receivable	8,038	6,129
Grants receivable	16,959	6,465
Receivable from OIAA	9,464	9,569
Receivable from City General Fund	—	2,935
Due from other agencies	47,252	47,256
Prepaid expenses	7,249	4,489
Inventories	1,524	1,367
Total unrestricted current assets	<u>1,067,124</u>	<u>1,003,517</u>
Restricted current assets		
Cash and pooled investments held in City Treasury	1,027,956	874,262
Investments with fiscal agents, includes cash and cash equivalents, related to bonded debt: 2019 - \$1,682,117; 2018 - \$931,074	1,934,293	1,042,477
Accrued interest receivable	1,642	1,363
Passenger facility charges receivable	26,926	24,900
Customer facility charges receivable	7,161	8,517
Total restricted current assets	<u>2,997,978</u>	<u>1,951,519</u>
Total current assets	<u>4,065,102</u>	<u>2,955,036</u>
Noncurrent Assets		
Capital assets		
Not depreciated	3,428,867	2,709,296
Depreciated, net	7,370,707	6,941,214
Total capital assets	<u>10,799,574</u>	<u>9,650,510</u>
Other noncurrent assets		
Receivable from OIAA, net of current portion	28,179	35,984
Total other noncurrent assets	<u>28,179</u>	<u>35,984</u>
Total noncurrent assets	<u>10,827,753</u>	<u>9,686,494</u>
TOTAL ASSETS	<u>14,892,855</u>	<u>12,641,530</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on debt refundings	37,806	40,308
Pension and OPEB	211,160	159,620
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>248,966</u>	<u>199,928</u>



Statements of Net Position (continued)**June 30, 2019 and 2018****(amounts in thousands)**

	2019	2018
LIABILITIES		
Current Liabilities		
Current liabilities payable from unrestricted assets		
Contracts and accounts payable	\$ 276,145	\$ 272,632
Accrued salaries	23,201	18,505
Accrued employee benefits	5,349	4,258
Estimated claims payable	9,170	10,349
Commercial paper	99,791	60,832
Obligations under securities lending transactions	9,810	15,914
Other current liabilities	18,081	14,381
Total current liabilities payable from unrestricted assets	<u>441,547</u>	<u>396,871</u>
Current liabilities payable from restricted assets		
Contracts and accounts payable	16,169	7,564
Current maturities of bonded debt	143,240	120,830
Accrued interest payable	42,304	39,887
Obligations under securities lending transactions	10,305	15,487
Other current liabilities	858	4,897
Total current liabilities payable from restricted assets	<u>212,876</u>	<u>188,665</u>
Total current liabilities	<u>654,423</u>	<u>585,536</u>
Noncurrent Liabilities		
Bonded debt, net of current portion	7,699,537	5,960,266
Accrued employee benefits, net of current portion	43,282	43,580
Estimated claims payable, net of current portion	84,301	86,726
Net pension liability	773,419	710,724
Net OPEB liability	77,769	76,310
Other long-term liabilities	886	885
Total noncurrent liabilities	<u>8,679,194</u>	<u>6,878,491</u>
TOTAL LIABILITIES	<u>9,333,617</u>	<u>7,464,027</u>
DEFERRED INFLOWS OF RESOURCES		
Gain on debt refundings	3,681	—
Pension and OPEB	88,810	90,101
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>92,491</u>	<u>90,101</u>
NET POSITION		
Net investment in capital assets	4,782,855	4,551,404
Restricted for:		
Passenger facility charges eligible projects	381,032	332,874
Customer facility charges eligible projects	433,066	340,077
Operations and maintenance reserve	221,137	210,207
Federally forfeited property and protested funds	1,526	1,336
Unrestricted	(103,903)	(148,568)
TOTAL NET POSITION	<u>\$ 5,715,713</u>	<u>\$ 5,287,330</u>

See accompanying notes to the 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 Position

For the Fiscal Years Ended June 30, 2019 and 2018

(amounts in thousands)

	2019	2018
OPERATING REVENUE		
Aviation revenue		
Landing fees	\$ 295,724	\$ 284,686
Reliever airport fee	—	(672)
Building rentals	581,946	527,476
Land rentals	118,145	107,943
Other aviation revenue	7,390	6,431
Total aviation revenue	1,003,205	925,864
Concession revenue	501,167	469,187
Other operating revenue	9,995	27,353
Total operating revenue	1,514,367	1,422,404
OPERATING EXPENSES		
Salaries and benefits	456,948	466,263
Contractual services	220,990	221,421
Materials and supplies	53,414	49,703
Utilities	46,191	39,433
Other operating expenses	23,559	20,825
Allocated administrative charges	(2,728)	(2,924)
Total operating expenses before depreciation and amortization	798,374	794,721
Operating income before depreciation and amortization	715,993	627,683
Depreciation and amortization	402,646	360,638
OPERATING INCOME	313,347	267,045
NONOPERATING REVENUE (EXPENSES)		
Passenger facility charges	173,100	171,431
Customer facility charges	80,248	55,759
Interest and investment income	109,323	9,848
Interest expense	(294,767)	(205,308)
Other nonoperating revenue	23,996	43,421
Other nonoperating expenses	(6,728)	(1,917)
Total nonoperating revenue, net	85,172	73,234
INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS	398,519	340,279
Federal and other government grants	29,864	54,297
CHANGE IN NET POSITION	428,383	394,576
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	5,287,330	4,969,250
Change in accounting principle as a result of GASB 75 & 85	—	(76,496)
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	5,287,330	4,892,754
NET POSITION, END OF YEAR	\$ 5,715,713	\$ 5,287,330

See accompanying notes to the 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 Fiscal Years Ended June 30, 2019 and 2018

(amounts in thousands)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 1,512,989	\$ 1,465,880
Payments to suppliers	(242,350)	(178,244)
Payments for employee salaries and benefits	(446,578)	(436,277)
Payments for City services	(108,944)	(103,093)
Inter-agency receipts for services, net	2,728	2,924
Net cash provided by operating activities	717,845	751,190
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants received	11,153	11,761
Inter-agency transfers in	4	764
Net cash provided by noncapital financing activities	11,157	12,525
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from sale of revenue bonds and commercial paper notes	1,769,324	896,748
Principal paid on revenue bonds and commercial paper notes	(127,477)	(112,745)
Interest paid on revenue bonds and commercial paper notes	(321,056)	(265,918)
Revenue bonds issuance costs	(2,368)	(1,679)
Acquisition and construction of capital assets	(1,340,261)	(1,378,641)
Proceeds from passenger facility charges	171,074	170,412
Proceeds from customer facility charges	81,604	50,522
Capital contributed by federal agencies	19,370	60,154
Net cash provided by (used for) capital and related financing activities	250,210	(581,147)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	65,141	36,121
Net change in fair value of investments	41,423	(25,232)
Cash collateral received (paid) under securities lending transactions	(11,286)	18,448
(Purchases) of investments	(9,395)	(93,185)
(Purchases) of investments held by fiscal agents	(140,773)	(93,818)
Net cash used in investing activities	(54,890)	(157,666)
NET INCREASE IN CASH AND CASH EQUIVALENTS	924,322	24,902
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,708,812	2,683,910
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,633,134</u>	<u>\$ 2,708,812</u>

	2019	2018
CASH AND CASH EQUIVALENTS COMPONENTS		
Cash and pooled investments held in City Treasury- unrestricted	\$ 920,496	\$ 901,543
Investments with fiscal agents- unrestricted	2,565	1,933
Cash and pooled investments held in City Treasury- restricted	1,027,956	874,262
Investments with fiscal agents- restricted	1,682,117	931,074
Total cash and cash equivalents	<u>\$ 3,633,134</u>	<u>\$ 2,708,812</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED		
BY OPERATING ACTIVITIES		
Operating income	<u>\$ 313,347</u>	<u>\$ 267,045</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	402,646	360,638
Change in provision for uncollectible accounts	(82)	—
Other nonoperating revenues, net	14,354	39,291
Changes in operating assets and liabilities and deferred outflows and inflows of resources		
Accounts receivable	(3,700)	—
Unbilled receivables	(27,964)	22,414
Prepaid expenses and inventories	(3,002)	(399)
Notes receivable	7,910	11,231
Contracts and accounts payable	(7,336)	47,158
Accrued salaries	4,696	715
Accrued employee benefits	793	949
Other liabilities	4,860	(8,121)
Net pension and OPEB liability and related changes in deferred outflows and inflows of resources	11,323	10,269
Total adjustments	<u>404,498</u>	<u>484,145</u>
Net cash provided by operating activities	<u>\$ 717,845</u>	<u>\$ 751,190</u>
SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES		
Acquisition of capital assets included in contracts and accounts payable	\$ 177,562	\$ 148,912
Revenue bonds proceeds received in escrow trust fund	248,663	262,851
Debt defeased and related costs paid through escrow trust fund with revenue bonds	(248,663)	(262,851)
Contributions of capital assets	(10,494)	5,857
Revenue bonds proceeds received in escrow trust fund	190,000	—
Acquisition of capital assets with proceeds from sale of revenue bonds	(190,000)	—

See accompanying notes to the financial statements.



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Index to the Notes to the Financial Statements

The notes to the financial statements include disclosures that are necessary for a better understanding of the accompanying financial statements. An index to the notes follows:

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Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Notes to the Financial Statements

June 30, 2019 and 2018

1. Reporting Entity and Summary of Significant Accounting Policies

a. Organization and Reporting Entity

Los Angeles World Airports (Department of Airports of the City of Los Angeles, California) (LAWA) is an independent, financially self-sufficient department of the City of Los Angeles (the City) established pursuant to Article XXIV, Section 238 of the City Charter. LAWA operates and maintains Los Angeles International Airport (LAX) and Van Nuys Airport (VNY) general aviation airport. In addition LAWA owns approximately 17,750 acres of land located east of United States Air Force Plant 42 in the City of Palmdale and retains the rights for future development of the Palmdale property.

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

The accompanying financial statements present the net position and changes in net position and cash flows of LAX. These financial statements are not intended to present the financial position and changes in financial position of LAWA or the City, or cash flows of LAWA or the City's enterprise funds.

b. Basis of Accounting

LAX is reported as an enterprise fund and maintains its records on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. Separate funds are used to account for each of the two airports referred to above, and the Palmdale property.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

c. Cash, Cash Equivalents, and Investments

LAX's cash, cash equivalents, and investments and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. LAX's portion of the pool is presented on the statements of net position as 'Cash and Pooled Investments Held in City Treasury'. Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period. LAX considers its unrestricted and restricted cash and investments held in the City Treasury as demand deposits and therefore these amounts are reported as cash equivalents. LAX has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents.

As permitted by the California Government Code, the City engages in securities lending activities. LAX's share of assets and liabilities arising from the reinvested cash collateral has been recognized in the statements of net position.

d. Accounts Receivables and Unbilled Receivables

LAX recognizes revenue in the period earned. Receivables outstanding beyond 90 days are put into the collection process and then referred after 120 days to LAWA's resident City attorneys for possible write-off. An allowance for uncollectible accounts is set up as a reserve by LAWA policy. This policy requires that 2% of outstanding receivables plus 80% of all bankruptcy accounts and all referrals to City Attorney be reserved as uncollectible through a provisional month-end charge to operating expense.

Unbilled receivables balances are the result of revenue accrued for services that exceed \$5,000 each, but not yet billed as of year-end. This accrual activity occurs primarily at year-end when services provided in the current fiscal year period might not get processed through the billing system for up to sixty days into the next fiscal year.

e. Inventories

LAX's inventories consist primarily of general custodial supplies and are recorded at cost on a first-in, first-out basis.

f. Capital Assets

All capital assets are carried at cost, or at estimated fair value on the date received when properties are acquired by donation or by termination of leases, less allowance for accumulated depreciation. Maintenance and repairs are charged to operations in the period incurred. Renewals and betterments are capitalized in the asset accounts. LAX has a capitalization threshold of \$5,000 for all capital assets other than internally generated computer software where the threshold is \$500,000.

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

As described in Note 2 of the notes to the financial statements, in fiscal year 2019, LAX early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, and recognized the interest costs incurred before the end of a construction period as an expense in the period in which the cost is incurred. Accordingly, there was no capitalized interest in fiscal year 2019. In fiscal year 2018, LAX capitalized interest costs of bond proceeds used during construction (net of interest earnings on the temporary investment of tax-exempt bond proceeds) in the amount of \$45.2 million.

Depreciation and amortization are computed on a straight-line basis. The estimated useful lives of the major property classifications are as follows: buildings and facilities, 10 to 40 years; airfield and other improvements, 10 to 35 years; equipment, 5 to 20 years; and computer software, 5 to 10 years. No depreciation is provided for construction work in process until construction is completed and/or the asset is placed in service. Also, no depreciation is taken on air easements and emission reduction credits because they are considered inexhaustible.

g. Contracts Payable, Accounts Payable, and Other Liabilities

All transactions for goods and services obtained by LAX from City-approved contractors and vendors are processed for payment via its automated payment system. This procedure results in the recognition of expense in the period that an invoice for payment is processed through the system, or when a vendor first provided the goods and/or services. If the goods and/or services were received or if the invoice was received but not yet processed in the system, an accrual is made manually by journal voucher into the general ledger to reflect the liability to the vendor. When LAX makes agreements that require customers to make cash deposits, these amounts are then reflected as other current liabilities.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

h. Operating and Nonoperating Revenues and Expenses

LAX distinguishes between operating revenues and expenses, and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with LAX's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. LAX derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. LAX's major operating expenses include salaries and employee benefits, fees for contractual services including professional services, parking operations and shuttle services, and other expenses including depreciation and amortization, maintenance, insurance, and utilities.

i. Landing Fees

Landing fee rates determine the charges to the airlines each time that a qualified aircraft lands at LAX. Landing fees are calculated annually to recover the costs of constructing, maintaining and operating airfield facilities. Costs recovered through these fees are identified using allocation methods of relevant costs attributable to those facilities. Landing fees are initially set using estimates of cost and activity and are reconciled to actual results following each fiscal year end.

j. Terminal Rates and Charges

On September 17, 2012, the Board approved a methodology of calculating rates and charges for airlines and airline consortia using passenger terminals at LAX. The rates, which will recover the costs of acquiring, constructing, operating and maintaining terminal facilities, are as follows: terminal building rate, federal inspection services area (FIS) rate, common use holdroom rate, common use baggage claim rate, common use outbound baggage system rate, common use ticket counter rate, and terminal special charges for custodial services, outbound baggage system maintenance, terminal airline support systems, and loading bridge capital and maintenance.

The rates were effective January 1, 2013 to airlines and airline consortia (signatory airlines) agreeing to the methodology and executing a rate agreement with LAWA. Agreements with signatory airlines terminate on December 31, 2022. The rate agreement provides a Signatory Transitional Phase-in (STP) program that allows for reduced rates during the first five years of the implementation period; this program expired in fiscal year 2018 for the calendar 2018 rate setting. Signatory airlines in good standing are also eligible to participate to rate agreement revenue sharing programs.

Prior to fiscal year 2019, airlines with existing leases that opted not to sign an agreement under the methodology (non-signatory tenant airlines) continued to pay rates and charges based on their legacy leases. During fiscal year 2019, all such remaining aeronautical leases were transitioned to the rate agreement methodology.



k. Concession Revenue

Concession revenues are generated through LAX terminal concessionaires, tenants or airport service providers who pay monthly fees or rents for using or accessing airport facilities to offer their goods and services to the general public and air transportation community. Payments to LAX are based on negotiated agreements with these parties to remit amounts based on either a Minimum Annual Guarantee (MAG) or on gross receipts. Amounts recorded to revenue are determined by the type of revenue category set up in the general ledger system and integrated with the monthly accounts receivable billing process. Concession revenue is recorded as it is earned. Some tenant agreements require self-reporting of concession operations and/or sales. The tenants' operations report and payment are due to LAX in the month following the activity. The timing of concessionaire reporting and when revenue earned is recorded, will determine when or if accruals are required for each tenant agreement.

l. Unearned Revenue

Unearned revenue consists of concessionaire rentals and payments received in advance and is recorded as other current liabilities.

m. Accrued Employee Benefits

Accrued employee benefits include estimated liability for vacation and sick leave. LAX employees accumulate annual vacation and sick leave in varying amounts based on length of service. Vacation and sick leave are recorded as earned. Upon termination or retirement, employees are paid the cash value of their accumulated leave. Accrued employee benefits as of June 30, 2019 and 2018 are as follows (amounts in thousands):

Type of benefit	2019	2018
Accrued vacation leave	\$ 25,163	\$ 24,709
Accrued sick leave	23,468	23,129
Sub-total	48,631	47,838
Current portion	(5,349)	(4,258)
Noncurrent portion	\$ 43,282	\$ 43,580



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

n. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, LAX reports a separate section for deferred outflows of resources and deferred inflows of resources, respectively. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and won't be recognized as an outflow of resources until then. Deferred inflows of resources represent an acquisition of resources that is applicable to future reporting period(s) that won't be recognized as an inflow of resources until then. LAX has deferred charges on debt refunding to account for gain/loss on bond refunding transactions, and deferred outflows/inflows of resources related to pensions and other postemployment benefit (OPEB).

For fiscal years ended June 30, 2019 and 2018, LAX reported total net pension liability, deferred outflows/inflows of resources related to pensions, and pension expenses for Los Angeles City Employees' Retirement System (LACERS) and City of Los Angeles Fire and Police Pensions (LAFPP) as follows (amounts in thousands):

	2019	2018
Net pension liability		
LACERS - proportionate shares	\$ 771,926	\$ 710,724
LAFPP - proportionate shares	1,493	—
Total net pension liability	<u>\$ 773,419</u>	<u>\$ 710,724</u>
Deferred outflows of resources related to pensions		
LACERS - proportionate shares	\$ 177,672	\$ 139,997
LAFPP - proportionate shares	2,990	—
Total deferred outflows of resources related to pensions	<u>\$ 180,662</u>	<u>\$ 139,997</u>
Deferred inflows of resources related to pensions		
LACERS - proportionate shares	\$ 63,276	\$ 71,194
LAFPP - proportionate shares	37	—
Total deferred inflows of resources related to pensions	<u>\$ 63,313</u>	<u>\$ 71,194</u>
Pension expenses		
LACERS - proportionate shares	\$ 80,485	\$ 72,026
LAFPP - proportionate shares	(288)	—
Total pension expenses	<u>\$ 80,197</u>	<u>\$ 72,026</u>

For fiscal years ended June 30, 2019 and 2018, LAX reported total net OPEB liability, deferred outflows/ inflows of resources related to OPEB, and OPEB expenses for LACERS and LAFPP as follows (amounts in thousands):

	2019	2018
Net OPEB liability		
LACERS - proportionate shares	\$ 77,056	\$ 76,310
LAFPP - proportionate shares	713	—
Total net OPEB liability	<u>\$ 77,769</u>	<u>\$ 76,310</u>
Deferred outflows of resources related to OPEB		
LACERS - proportionate shares	\$ 29,407	\$ 19,623
LAFPP - proportionate shares	1,091	—
Total deferred outflows of resources related to OPEB	<u>\$ 30,498</u>	<u>\$ 19,623</u>
Deferred inflows of resources related to OPEB		
LACERS - proportionate shares	\$ 25,492	\$ 18,907
LAFPP - proportionate shares	5	—
Total deferred inflows of resources related to OPEB	<u>\$ 25,497</u>	<u>\$ 18,907</u>
OPEB expenses		
LACERS - proportionate shares	\$ 11,554	\$ 12,684
LAFPP - proportionate shares	235	—
Total OPEB expenses	<u>\$ 11,789</u>	<u>\$ 12,684</u>

o. Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a federal grant receivable and as nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

p. Bond Premiums and Discounts

Bond premiums and discounts are deferred and amortized over the life of the bonds. At the time of bond refunding, the unamortized premiums or discounts are amortized over the life of the refunded bonds or the life of the refunding bonds, whichever is shorter. Bonds payable is reported net of the applicable bond premium or discount.

LAX amortizes bond premiums or discounts using the effective interest method. The effective interest method allocates bond interest expense over the life of the bonds in such a way that it yields a constant rate of interest, which in turn is the market rate of interest at the date of issue of bonds. With effective interest method, the amortization of bond premiums or discounts is calculated using the effective market interest rate at the time of issuances versus the coupon rate used in straight-line method.

q. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

- *Net Investment in Capital Assets* - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Position* - This category presents restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Those assets are restricted due to external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - This category represents net position of LAX that is not restricted for any project or other purpose.

r. Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes of which both restricted and unrestricted resources are available, LAX's policy is to apply restricted resources first.

s. Use of Estimates

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

t. Adjustment of Net Position

The net position at July 1, 2017 was adjusted by \$76.5 million to account for the change in accounting principle as a result of the implementation of GASB Statements No. 75 and No. 85 (amounts in thousands):

	2018
NET POSITION, BEGINNING OF YEAR, AS PREVIOUSLY REPORTED	\$ 4,969,250
Change in accounting principle as a result of implementation of GASB Statement No. 75 and 85	(76,496)
NET POSITION, BEGINNING OF YEAR, AS ADJUSTED	\$ 4,892,754



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

2. New Accounting Standards

Implementation of the following GASB statements is effective fiscal year 2019.

Issued in November 2016, GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes standards of accounting and financial reporting for certain Asset Retirement Obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. LAX implemented this statement without material impact.

Issued in March 2018, GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. Additional disclosure information can be found in Note 6(f) of the notes to financial statements.

Issued in June 2018, GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. LAX early implemented this statement in fiscal year 2019 and recognized net interest expense (after construction funds interest income) of \$43.5 million in fiscal year 2019.

The GASB has issued several pronouncements that have effective dates that may impact future presentations. LAX is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

Issued in January 2017, GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Implementation of this statement is effective fiscal year 2020.

Issued in June 2017, GASB Statement No. 87, *Leases* is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Implementation of this statement is effective fiscal year 2021.

Issued in August 2018, GASB Statement No. 90, *Majority Equity Interest* will improve financial reporting by providing users of financial statements with essential information related to presentation of majority equity interests in legally separate organizations that previously was reported inconsistently. This statement requires reporting of information about component units if the government acquires a 100 percent equity interest provides information about the cost of services to be provided by the component unit in relation to the consideration provided to acquire the component unit. Implementation of this statement is effective fiscal year 2020.

Issued in May 2019, GASB Statement No. 91, *Conduit Debt Obligations* clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer, establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. Implementation of this statement is effective fiscal year 2022.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

3. Cash and Investments

a. Pooled Investments

Pursuant to the California Government Code and the Los Angeles City Council File No. 94-2160, the City Treasurer provides an Annual Statement of Investment Policy (the Policy) to the City Council. The Policy governs the City's pooled investment practices with the following objectives, in order of priority, safety of principal, liquidity, and rate of return. The Policy addresses soundness of financial institutions in which the Treasurer will deposit funds and types of investment instruments permitted under California law.

Each investment transaction and the entire portfolio must comply with the California Government Code and the Policy. Examples of investments permitted by the Policy are obligations of the U.S. Treasury and government agencies, commercial paper notes, negotiable certificates of deposit, guaranteed investment contracts, bankers' acceptances, medium-term corporate notes, money market accounts, and the State of California Local Agency Investment Fund (LAIF).

LAX maintains a portion of its unrestricted and restricted cash and investments in the City's cash and investment pool (the Pool). LAX's share of \$1.9 billion and \$1.8 billion in the Pool represented approximately 18.3% and 19.5% as of June 30, 2019 and 2018, respectively. There are no specific investments belonging to LAX. Included in LAX's portion of the Pool is the allocated investment agreements traded at year-end that were settled in the subsequent fiscal year. LAX's allocated shares for fiscal years 2019 and 2018 were \$0.1 million and \$9.5 million, respectively, and were reported as other current liabilities in the statement of net position. The City issues a publicly available financial report that includes complete disclosures related to the entire cash and investment pool. The report may be obtained by writing to the City of Los Angeles, Office of the Controller, 200 North Main Street, City Hall East Suite 300, Los Angeles, CA 90012, or by calling (213) 978-7200.

b. City of Los Angeles Securities Lending Program

The Securities Lending Program (SLP) is permitted and limited under provisions of California Government Code Section 53601. The City Council approved the SLP on October 22, 1991 under Council File No. 91-1860, which complies with the California Government Code. The objectives of the SLP in priority order are: safety of loaned securities and prudent investment of cash collateral to enhance revenue from the investment program. The SLP is governed by a separate policy and guidelines, with oversight responsibility of the Investment Advisory Committee.

The City's custodial bank acts as the securities lending agent. In the event a counterparty defaults by reason of an act of insolvency, the bank shall take all actions which it deems necessary or appropriate to liquidate permitted investment and collateral in connection with such transaction and shall make a reasonable effort for two business days (Replacement Period) to apply the proceeds thereof to the purchase of securities identical to the loaned securities not returned. If during the Replacement Period the collateral liquidation proceeds are insufficient to replace any of the loaned securities not returned, the bank shall, subject to payment by the City of the amount of any losses on any permitted investments, pay such additional amounts as necessary to make such replacement.

Under the provisions of the SLP, and in accordance with the California Government Code, no more than 20% of the market value of the Pool is available for lending. The City receives cash, U.S. treasury securities, and federal agency issued securities as collateral on loaned securities. The cash collateral is reinvested in securities permitted under the policy. In accordance with the Code, the securities lending agent marks to market the value of both the collateral and the reinvestments daily. Except for open loans where either party can terminate a lending contract on demand, term loans have a maximum life of 90 days. Earnings from securities lending accrue to the Pool and are allocated on a pro rata basis to all Pool participants.

LAX participates in the City's securities lending program through the pooled investment fund. LAX recognizes its proportionate share of the cash collateral received for securities loaned and related obligation for the general investment pool. At June 30, 2019, LAX's portion of the cash collateral and the related obligation in the City's program was \$20.1 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2019 was \$20.1 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2019 was \$85.5 million. At June 30, 2018, LAX's portion of the cash collateral and the related obligation in the City's program was \$31.4 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2018 was \$31.4 million. Such securities are stated at fair value and reported under the cash and pooled investment held in City Treasury. LAX's portion of the noncash collateral at June 30, 2018 was \$54.2 million.

During the fiscal years, collateralizations on all loaned securities were within the required 102.0% of market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default. There were no violations of legal or contractual provisions and no borrower or lending agent default losses during the years. There was no credit risk exposure to the City at June 30, 2019 and 2018 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

c. Investments with Fiscal Agents

The investment practices of the fiscal agents that relate to LAX's portfolio are similar as those of the City Treasurer, and have similar objectives. LAX's investments held by fiscal agents are for the following purposes as of June 30 (amounts in thousands):

	2019	2018
Unrestricted, current		
Commercial paper and cash at bank	\$ 2,565	\$ 1,933
Restricted, current and noncurrent		
Bond security funds	672,423	521,122
Construction funds	1,261,870	521,355
Subtotal	1,934,293	1,042,477
Total	\$ 1,936,858	\$ 1,044,410

The bond security funds are pledged for the payment or security of certain bonds. These investments are generally short-term securities and have maturities designed to coincide with required bond retirement payments. The construction funds are bond proceeds on deposit with the fiscal agents. They are used to reimburse LAX for capital expenditures incurred or to be incurred.

At June 30, 2019, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities	
		1 to 60 days	61 to 365 days
Money market mutual funds	\$ 1,483,254	\$ 1,483,254	\$ —
State of California LAIF	98,427	—	98,427
U.S. Treasury securities	352,612	100,436	252,176
Subtotal	1,934,293	\$ 1,583,690	\$ 350,603
Bank deposit accounts	2,565		
Total	\$ 1,936,858		

At June 30, 2018, the investments and their maturities are as follows (amounts in thousands):

	Amount	Investment maturities	
		1 to 60 days	61 to 365 days
Money market mutual funds	\$ 428,576	\$ 428,576	\$ —
State of California LAIF	222,479	—	222,479
U.S. Treasury securities	391,422	280,019	111,403
Subtotal	1,042,477	\$ 708,595	\$ 333,882
Bank deposit accounts	1,933		
Total	\$ 1,044,410		

Fair Value Measurements

The investments are categorized into its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: Investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

At June 30, 2019, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds	\$ 1,483,254	\$ 1,483,254
U.S. Treasury securities	352,612	352,612
Total investments by fair value level	1,835,866	\$ 1,835,866
Investments not subject to fair value hierarchy		
State of California LAIF	98,427	
Bank deposit accounts	2,565	
Total	\$ 1,936,858	



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

At June 30, 2018, the investments by fair value level are as follows (amounts in thousands):

	Amount	Fair Value Measurements Using Level 1
Money Market Funds by fair value level	\$ 428,576	\$ 428,576
U.S. Treasury securities	391,422	391,422
Total investments by fair value level	819,998	\$ 819,998
Investments not subject to fair value hierarchy		
State of California LAIF	222,479	
Bank deposit accounts	1,933	
Total	\$ 1,044,410	

Interest Rate Risk. LAX adopts the City's policy that limits the maturity of investments to five years for U.S. Treasury and government agency securities. The policy allows funds with longer term investments horizons, to be invested in securities that at the time of the investment have a term remaining to maturity in excess of five years, but with a maximum final maturity of thirty years.

Credit Risk. The City's policy requires that a mutual fund must receive the highest ranking by not less than two nationally recognized rating agencies. At June 30, 2019 and 2018, the money market mutual funds were rated AAAM by Standard and Poor's, and Aaa by Moody's.

Concentration of Credit Risk. The City's policy does not allow more than 40% of its investment portfolio to be invested in commercial paper and bankers' acceptances, 30% in certificates of deposit and medium term notes, 20% in mutual funds, money market mutual funds or mortgage passthrough securities. The policy further provides for a maximum concentration limit of 10% in any one issuer including its related entities. There is no percentage limitation on the amount that can be invested in the U.S. Treasury and government agencies.

As of June 30, 2019, LAX's investments in the LAIF held by fiscal agents totaled \$98.4 million. The total amount invested by all public agencies in LAIF at that date was \$24.6 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2019, the investments in the PMIA totaled \$106.0 billion, of which 98.2% is invested in non-derivative financial products and 1.8% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 173 days as of June 30, 2019. LAIF is not rated. As of June 30, 2018, LAX's investments in the LAIF held by fiscal agents totaled \$222.5 million. The total amount invested by all public agencies in LAIF at that date was \$22.5 billion. The LAIF is part of the State's PMIA. As of June 30, 2018, the investments in the PMIA totaled \$88.9 billion, of which 97.3% is invested in non-derivative financial products and 2.7% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 193 days as of June 30, 2018.

The Local Investment Advisory Board (Advisory Board) has oversight responsibility for LAIF. The Advisory Board consists of five members as designated by State statute. The Pooled Money Investment Board whose members are the State Treasurer, Director of Finance, and State Controller, has oversight responsibility for PMIA. The value of the pool shares in LAIF, which may be withdrawn anytime, is determined on a historical basis, which is different than the fair value of LAX's position in the pool. The bank deposit accounts are covered by Federal depository insurance up to a certain amount. Financial institutions are required under California law to collateralize the uninsured portion of the deposits by pledging government securities or first trust deed mortgage notes. The collateral is held by the pledging institution's trust department and is considered held in LAX's name.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2019 (amounts in thousands):

	Balance at July 1, 2018	Additions	Retirements & disposals	Transfers	Balance at June 30, 2019
Capital assets not depreciated					
Land and land clearance	\$ 1,121,296	\$ —	\$ —	\$ 46,543	\$ 1,167,839
Air easements	44,346	—	—	—	44,346
Emission reduction credits	2,772	—	—	—	2,772
Construction work in progress	1,540,882	1,343,899	(643)	(670,228)	2,213,910
Total capital assets not depreciated	2,709,296	1,343,899	(643)	(623,685)	3,428,867
Capital assets depreciated					
Buildings	3,570,754	—	—	1,059	3,571,813
Improvements	5,633,775	192,912	—	533,173	6,359,860
Equipment and vehicles	201,667	15,905	(6,340)	89,453	300,685
Others	38,087	—	—	—	38,087
Total capital assets depreciated	9,444,283	208,817	(6,340)	623,685	10,270,445
Accumulated depreciation					
Buildings	(714,288)	(112,861)	—	—	(827,149)
Improvements	(1,610,603)	(275,330)	—	—	(1,885,933)
Equipment and vehicles	(178,178)	(14,455)	5,977	—	(186,656)
Total accumulated depreciation	(2,503,069)	(402,646)	5,977	—	(2,899,738)
Capital assets depreciated, net	6,941,214	(193,829)	(363)	623,685	7,370,707
Total	\$ 9,650,510	\$ 1,150,070	\$ (1,006)	\$ —	\$ 10,799,574

LAX had the following activities in capital assets during fiscal year 2018 (amounts in thousands):

	Balance at July 1, 2017	Additions	Retirements & disposals	Transfers	Balance at June 30, 2018
Capital assets not depreciated					
Land and land clearance	\$ 909,577	\$ —	\$ —	\$ 211,719	\$ 1,121,296
Air easements	44,346	—	—	—	44,346
Emission reduction credits	3,070	—	—	(298)	2,772
Construction work in progress	1,207,215	1,415,338	(22)	(1,081,649)	1,540,882
Total capital assets not depreciated	2,164,208	1,415,338	(22)	(870,228)	2,709,296
Capital assets depreciated					
Buildings	3,565,932	—	—	4,822	3,570,754
Improvements	4,800,904	2,465	—	830,406	5,633,775
Equipment and vehicles	253,220	8,797	(57,263)	(3,087)	201,667
Others	—	—	—	38,087	38,087
Total capital assets depreciated	8,620,056	11,262	(57,263)	870,228	9,444,283
Accumulated depreciation					
Buildings	(601,284)	(113,004)	—	—	(714,288)
Improvements	(1,409,186)	(234,457)	—	33,040	(1,610,603)
Equipment and vehicles	(184,957)	(13,177)	52,996	(33,040)	(178,178)
Total accumulated depreciation	(2,195,427)	(360,638)	52,996	—	(2,503,069)
Capital assets depreciated, net	6,424,629	(349,376)	(4,267)	870,228	6,941,214
Total	\$ 8,588,837	\$ 1,065,962	\$ (4,289)	\$ —	\$ 9,650,510



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

5. Commercial Paper

As of June 30, 2019 and 2018, LAX had outstanding commercial paper (CP) notes of \$99.8 million and \$60.8 million, respectively. The respective average interest rates in effect as of June 30, 2019 and 2018 were 1.98% and 1.96%. The CP notes mature no more than 270 days from the date of issuance. The CP notes were issued as a means of interim financing for certain capital expenditures and redemption of certain bond issues.

LAX entered into a letter of credit (LOC) and reimbursement agreements with the following institutions to provide liquidity and credit support for the CP program: Barclays Bank PLC (Barclays) for \$109.0 million to expire on September 11, 2020; Sumitomo Mitsui Banking Corporation (Sumitomo); acting through its New York Branch for \$218.0 million to expire on September 11, 2020; and Wells Fargo Bank (Wells Fargo) for \$218.0 million to expire on September 11, 2020. As of June 30, 2019, LAX had undrawn LOC balances of \$109.0 million from Barclays, \$218.0 million from Sumitomo, and \$118.2 million from Wells Fargo. As of June 30, 2018, LAX had undrawn LOC balances of \$109.0 million from Barclays, \$218.0 million from Sumitomo, and \$157.2 million from Wells Fargo. LAX paid the LOC banks an annual commitment fee ranging from 0.30% and 0.32% on the stated amount of the LOC. LOC fees of \$1.7 million and \$1.8 million were paid for fiscal years 2019 and 2018, respectively.

LAX had the following CP activity during fiscal year 2019 (amounts in thousands):

	Balance at July 1, 2018	Additions	Reductions	Balance at June 30, 2019
Series A	\$ —	\$ 4,345	\$ —	\$ 4,345
Series B	19,380	38,767	—	58,147
Series C	41,452	564	(4,717)	37,299
Total	<u>\$ 60,832</u>	<u>\$ 43,676</u>	<u>\$ (4,717)</u>	<u>\$ 99,791</u>

LAX had the following CP activity during fiscal year 2018 (amounts in thousands):

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018
Series B	\$ 3,081	\$ 16,299	\$ —	\$ 19,380
Series C	45,655	692	(4,895)	41,452
Total	<u>\$ 48,736</u>	<u>\$ 16,991</u>	<u>\$ (4,895)</u>	<u>\$ 60,832</u>

6. Bonded Debt

Bonds issued by LAX are payable solely from revenues of LAX and are not general obligations of the City.

a. Outstanding Debt

Outstanding revenue and revenue refunding bonds are due serially in varying annual amounts. Bonds outstanding as of June 30, 2019 and 2018 are as follows (amounts in thousands):

Bond issues	Issue date	Interest rate	Fiscal year of last scheduled maturity	Original principal	Outstanding principal	
					2019	2018
Issue of 2008, Series C	8/6/08	3.000% - 5.250%	2038	\$ 243,350	\$ —	\$ 5,905
Issue of 2009, Series A	12/3/09	2.000% - 5.250%	2039	310,410	—	263,775
Issue of 2009, Series C	12/3/09	5.175% - 6.582%	2039	307,350	272,370	281,570
Issue of 2009, Series E	12/3/09	2.000% - 5.000%	2020	39,750	4,565	8,915
Issue of 2010, Series A	4/8/10	3.000% - 5.000%	2040	930,155	835,265	851,545
Issue of 2010, Series B	11/4/10	5.000%	2040	134,680	134,680	134,680
Issue of 2010, Series C	11/4/10	7.053%	2040	59,360	59,360	59,360
Issue of 2010, Series D	11/30/10	3.000% - 5.500%	2040	875,805	817,535	827,665
Issue of 2012, Series A	12/18/12	3.000% - 5.000%	2029	105,610	64,875	72,510
Issue of 2012, Series B	12/18/12	2.000% - 5.000%	2037	145,630	127,310	130,455
Issue of 2012, Series C	12/18/12	3.000% - 5.000%	2019	27,870	—	9,660
Issue of 2013, Series A	11/19/13	5.000%	2043	170,685	170,685	170,685
Issue of 2013, Series B	11/19/13	4.625% - 5.000%	2038	71,175	63,765	65,755
Issue of 2015, Series A	2/24/15	2.000% - 5.000%	2045	267,525	253,385	258,120
Issue of 2015, Series B	2/24/15	3.000% - 5.000%	2045	47,925	45,295	46,200
Issue of 2015, Series C	2/24/15	2.000% - 5.000%	2038	181,805	178,400	179,300
Issue of 2015, Series D	11/24/15	5.000%	2041	296,475	278,545	284,815
Issue of 2015, Series E	11/24/15	2.000% - 5.000%	2041	27,850	25,245	26,145
Issue of 2016, Series A	6/1/16	3.000% - 5.000%	2042	289,210	274,605	281,265
Issue of 2016, Series B	1/19/17	4.000% - 5.000%	2046	451,170	447,015	450,990
Issue of 2016, Series C	12/6/16	1.425% - 3.887%	2038	226,410	215,415	223,885
Issue of 2017, Series A	7/26/17	5.000%	2047	260,610	259,055	260,610
Issue of 2017, Series B	7/26/17	5.000%	2042	88,730	86,735	88,730
Issue of 2018, Series A	3/15/18	4.000% - 5.250%	2048	426,475	426,475	426,475
Issue of 2018, Series B	4/12/18	5.000%	2034	226,500	226,500	226,500
Issue of 2018, Series C	8/8/18	5.000% - 5.750%	2044	425,000	423,070	—
Issue of 2018, Series D	11/14/18	5.000%	2048	418,390	418,390	—
Issue of 2018, Series E	11/14/18	5.000%	2048	159,980	159,980	—
Issue of 2019, Series A	3/12/19	4.000% - 5.000%	2049	199,830	199,830	—
Issue of 2019, Series B	3/12/19	4.000% - 5.000%	2049	49,410	49,410	—
Issue of 2019, Series C	3/12/19	5.000%	2039	189,095	189,095	—
Issue of 2019, Series D	6/27/19	4.000% - 5.000%	2049	167,955	167,955	—
Issue of 2019, Series E	6/27/19	4.000% - 5.000%	2049	265,190	265,190	—
Total principal amount				<u>\$ 8,087,365</u>	7,140,000	5,635,515
Unamortized premium					702,777	445,581
Net revenue bonds					7,842,777	6,081,096
Current portion of debt					(143,240)	(120,830)
Net noncurrent debt					<u>\$ 7,699,537</u>	<u>\$ 5,960,266</u>

Notes to the Financial Statements

June 30, 2019 and 2018

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b. Pledged Revenue

The bonds are subject to optional and mandatory sinking fund redemption prior to maturity. LAX has agreed to certain covenants with respect to bonded indebtedness. The bonds are secured by a pledge of and lien on net pledged revenues as defined in the master senior and subordinate indentures, which pledge and lien remains in place until the bonds are no longer outstanding. Under the bond indentures, pledged revenues include substantially the total operating revenue with the Build America Bonds (BABs) subsidy, nonoperating Transportation Security Administration (TSA) revenue, interest income net of PFC, CFC and construction funds, but do not include PFC revenues, CFC revenues, and certain other nonoperating revenues.

LAX has received approval from the FAA to collect and use passenger facility charges (PFCs) to pay for debt service on bonds issued to finance the Tom Bradley International Terminal (TBIT) Renovations, Bradley West projects and Terminal 6 improvements. Board of Airport Commissioners authorized amounts of \$147.7 million and \$136.0 million were used for debt service in fiscal years 2019 and 2018, respectively.

The total principal and interest remaining to be paid on the bonds is \$12.5 billion. Principal and interest paid during fiscal year 2019 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, after application of the \$147.7 million PFCs funds discussed in the preceding paragraph), were \$442.5 million and \$948.3 million, respectively. Principal and interest paid during fiscal year 2018 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, after application of the \$136.0 million PFCs funds discussed in the preceding paragraph), were \$372.9 million and \$793.9 million, respectively.

c. Bond Issuances

Fiscal Year 2019

On August 8, 2018, LAX issued \$425.0 million of subordinate revenue bonds Series 2018C with a premium of \$62.9 million. The bonds were issued to fund certain capital projects at LAX.

On November 14, 2018, LAX issued \$418.4 million of subordinate revenue bonds Series 2018D with a premium of \$47.8 million, and \$160.0 million of subordinate revenue bonds Series 2018E with a premium of \$22.1 million. The bonds were issued to fund certain capital projects at LAX, and to fund an escrow for the purpose of defeasing the outstanding Regional Airports Improvement Corporation Facilities Sublease Revenue Bonds (Terminal 4 Project) issued by American Airlines.

On March 12, 2019, LAX issued \$199.8 million of subordinate revenue bonds Series 2019A with a premium of \$26.0 million, \$49.4 million of subordinate revenue bonds Series 2019B with a premium of \$8.9 million, and \$189.1 million of subordinate revenue bonds Series 2019C with a premium of \$35.6 million. The bonds were issued to fund certain capital projects at LAX, and to refund and defease the Series 2009A senior revenue bonds in the amount of \$247.6 million. This transaction resulted in a cash flow savings of \$61.3 million and an economic gain of \$48.6 million.

On June 27, 2019, LAX issued \$168.0 million of subordinate revenue bonds Series 2019D with a premium of \$30.2 million, and \$265.2 million of LAX subordinate revenue bonds Series 2019E with a premium of \$59.8 million. The bonds were issued to fund certain capital projects at LAX.

Fiscal Year 2018

On July 26, 2017, LAX issued \$260.6 million of subordinate revenue bonds Series 2017A with a premium of \$38.8 million, and \$88.7 million subordinate revenue bonds Series 2017B with a premium of \$15.9 million. On March 15, 2018, LAX issued \$426.5 million subordinate revenue bonds Series 2018A with a premium of \$54.1 million. On April 12, 2018, LAX issued \$226.5 million senior refunding revenue bonds Series 2018B with a premium of \$37.3 million. The Series 2017A, 2017B, and 2018A bonds were issued to fund certain capital projects at LAX. The Series 2018B bonds were issued to refund and defease a portion of the Series 2008A senior revenue bonds in an amount of \$265.0 million. This transaction resulted in a cash flow savings of \$72.7 million and an economic gain of \$52.7 million.

On December 6, 2016, LAX issued \$226.4 million of senior refunding revenue bonds Series 2016C, and on January 19, 2017, \$451.2 million of subordinate revenue bonds Series 2016B. The Series 2016C bonds were issued at par, and the Series 2016B bonds were sold with premium of \$51.1 million. The 2016C bonds were issued to advance refund and defease a portion of the Series 2008A senior revenue bonds in the amount of \$214.1 million. These transactions resulted in a cash flow savings of \$39.7 million and economic gain of \$24.8 million. The 2016B bonds were issued to fund certain capital projects at LAX.



Notes to the Financial Statements

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d. Principal Maturities and Interest

Scheduled annual principal maturities and interest are as follows (amounts in thousands):

Fiscal year(s) ending	Principal	Interest	Total
2020	\$ 143,240	\$ 354,720	\$ 497,960
2021	162,110	350,718	512,828
2022	170,690	342,924	513,614
2023	182,485	334,723	517,208
2024	200,995	325,903	526,898
2025 - 2029	1,168,215	1,465,632	2,633,847
2030 - 2034	1,492,205	1,134,028	2,626,233
2035 - 2039	1,843,045	725,036	2,568,081
2040 - 2044	1,212,790	294,270	1,507,060
2045 - 2049	564,225	69,721	633,946
Total	<u>\$ 7,140,000</u>	<u>\$ 5,397,675</u>	<u>\$ 12,537,675</u>

e. Build America Bonds (BABs)

LAX subordinate revenue bonds 2009 Series C and 2010 Series C with par amounts of \$307.4 million and \$59.4 million, respectively, were issued as federally taxable BABs under the American Recovery and Reinvestment Act of 2009. LAWA receives a direct federal subsidy payment in the amount equal to 35% of the interest expense on the BABs. The automatic cuts in spending (referred to as "sequestration") for the federal fiscal years ending September 30, 2019 and September 30, 2018 reduced the subsidy. The interest subsidy on the BABs was \$7.3 million in fiscal year 2019 and \$7.5 million in fiscal year 2018. The BABs rates were 6.2% and 6.6% for fiscal years 2019 and 2018, respectively. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.

f. Other Significant Obligations

Aside from LAX's debt obligations incurred under the Master Senior and Subordinate Indentures, LAX's other significant obligations include:

Commercial Paper Reimbursement Agreements

The commercial paper reimbursement agreements contain a provision that upon the occurrence of an event of default by LAX, the applicable letter of credit (LOC) bank can, at its option, declare all obligations of LAX under the LOC to be immediately due and payable.

APM Agreement

The APM Agreement contains (1) a provision that if LAX terminates the agreement for any of the allowable reasons under the agreement, LAX will owe the APM Developer various amounts, as applicable, including amounts associated with equity and debt contributions made or arranged by the APM Developer and various other breakage costs, with such amounts being payable by LAX within 120 days of the termination date of the agreement, and (2) a provision that if the APM Developer terminates the agreement for any of the allowable reasons under the agreement, LAX will owe the APM Developer various amounts, as applicable, including amounts associated with equity and debt contributions made or arranged by the APM Developer and various other breakage costs, with such amounts being payable by LAX within 120 days of the termination date of the agreement.

ConRAC Agreement

The ConRAC Agreement contains (1) a provision that if LAX terminates the agreement for any of the allowable reasons under the agreement, LAX will owe the ConRAC Developer various amounts, as applicable, including amounts associated with equity and debt contributions made or arranged by the ConRAC Developer and various other breakage costs, with such amounts being payable by LAX within 120 days of the termination date of the agreement, and (2) a provision that if the ConRAC Developer terminates the agreement for any of the allowable reasons under the agreement, LAX will owe the ConRAC Developer various amounts, as applicable, including amounts associated with equity and debt contributions made or arranged by the ConRAC Developer and various other breakage costs, with such amounts being payable by LAX within 120 days of the termination date of the agreement.



Notes to the Financial Statements

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7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2019 (amounts in thousands):

	Balance at			Balance at	Current
	July 1, 2018	Additions	Reductions	June 30, 2019	Portion
Revenue bonds	\$ 5,635,515	\$ 1,874,850	\$ (370,365)	\$ 7,140,000	\$ 143,240
Unamortized premium	445,581	293,227	(36,031)	702,777	—
Net revenue bonds	6,081,096	2,168,077	(406,396)	7,842,777	143,240
Accrued employee benefits	47,838	5,051	(4,258)	48,631	5,349
Estimated claims payable	97,075	6,745	(10,349)	93,471	9,170
Net pension liability	710,724	62,695	—	773,419	—
Net OPEB liability	76,310	1,459	—	77,769	—
Other long-term liabilities	885	1	—	886	—
Total	<u>\$ 7,013,928</u>	<u>\$ 2,244,028</u>	<u>\$ (421,003)</u>	<u>\$ 8,836,953</u>	<u>\$ 157,759</u>

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2018 (amounts in thousands):

	Balance at			Balance at	Current
	July 1, 2017	Additions	Reduction	June 30, 2018	Portion
Revenue bonds	\$ 5,006,095	\$ 1,002,315	\$ (372,895)	\$ 5,635,515	\$ 120,830
Add unamortized premium	320,461	146,064	(20,944)	445,581	—
Less unamortized discount	(3,080)	—	3,080	—	—
Net revenue bonds	5,323,476	1,148,379	(390,759)	6,081,096	120,830
Accrued employee benefits	46,889	6,529	(5,580)	47,838	4,258
Estimated claims payable	78,484	26,728	(8,137)	97,075	10,349
Liability for environmental/ hazardous materials cleanup	7,500	—	(7,500)	—	—
Net pension liability	761,187	—	(50,463)	710,724	—
Net OPEB liability	—	89,614	(13,304)	76,310	—
Other long-term liabilities	886	—	(1)	885	—
Total	<u>\$ 6,218,422</u>	<u>\$ 1,271,250</u>	<u>\$ (475,744)</u>	<u>\$ 7,013,928</u>	<u>\$ 135,437</u>



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

8. Leases and Agreements

a. Operating Leases and Agreements As Lessor

LAX has entered into numerous rental agreements with concessionaires for food and beverage, gift and news, duty-free, rental car facilities, and advertisements. In general, the agreements provide for cancellation on a 30-day notice by either party; however, they are intended to be long-term in nature with renewal options. Accordingly, these agreements are considered operating leases for purposes of financial reporting.

The agreements provide for a concession fee equal to the greater of a minimum annual guarantee (MAG) or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2019 and 2018, revenues from such agreements were approximately \$380.2 million and \$356.9 million, respectively. The respective amounts over MAG were \$110.7 million and \$96.9 million.

Minimum future rents or payments under these agreements over the next five years, assuming no material changes from concessionaires' current levels of gross sales, and that current agreements are carried to contractual termination, are as follows (amounts in thousands):

Fiscal year ending	Amount
2020	\$ 194,329
2021	151,021
2022	138,581
2023	132,214
2024	95,586
Total	<u>\$ 711,731</u>

On March 1, 2012, LAWA and URW, LLC (URW) (formerly Westfield Airports, LLC.) entered into a Terminal Commercial Management Concession Agreement (3-1-12 Agreement) for URW to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Tom Bradley International Terminal (TBIT) and Terminal 2 at LAX for a term of 17 years consisting of two-year development period and fifteen-year operational period. Since then, the Terminal 2 portion has been amended with an expiration date the same as the TBIT portion, which is no later than January 31, 2032. URW will select concessionaires subject to LAWA approval. Concession agreements awarded by URW shall have a term no longer than ten years. The agreement requires URW and its concessionaires to invest no less than \$81.9 million in initial improvements and \$16.4 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to URW or the issuance of rent credit.

Under the 3-1-12 Agreement, the MAG will be adjusted each year by the greater of (a) \$210 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA beginning January 1, 2014. For any year in which the number of enplaned passengers in TBIT and Terminal 2 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis.

On June 22, 2012, LAWA and URW entered into another Terminal Commercial Management Concession Agreement (6-22-12 Agreement) for URW to develop, lease, and manage retail, food and beverage and certain passenger services in specified locations at the Terminals 1, 3, and 6. The term of this agreement is 17 years consisting of two-year development period and fifteen-year operational period. Under this agreement, the expiration dates of Terminal 1, 3, and 6 are June 30, 2032, June 30, 2029, and September 30, 2030, respectively. URW will select concessionaires subject to LAWA approval. Concession agreements awarded by URW shall have a term no longer than ten years. The agreement requires URW and its concessionaires to invest no less than \$78.6 million in initial improvements and \$15.7 million in mid-term refurbishments. Such improvements are subject to LAWA approval. The initial non-premises improvements, as defined, shall be acquired by and become the property of LAWA by cash payment to URW or the issuance of rent credit.

Under the 6-22-12 Agreement, the MAG will be adjusted each year by the greater of (a) \$240 per square foot escalated by the Consumer Price Index, but not greater than 2.5% for any year, or (b) 85% of the prior year's Percentage Rent (as defined) paid to LAWA. For any year in which the number of enplaned passengers in Terminals 1, 3, and 6 is (a) less than the 2011 passenger enplanements, or (b) less than 90% of the prior year's passenger enplanements in these terminals, an additional adjustment to the MAG is calculated on a retroactive basis beginning January 1, 2014.

On November 13, 2017, LAWA and URW entered into an amendment related to TBIT and Terminal 2 for additional concession space of up to 30,000 square feet in the Midfield Satellite Concourse (MSC). The construction of the new concourse started in February 2017 and is expected to be completed by 2021.

Minimum future rents under these two agreements with URW over the next five years assuming no material changes from concessionaires' current levels of gross sales are estimated as follows (amounts in thousands):

Fiscal year ending	Amount
2020	\$ 29,898
2021	30,646
2022	31,412
2023	32,197
2024	33,409
Total	<u>\$ 157,562</u>



Notes to the Financial Statements

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(continued)

LAX also leases land and terminal facilities to certain airlines and others. The terms of these long-term leases range from less than 10 years to 40 years and generally expire between 2019 and 2024. Certain airlines and consortium of airlines also pay maintenance and operating charges (M&O Charges) that include direct and indirect costs allocated to all passenger terminal buildings, other related and appurtenant facilities, and associated land. Rates for M&O Charges are set each calendar year based on the actual audited M&O Charges for the prior fiscal year ending June 30. The land and terminal lease agreements are accounted for as operating leases. For the fiscal years ended June 30, 2019 and 2018, revenues from these leases were \$700.0 million and \$635.4 million, respectively.

Future rents under these land and terminal lease agreements over the next five years were based on the assumption that current agreements are carried to contractual termination. The estimated future rents are as follows (amounts in thousands):

Fiscal year ending	Amount
2020	\$ 514,574
2021	493,907
2022	423,135
2023	375,457
2024	339,084
Total	<u>\$ 2,146,157</u>

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2019 and 2018 are as follows (amounts in thousands):

	2019	2018
Buildings and facilities	\$ 6,186,984	\$ 5,582,528
Accumulated depreciation	(1,266,044)	(1,038,013)
Net	4,920,940	4,544,515
Land	522,328	522,328
Total	<u>\$ 5,443,268</u>	<u>\$ 5,066,843</u>

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2019 and 2018 were \$7.5 million and \$7.1 million, respectively. Future minimum lease payments under the agreements are as follows (amounts in thousands):

Fiscal year(s) ending	Amount
2020	\$ 5,654
2021	3,560
2022	3,560
2023	3,560
2024	3,560
2025-2029	13,869
2030-2034	5,704
Total	<u>\$ 39,467</u>



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

9. Passenger Facility Charges

Passenger Facility Charges (PFCs) are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers. Both the fee and the intended projects are reviewed and approved by the Federal Aviation Administration (FAA). Airlines operating at LAX have been collecting PFCs on behalf of LAX. PFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. The current PFCs is \$4.50 per enplaned passenger. PFCs collection authorities approved by FAA are \$4.3 billion and \$4.2 billion as of June 30, 2019 and 2018, respectively. LAX has received approval from the FAA to collect and use PFCs to pay for debt service on bonds issued to finance the TBIT Renovations, Bradley West projects and Terminal 6 improvements. Board authorized amounts of \$147.7 million and \$136.0 million were used for debt service in fiscal years 2019 and 2018, respectively.

The following is a summary of projects approved by FAA as of June 30, 2019 and 2018 (amounts in thousands):

	2019	2018
Terminal development	\$ 3,141,679	\$ 3,141,679
Noise mitigation	1,042,079	953,745
Airfield development and equipment	83,620	83,620
Total	<u>\$ 4,267,378</u>	<u>\$ 4,179,044</u>

PFCs collected and the related interest earnings through June 30, 2019 and 2018 were as follows (amounts in thousands):

	2019	2018
Amount collected	\$ 2,626,905	\$ 2,453,805
Interest earnings	220,660	214,429
Total	<u>\$ 2,847,565</u>	<u>\$ 2,668,234</u>

Cumulative expenditures on approved PFCs projects totaled \$2.5 billion and \$2.3 billion for fiscal years 2019 and 2018, respectively.

10. Customer Facility Charges

California CFC Legislation permits LAWA to require the collection by rental car companies of CFCs at a rate charged on a per-day basis up to \$9.00 per day (for up to 5 days), and CFCs collected by the rental car companies on behalf of LAWA are permitted under the California CFC Legislation to finance, design and construct the ConRAC; to finance, design, construct and operate the APM System, as well as acquiring vehicles for use in that system; and to finance, design and construct terminal modifications to accommodate the common-use transportation system.

In November 2001, in anticipation of constructing a consolidated rental car facility (ConRAC) identified in LAX's master plan, the Board approved collection of CFCs of \$10.00 per rental contract and began collections in August 2007. On October 5, 2017, the Board authorized collection of an updated CFC pursuant to the California CFC Legislation to fund costs of a ConRAC and its share of a common-use transportation system (CTS) at LAX. The Board authorized collection of CFCs of \$7.50 per day for the first five days of each car rental contract, effective January 1, 2018, by rental car companies serving LAX. On June 20, 2019, the Board authorized collection of \$9.00 per day for the first five days of each car rental contract, effective September 1, 2019, by rental car companies serving LAX.

CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected and the related interest earnings through June 30, 2019 and 2018 were as follows (amounts in thousands):

	2019	2018
Amount collected	\$ 402,676	\$ 322,428
Interest earnings	27,689	21,348
Total	<u>\$ 430,365</u>	<u>\$ 343,776</u>

Cumulative expenditures on approved CFCs projects totaled \$3.0 million for fiscal years 2019 and 2018.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$29.9 million and \$54.3 million in fiscal years 2019 and 2018, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.



Notes to the Financial Statements

June 30, 2019 and 2018

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12. Related Party Transactions

The City provides services to LAX such as construction and building inspection, fire and paramedic, police, water and power, and certain administrative services. The costs for these services for fiscal years ended June 30, 2019 and 2018 were \$119.9 million and \$116.1 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2019 and 2018 were \$11.5 million and \$10.8 million, respectively.

LAX shares certain administrative functions with VNY and PMD including, but not limited to, legal, human services, and financial services. Also, beginning fiscal year 2011, LAX pays VNY annual rent for the use of the land where the Flyaway Terminal resides. The rent is adjusted every July 1 of each year based on the consumer price index. The adjusted rent was \$1.2 million and \$1.1 million for fiscal years 2019 and 2018, respectively. The details are as follows (amounts in thousands):

	2019	2018
Allocated administrative costs		
VNY	2,333	2,478
PMD	395	446
Total	2,728	2,924
Land rental	(1,203)	(1,157)
Net	\$ 1,525	\$ 1,767

In December 2009, two cases were settled that related to FAA's audit findings of improper payments by LAX to the City General Fund. The cases involved compliance review by FAA of the transfer of LAX revenue funds to the City General Fund for the implementation of a joint strategic international marketing alliance, and the legality of the transfer of \$43.0 million out of approximately \$58.0 million representing condemnation proceeds received for certain City-owned property taken by the State for use in the construction of the Century Freeway. The settlement calls for a series of semi-annual payments over ten years through June 30, 2019 by the City General Fund to LAX totaling \$17.7 million plus 3.0% interest for a total of \$21.3 million. The installment payments will be offset against billings for actual cost of services provided by the City General Fund to LAX. The balance of \$2.9 million, reported as receivable within one year under unrestricted current assets as of June 30, 2018, was paid off in fiscal year 2019.

13. Pension Plan

I. Los Angeles City Employees' Retirement System

a. General Information

Plan Description

All full-time employees of LAX are eligible to participate in the Los Angeles City Employees' Retirement System (LACERS), a single-employer defined benefit pension plan (the Pension Plan). LACERS serves as a common investment and administrative agent for City departments and agencies that participate in LACERS. LACERS is under the exclusive management and control of its Board of Administration whose authority is granted by statutes in Article XVI, Section 17 of the California State Constitution, and Article XI of the Los Angeles City Charter. Benefits and benefit changes are established by ordinance and approved by City Council and the Mayor.

All employees who became members of LACERS before July 1, 2013 are designated as Tier 1 members. On or after July 1, 2013, new employees became members of LACERS Tier 2. On July 9, 2015, Tier 2 was rescinded and a new tier of benefits was created. As a result, Ordinance No. 184134 was adopted on January 12, 2016, where all active Tier 2 members were transferred to Tier 1 as of February 21, 2016. Thereafter, new members became Tier 3 members of LACERS. Membership to Tier 1 is now closed to new entrants.⁵

LACERS' publicly issued financial report, which covers both pension benefits and other postemployment benefits, may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328 or LACERS' website <http://lacers.org/aboutlacers/reports/index.html>. As a City department, LAWA shares in the risks and costs with the City. LAX presents the related defined benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the report date of LAX's financial statements, LACERS' financial statements and the Pension Plan's actuarial valuation study for fiscal year 2019 are not yet available.

Benefits Provided

LACERS provides for service and disability retirement benefits, as well as death benefits. Members of LACERS have a vested right to their own contributions and accumulated interest posted to their accounts. Generally, after five years of employment, members are eligible for future retirement benefits, which increase with length of service. If a member who has five or more years of continuous City service terminates employment, the member has the option of receiving retirement benefits when eligible or having his or her contributions and accumulated interest refunded. Benefits are based upon age, length of service, and compensation.

⁵ During fiscal year 2018, LACERS became closed to Airport Peace Officers (APO) and all new APO hired after January 6, 2018 would be enrolled in City of Los Angeles Fire and Police Pensions (LAFPP) Tier 6, rather than in LACERS. Please refer to Note 13.II for more information.

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LACERS Tier 1 members are eligible to retire with unreduced benefits if they have 10 or more years of continuous City service at age 60, or at least 30 years of City service at age 55, or with any years of City service at age 70 or older. Members also are eligible to retire with age-based reduced benefits after reaching age 55 with 10 or more years of continuous City service, or at any age with 30 or more years of City service. Full (unreduced) retirement benefits are determined as 2.16% of the member's average monthly pensionable salary during the member's last 12 months of service, or during any other 12 consecutive months of service designated by the member, multiplied by the member's years of service credit. Members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater.

Upon an active member's death, a refund of the member's contributions and, depending on the member's years of service, a limited pension benefit equal to 50% of monthly salary will be paid up to 12 months. Or, if such member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired member's death, a \$2,500 funeral allowance is paid, and modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.

LACERS Tier 3 members are eligible to retire with unreduced benefits if they have at least 10 or more years of City service at age 60 or at least 30 years of City service at age 55, provide that five years of service must be continuous. Full unreduced retirement benefits at age 60 with 10 years of City service are determined with a 1.5% retirement factor. Members also are eligible to retire with an age-based reduced benefits before reaching age 60 with 30 or more years of City service with a retirement factor of 2.0%. If the member is age 55 or older with 30 years of service at the time of retirement, his or her retirement allowance will not be subject to reduction on account of age. However, if the member is younger than age 55 with 30 years of service at the time of retirement, his or her retirement allowance will be reduced by the applicable early retirement reduction factor. In addition, LACERS also provides Tier 3 members an enhanced retirement benefits with a 2.0% retirement factor if the member retires at age 63 with at least 10 years of service; or a retirement factor of 2.1% if the member retires at age 63 with 30 years of service. Tier 3 retirement benefits are determined by multiplying the member's retirement factor (1.5% - 2.1%), with the member's last 36 months of final average compensation or any other 36 consecutive months designated by the member, and by the member's years of service credit.

Tier 3 members with five years of continuous service are eligible for disability retirement, and the benefits are determined as 1/70 of the member's final average monthly salary for each year of service or 1/3 of the member's final average monthly salary, if greater. Upon an active member's death, a refund of the member's contributions and, depending on the member's years of service, a limited pension benefit equal to 50% of monthly salary may be paid up to 12 months. Or, if such member was eligible to retire, survivor benefits may be paid to an eligible spouse or qualified domestic partner. Upon a retired member's death, a \$2,500 funeral allowance is paid, and a modified or unmodified allowance is continued to an eligible spouse or qualified domestic partner.



Retirement allowances are indexed annually for inflation. The LACERS Board of Administration has authority to determine the average annual percentage change in the Consumer Price Index (CPI) for the purpose of providing a cost-of-living adjustment (COLA) to the benefits of eligible members and beneficiaries in July. The adjustment is based on the prior year's change of Los Angeles area CPI subject to a maximum of 3.0% for Tier 1 members or 2.0% for Tier 3 members. The excess over the maximum will be banked for Tier 1 members only.

Membership

The components of LACERS membership in both tiers (Tier 1 and Tier 3) for the measurement dates as of June 30, 2018 and June 30, 2017, respectively, were as follows: (Note: information for fiscal year 2019 is not yet available as of this report issue date.)

	2018	2017
Active		
Vested	18,460	19,188
Non-vested	7,582	6,269
	<u>26,042</u>	<u>25,457</u>
Inactive		
Non-vested	5,158	5,078
Terminated entitled to benefits, not yet receiving benefits	2,870	2,350
Retired	19,379	18,805
	<u>27,407</u>	<u>26,233</u>
Total	<u><u>53,449</u></u>	<u><u>51,690</u></u>

Member Contributions

The current contribution rate for most of the Tier 1 members is 11% of their pensionable salary including a 1% increase in the member contribution rate pursuant to the 2009 Early Retirement Incentive Program (ERIP) ordinance for all employees for a period of 15 years (or until the ERIP cost obligation is fully recovered, whichever comes first); and 4% additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy pursuant to a 2011 City Council ordinance. As of June 30, 2019 and June 30, 2018, all active Tier 1 members are now paying additional contributions, and are not subject to the retiree medical subsidy cap. The contribution rate for Tier 3 members is 11% of their pensionable salary including 4% of additional contributions in exchange for a vested right to future increases in the maximum retiree medical subsidy. Unlike Tier 1, Tier 3 members do not pay the ERIP contribution; therefore, Tier 3 members' contribution rate will not drop down when Tier 1 members cease to pay the 1% ERIP contribution.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

Employer Contributions

The City contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Administration. Employer contribution rates are adopted annually based upon recommendations received from LACERS actuary after the completion of the annual actuarial valuation. The average employer contribution rates were 22.21% and 22.88% of compensation as of June 30, 2018 (based on the June 30, 2016 valuation) and June 30, 2017 (based on the June 30, 2015 valuation), respectively. (Note: information for fiscal year 2019 is not yet available as of this report issue date).

The total City contributions to LACERS of \$719.2 million and \$686.6 million for the years ended June 30, 2019 and June 30, 2018, respectively, consisted of the following (amounts in thousands):

	2019	2018
Required contributions - Retirement Plan	\$ 478,717	\$ 450,195
Family death benefit Plan	110	143
Total City contributions	478,827	450,338
Member contributions - Retirement Plan	240,357	236,222
Total	\$ 719,184	\$ 686,560

The required City contribution of \$478.7 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$240.4 million were made toward the retirement and voluntary family death benefits for fiscal year 2018.

The required City contribution of \$450.2 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$236.2 million were made toward the retirement and voluntary family death benefits for fiscal year 2017.

LAX's Contributions to the Pension Plan

LAX's contributions to the Pension Plan for the year ended June 30 (amounts in thousands):

	2019	2018
LAX's required contributions to the Pension Plan	\$ 64,737	\$ 60,918

The LAX contributions made to the Pension Plan under the required contribution category in the amounts of \$64.7 million and \$60.9 million for fiscal years 2019 and 2018, respectively, were equal to 100% of the actuarially determined contribution of the employer.

b. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to the Pension Plan

LACERS' Net Pension Liability (NPL) for fiscal year 2019 was measured as of June 30, 2018 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2018.

The Pension Plan's fiduciary net position has been determined on the same basis used by the Pension Plan and the plans basis of accounting, including policies with respect to benefit payments and valuation of investments. Detailed information about LACERS net position is available in the separately issued LACERS financial reports, which can be found on the LACERS website.

As of the reporting date June 30, 2019 (measurement date of June 30, 2018), LAX reported its proportionate shares of TPL, FNP and NPL⁶ as follows (amounts in thousands):

	Reporting date 6/30/19 Measurement date 6/30/18
LAX's proportionate share:	
Total Pension Liability	\$ 2,696,584
Plan Fiduciary Net Position	(1,924,658)
Net Pension Liability	<u>\$ 771,926</u>
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	71.37%

LAX's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAX during fiscal year 2018. The NPL was measured as of June 30, 2018 and determined based upon the Pension Plan's FNP (plan assets) and TPL from actuarial valuations as of June 30, 2018.

⁶ On March 28, 2017, the City Council adopted Ordinance No. 184853 to amend the Los Angeles Administrative Code authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer to Tier 6 of LAFPP Plan or to remain in LACERS Plan. All new APO hired after January 7, 2018 would be enrolled in LAFPP Tier 6. The Governmental Accounting Standards(GAS) 68 Actuarial Valuation Report based on June 30, 2017 Measurement Date for Employer Reporting as of June 30, 2018 did not include any additional liabilities associated with the enhanced benefits for the APO who would elect to remain in LACERS since the elections had not yet been completed at the time the actuary prepared the GAS 68 Actuarial Valuation Report. Similarly, the actuary did not include any decrease in liabilities associated with APO members transferring to LAFPP in the GAS 67 Actuarial Valuation Report, for the same reason. Based on discussions with LACERS, the actuary have been directed to continue excluding any increases or decreases in liabilities associated with any APO benefit enhancements at LACERS and APO transfers to LAFPP for the June 30, 2017 (measurement date) GAS 68 Valuation Report. For more information on the transfer to LAFPP, please refer to Note 13, Part II, City of Los Angeles Fire and Police Pensions, of the notes to the financial statements.

Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

Change in LAX's proportionate share of the NPL as of June 30, 2019 (measurement date June 30, 2018) and 2018 (measurement date June 30, 2017) was as follows (amounts in thousands):

	NPL	Proportion
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	\$ 771,926	13.52%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 710,724	13.47%
Change - Increase	\$ 61,202	0.05%

For the year ended June 30, 2019, LAX recognized pension expense of \$80.5 million. At June 30, 2019, LAX reported deferred outflows of resources and deferred inflows of resources related to pensions from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 64,737	\$ —
Differences between expected and actual experience	—	36,779
Changes of assumptions	92,821	—
Net difference between projected and actual earnings on pension plan investments	15,791	17,427
Changes in proportion and differences between employer contributions and proportionate share of contributions	4,348	9,070
Total	\$ 177,697	\$ 63,276

\$64.7 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts in thousands):

Fiscal year ending	Amount
2020	\$ 31,514
2021	9,975
2022	(5,733)
2023	9,900
2024	4,028

Actuarial Assumptions

The total pension liability as of June 30, 2019 was determined by actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Date of Experience Study	June 30, 2017 (July 1, 2014 through June 30, 2017)
Long-Term Expected Rate of Return	7.25%
Inflation	3.00%
Projected Salary Increases	Ranges from 3.90% to 10.00% based on years of service, including inflation
Mortality Table for Retirees and Beneficiaries	Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2017.
Mortality Table for Disabled Retirees	Headcount-Weighted RP-2014 Disabled Retiree Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2017.
Marital Status	76% of male and 50% of female are assumed to be married or have a qualified domestic partner.
Spouse Age Difference	Male retirees are assumed to be three years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

Discount Rate

The discount rates used to measure the total pension liability was 7.25% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2019.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation, and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	14.00%	5.61%
U.S. Small Cap Equity	5.00	6.10
Developed International Large Cap Equity	17.00	6.70
Developed International Small Cap Equity	3.00	7.10
Emerging Market Equity	7.00	8.90
Core Bonds	13.75	1.00
High Yield Bonds	2.00	3.10
Bank Loans	2.00	3.00
Emerging Market Debt	4.50	3.40
Private Debt	3.75	5.50
Private Real Estate	7.00	4.70
Real Estate Investment Trust	0.50	5.90
Treasury Inflation Protected Securities	3.50	1.00
Commodities	1.00	3.40
Public Real Assets	1.00	4.80
Private Equity	14.00	9.00
Cash	1.00	0.00
Total	100.00%	

Sensitivity of LAX's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents LAX's proportionate share of the NPL as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what LAX's proportionate share of NPL would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate (amounts in thousands):

	June 30, 2019
1% decrease	6.25%
Net Pension Liability	\$1,142,456
Current discount rate	7.25%
Net Pension Liability	\$771,926
1% increase	8.25%
Net Pension Liability	\$466,589



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

II. *City of Los Angeles Fire and Police Pensions*

a. **General Information**

In November 2016, voters approved a ballot measure that allowed for approximately 500 sworn Airport Peace Officers (APO) to opt-out of the LACERS Plan and transfer to the City of Los Angeles Fire and Police Pensions (LAFPP) as Tier 6 members. On March 28, 2017, the City Council adopted Ordinance No. 184853 to amend the Los Angeles Administrative Code authorizing certain sworn APO at LACERS an option to transfer to Tier 6 of LAFPP Plan or to remain in the LACERS Plan. All new APO hired after January 7, 2018 would be enrolled in LAFPP Tier 6. Under the ordinance, APO members who elect to remain in LACERS would be Tier 1 members, and be eligible for enhanced benefits including more favorable disability benefits, death benefits, and a higher retirement factor of 2.3% (versus 2.16% for all other Tier 1 members), contingent upon a mandatory additional contribution payment of \$5,700 per remaining member to LACERS. The enhanced benefits was effective from January 7, 2018.

LACERS transferred \$3.0 million of allocated discounted APO assets to LAFPP in January 2018 for fiscal year 2018. Out of the \$3.0 million allocated discounted APO assets, \$2.5 million relates to LACERS pension assets, and \$0.5 million relates to LACERS health assets.

Plan Description

LAFPP operates under the City of Los Angeles Charter and Administrative Code provisions as a single-employer defined benefit pension plan covering all full-time active sworn firefighters, police officers, certain LAWA APO and Harbor Port Police officers of the City of Los Angeles. LAFPP is composed of six tiers.

Tier 6 is the current tier for all LAWA APO hired on or after January 7, 2018. Under provisions of the City Charter, the City Administrative Code and the State Constitution, the LAFPP Board has the responsibility to administer the plan. Changes to the benefit terms require approval by the City Council.

LAFPP issues a publicly available financial report that may be obtained by writing or calling: Los Angeles Fire and Police Pension System, 360 E. Second Street, Suite 400, Los Angeles, CA 90012, (213) 978-4545 or LAFPP's website <https://www.lafpp.com/about/financial-reports>. As of the completion date of LAWA's financial statements, the LAFPP's financial statements and the plan's actuarial valuation study for fiscal year 2019 are not yet available.

Benefits Provided by the LAFPP Plan

Information about benefits for Tiers 1 through 5 members is available in the separately issued LAFPP financial report. Tier 6 members must be at least age 50, with 20 or more years of service, to be entitled to a service pension. Annual pension benefits are equal to 40% of their two-year average compensation, increasing for each year of service over 20 years, to a maximum of 90% for 33 years. Tier 6 provides for postemployment COLAs based on the CPI to a maximum of 3% per year. However, any increase in the CPI greater 3% per year is placed into a COLA bank for use in years in which the increase in CPI is less than 3%. The City Council may also grant a discretionary ad hoc COLA no more than every three years, subject to certain conditions. Members who terminate their employment are entitled to a refund of their contributions plus LAFPP Board-approved interest if they do not qualify for a pension or if they waive their pension entitlements.

Member Contributions to the LAFPP Plan

The Board of Administration/Commissioners of LAFPP establishes and may amend the contribution requirements of members and the City. The City's annual contribution for the LAFPP plan is actuarially determined and represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize unfunded actuarial liabilities over a period not to exceed thirty years. The City Administrative Code and related ordinance define member contributions.

All members are required to make contributions to LAFPP regardless of tier in which they are included. However, members are exempt from making contributions when their continuous service exceeds 30 years for Tier 1 through 4, and 33 years for Tier 5 and Tier 6. The average member contribution rates for fiscal year 2018 (based on the June 30, 2016 valuation) was 9.99% of compensation paid biweekly. The average member contribution rates for fiscal year 2017 (based on the June 30, 2015 valuation) was 9.23% of compensation paid biweekly.

LAX's Contributions to the LAFPP Plan

In fiscal year 2019, LAX's contribution rate for the APO that are members of the LAFPP Tier 6 plan, as determined by the actuary was 27.54% of covered payroll. Based on LAX's reported covered payroll of \$4.9 million for Tier 6, LAX's pro rata share of the combined actuarially determined contribution for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was \$1.3 million. In fiscal year 2018, LAX's contribution rate for the APO that are members of the LAFPP Tier 6 plan, as determined by the actuary was 23.54% of covered payroll. Based on LAX's reported covered payroll of \$1.9 million for Tier 6, LAX's pro rata share of the combined actuarially determined contribution for pension and postemployment healthcare benefits, and actual contribution made to LAFPP was \$0.4 million for the period between January and June 2018.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

b. Net Pension Liability, Pension Expenses and Deferred Outflows/Inflows of Resources Related to the LAFPP Plan

At June 30, 2019, LAX recognized its proportionate shares of NPL of \$1.5 million, and a pension credit (negative pension expense) of \$0.3 million for the LAFPP plan due to timing differences between recognizing liability versus contributions. LAX also reported deferred outflows of resources and deferred inflows of resources related to pensions for the LAFPP plan from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
Pension contributions subsequent to measurement date	\$ 880	\$ —
Differences between expected and actual experience	2,110	—
Net difference between projected and actual earnings on pension plan investments	—	37
Total	<u>\$ 2,990</u>	<u>\$ 37</u>

\$0.9 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NPL in the year ending June 30, 2020.

14. Other Postemployment Benefit Plan (OPEB)

I. Los Angeles City Employees' Retirement System

a. General Information

Plan Description

Los Angeles City Employees' Retirement System (LACERS) provides other postemployment health care benefits under a Postemployment Health Care Plan to eligible retirees and their eligible spouses/domestic partners who participate in the Pension Plan. Benefits and benefit changes are established by ordinance and approved by the City Council and the Mayor. Under Division 4, Chapter 11 of the City's Administrative Code, certain retired employees are eligible for a health insurance premium subsidy. This subsidy is to be funded entirely by the City. These benefits may also extend to the coverage of other eligible dependent(s). To be eligible for health care benefits, member must: 1) be at least age 55; 2) had at least 10 whole years of service with LACERS; and 3) enrolled in a System-sponsored medical or dental plan or are a participant in the Medical Premium Reimbursement Program (MPRP). Retirees and surviving spouses/domestic partners can choose from the health plans that are available, which include medical, dental, and vision benefits, or participate in the MPRP if he/she resides in an area not covered by the available medical plans. Retirees and surviving spouses/domestic partners receive medical subsidies based on service years and service credit. The dental subsidies are provided to the retirees only, based on service years and service credit.

LACERS' publicly issued financial report, which covers both pension benefits and other postemployment benefits, may be obtained by writing or calling: Los Angeles City Employees' Retirement System, 202 W. First Street, Suite 500, Los Angeles, CA 90012-4401, (800) 779-8328 or LACERS' website <http://lacers.org/aboutlacers/reports/index.html>. As a City department, LAWA shares in the risks and costs with the City. LAX presents the related OPEB benefit disclosures as a participant in a single employer plan of the City on a cost-sharing basis. As of the report date of LAX's financial statements, LACERS' financial statements and the OPEB's actuarial valuation study for fiscal year 2019 are not yet available.

Benefits Provided

The maximum subsidies are set annually by the LACERS Board of Administration. Both Tier 1 and Tier 3 members will be eligible for 40% of maximum medical plan premium subsidy for 1 – 10 whole years of service credit, and the eligible members earn 4% per year of service credit for their annual medical subsidy accrual after 10 years of service. Eligible spouses/domestic partners of Pension Plan members are entitled to LACERS' postemployment health care benefits after the retired member's death. During fiscal year 2011, the City adopted an ordinance (Subsidy Cap Ordinance) to limit the maximum medical subsidy at \$1,190 for those members who retire on or after July 1, 2011; however, members who at any time prior to retirement made additional contributions are exempted from the subsidy cap and obtain a vested right to future increases in the maximum medical subsidy at an amount not less than the dollar increase in the Kaiser two-party non-Medicare Part A and Part B premium. As of June 30, 2018, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

Notes to the Financial Statements

June 30, 2019 and 2018

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Membership

As of the measurement dates June 30, 2018 and June 30, 2017, the components of membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows: (Note: information for fiscal year 2019 is not yet available as of this report issue date.)

	2018	2017
Retirement members/Surviving spouses ⁽¹⁾	15,144	14,652
Vested terminated members entitled to, but not yet receiving benefits ⁽²⁾	1,401	1,280
Active members	26,042	25,457
Total	42,587	41,389

(1) Total participants including married dependents and dependent children receiving benefits were 20,288 and 19,539 as of June 30, 2018 and 2017, respectively.

(2) Including terminated members due a refund of employee contributions.

Employer Contributions

The Los Angeles City Charter Sections 1158 and 1160 require periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate the required assets to pay benefits when due. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2018, was 4.92% of covered payroll, determined by the June 30, 2016 actuarial valuation. The required contribution rate for the Postemployment Health Care Plan for the fiscal year ended June 30, 2017, was 4.74% of covered payroll, determined by the June 30, 2015 actuarial valuation. (Note: information for fiscal year 2019 is not yet available as of this report issue date.)

LACERS uses the Entry Age cost method to determine the required annual contribution amount for the Postemployment Health Plan. The required annual contribution amount is composed of two components: normal cost which is the cost of the portion of the benefit that is allocated to a given year, and the payment to amortize the unfunded actuarial accrued liability (UAAL) which is the difference between LACERS actuarial liabilities and actuarial assets. The components of the UAAL are amortized as a level percent of pay. Based on LACERS funding policy, increases or decreases in the UAAL due to assumption changes are amortized over 20 years, except that health cost trend and premium assumption changes are amortized over 15 years. Plan changes and experience gains and losses are amortized over 15 years, subject to adjustments to comply with GASB requirements on maximum amortization period of 30 years for all layers combined. The amortization periods are closed as each layer of the UAAL is systematically amortized over a fixed period.

The total OPEB contributions to LACERS for the years ended June 30, 2018 and 2017 was \$100.9 million and \$97.5 million, representing 100% of the Actuarially Determined Contribution (ADC) of the employer as defined by GASB Statement No. 74⁷. (Note: information for fiscal year 2019 is not yet available as of this report issue date.)

LAX's Contributions to the Postemployment Health Care Plan

LAX's contributions to the Postemployment Health Care Plan for the years ended June 30 (amounts in thousands):

	2019	2018
LAX's required contributions to the Postemployment Health Care Plan	\$ 14,212	\$ 13,586

LAX's contributions made for the Postemployment Health Care Plan, in the amounts of \$14.2 million and \$13.6 million for fiscal years 2019 and 2018, respectively, represent 100% of the ADC as defined by GASB Statement No. 74. The Postemployment Health Care Plan is administered through a trust that meets the criteria of GASB Statement No. 75⁸.

⁷ GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued in June 2015

⁸ GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

b. Net OPEB Liability, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to the OPEB Plan

LACERS' Net OPEB Liability (NOL) for fiscal year 2019 was measured as of June 30, 2018 and determined based upon the Plan Fiduciary Net Position (FNP) and Total OPEB Liability (TOL) from actuarial valuation as of June 30, 2018.

As of the reporting date June 30, 2019 (measurement date of June 30, 2018), LAX reported its proportionate shares of TOL, FNP and NOL⁹ as follows (amounts in thousands):

	Reporting date 6/30/19	Measurement date 6/30/18
LAWA's proportionate share:		
Total OPEB Liability	\$	432,346
Plan Fiduciary Net Position		(355,290)
Plan's Net OPEB Liability	\$	77,056
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability		82.18%

LAX's NOL was measured as the proportionate share of the NOL based on the employer contributions made by LAWA during fiscal year 2018. The NOL was measured as of June 30, 2018 and determined based upon the Postemployment Health Care Plan's FNP (plan assets) and TOL from actuarial valuations as of June 30, 2018.

Change in LAX's proportionate share of the NOL as of June 30, 2019 (measurement date June 30, 2018) and 2018 (measurement date June 30, 2017) was as follows (amounts in thousands):

	NOL	Proportion
Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018)	\$ 77,056	13.28%
Proportion - Reporting date June 30, 2018 (measurement date June 30, 2017)	\$ 76,310	13.46%
Change - Increase (Decrease)	\$ 746	(0.18)%

⁹ On March 28, 2017, the City Council adopted Ordinance No. 184853 to amend the Los Angeles Administrative Code authorizing certain sworn Airport Peace Officers (APO) at LACERS to elect to transfer to Tier 6 of LAFPP Plan or to remain in LACERS Plan. All new APO hired after January 7, 2018 would be enrolled in LAFPP Tier 6. The Governmental Accounting Standards (GAS) 68 Actuarial Valuation Report based on June 30, 2017 Measurement Date for Employer Reporting as of June 30, 2018 did not include any additional liabilities associated with the enhanced benefits for the APO who would elect to remain in LACERS since the elections had not yet been completed at the time the actuary prepared the GAS 75 Actuarial Valuation Report. Similarly, the actuary did not include any decrease in liabilities associated with APO members transferring to LAFPP in the GAS 74 Actuarial Valuation Report, for the same reason. Based on discussions with LACERS, the actuary have been directed to continue excluding any increases or decreases in liabilities associated with any APO benefit enhancements at LACERS and APO transfers to LAFPP for the June 30, 2017 (measurement date) GAS 75 Valuation Report. For more information on the transfer to LAFPP, please refer to Note 13, Part II, City of Los Angeles Fire and Police Pensions, of the notes to the financial statements.

For the year ended June 30, 2019, LAX recognized the Postemployment Health Care Plan's OPEB expense of \$11.6 million. At June 30, 2019, LAX reported deferred outflows of resources and deferred inflows of resources related to the Postemployment Health Care Plan from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
OPEB contributions subsequent to measurement date	\$ 14,212	\$ —
Differences between expected and actual experience	1,794	—
Changes of assumptions	13,416	823
Net difference between projected and actual earnings on OPEB plan investments	—	22,997
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	1,672
Total	<u>\$ 29,422</u>	<u>\$ 25,492</u>

\$14.2 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to net OPEB liability will be recognized as OPEB expense as follows (amounts in thousands):

Fiscal year ending	Amount
2020	\$ (4,367)
2021	(4,367)
2022	(4,367)
2023	100
2024	1,915
2025	804



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June 30, 2019 and 2018

(continued)

Actuarial Assumptions

The total OPEB liability as of June 30, 2019 was determined by actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Date of Experience Study	June 30, 2017 (July 1, 2014 through June 30, 2017)
Long-Term Expected Rate of Return	7.25%
Inflation	3%
Projected Salary Increases	Range from 3.90% to 10.00% based on years of service, including inflation
Mortality Table for Retirees and Beneficiaries	Headcount-Weighted RP-2014 Healthy Annuitant Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2017.
Mortality Table for Disabled Retirees	Headcount-Weighted RP-2014 Disabled Retiree Mortality Table projected generationally with the two-dimensional mortality improvement scale MP-2017.
Marital Status	60% of male and 35% of female retirees who receive a subsidy are assumed to be married or have a qualified domestic partner and elect dependent coverage.
Spouse Age Difference	Male retirees are assumed to be four years older than their female spouses. Female retirees are assumed to be two years younger than their male spouses.
Health Care Cost Trend Rates	Medical Premium Trend Rates to be applied in the following fiscal years, to all health plans. Trend Rate is to be applied to the premium for shown fiscal year to calculate next fiscal year's projected premium. Medical Premium Trend Rates to be applied to fiscal year 2019 are:

First Fiscal Year (July 1, 2018 through June 30, 2019)

<u>Carrier</u>	<u>Under Age 65</u>	<u>Age 65 & Over</u>
Kaiser HMO	3.5%	4.29%
Anthem Blue Cross HMO	(1.75)%	N/A
Anthem Blue Cross PPO	3.5%	3.25%
UHC Medicare HMO	N/A	3.25%

Dental Premium Trend to be applied is 4.00% for all years.

Medicare Part B Premium Trend for the 2018-19 fiscal year will be calculated based on the actual increase in premium from 2018 to 2019. 4.00% for years following the 2019 calendar year.

Discount Rate

The discount rates used to measure the total OPEB liability, 7.25% as of June 30, 2018, was the long-term expected rate of return on the LACER Plan's investments.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rate of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized as follows:

Asset Class	Target Allocation	Arithmetic Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	14.00%	5.61%
U.S. Small Cap Equity	5.00	6.10
Developed International Large Cap Equity	17.00	6.70
Developed International Small Cap Equity	3.00	7.10
Emerging Market Equity	7.00	8.90
Core Bonds	13.75	1.00
High Yield Bonds	2.00	3.10
Bank Loans	2.00	3.00
Emerging Market Debt	4.50	3.40
Private Debt	3.75	5.50
Private Real Estate	7.00	4.70
Real Estate Investment Trust	0.50	5.90
Treasury Inflation Protected Securities	3.50	1.00
Commodities	1.00	3.40
Public Real Assets	1.00	4.80
Private Equity	14.00	9.00
Cash	1.00	0.00
Total	100.00%	

The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates equal to the actuarially-determined contribution rates. For this purpose, employer contributions are intended only to fund the benefits of current plan members and their beneficiaries.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

Based on those assumptions, LACERS fiduciary net position was projected to be available to make all projected future benefit payments for current plan Members and their beneficiaries. Therefore, in accordance with the GASB Statement No. 74, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2019.

Sensitivity of LAX's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents LAX's proportionate share of the net OPEB liability as of June 30, 2019, calculated using the discount rate of 7.25%, as well as what LAX's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate (dollar in thousands):

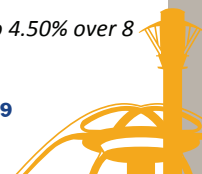
	June 30, 2019
1% decrease	6.25%
Net OPEB Liability	\$139,174
Current discount rate	7.25%
Net OPEB Liability	\$77,056
1% increase	8.25%
Net OPEB Liability	\$26,289

Sensitivity of LAX's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents LAX's proportionate share of the net OPEB liability as of June 30, 2019, as well as what LAX's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current trend rate¹⁰ (dollar in thousands):

	<u>June 30, 2019</u>
1% decrease	
Net OPEB Liability	\$19,238
Current Healthcare Cost Trend Rates	
Net OPEB Liability	\$77,056
1% increase	
Net OPEB Liability	\$152,854

¹⁰ Current trend rates: 6.87% graded down to 4.50% over 10 years for Non-Medicare medical plan costs; 6.37% graded down to 4.50% over 8 years for Medicare medical plan costs; and 4.50% for all years for Dental and Medicare Part B cost.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

II. *City of Los Angeles Fire and Police Pensions*

a. Benefits Provided by the LAFPP Plan - OPEB

LAFPP provides other postemployment healthcare benefits to eligible members. Detailed information about the LAFPP OPEB plan is available in the separately issued LAFPP financial report.

b. Net OPEB Liability, OPEB Expenses and Deferred Outflows/Inflows of Resources Related to the LAFPP Plan

At June 30, 2019, LAX recognized its proportionate shares of NOL of \$0.7 million, and OPEB expense of \$0.2 million for the LAFPP plan. LAX also reported deferred outflows of resources and deferred inflows of resources related to OPEB for the LAFPP plan from the following resources (amounts in thousands):

	Deferred outflows of resources	Deferred inflows of resources
OPEB contributions subsequent to measurement date	\$ 457	\$ —
Differences between expected and actual experience	609	—
Changes of assumptions	25	—
Net difference between projected and actual earnings on OPEB plan investments	—	5
Total	<u>\$ 1,091</u>	<u>\$ 5</u>

\$0.5 million reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the NOL in the year ending June 30, 2020.

15. Risk Management

The Risk Management Division administers LAWA's risk and claims management program by implementing a comprehensive risk identification, assessment, regulation and insurance program. The program addresses key risks that may adversely affect LAWA's ability to meet its business goals and objectives and effectively insures against losses, transfers risk or otherwise mitigates risk losses.

LAWA maintains insurance coverage of \$1.3 billion for general aviation liability perils and \$1.0 billion for war and allied perils (Terrorism). Additional insurance coverage is carried for general all risk property insurance for \$2.5 billion, that includes \$250.0 million sub-limits for boiler and machinery, and \$25.0 million for earthquake. Deductibles for these policies are \$10,000 per claim with a \$500,000 annual aggregate for general liability losses, and \$100,000 per occurrence and no aggregate for general property. Historically, no liability or property claims have reached or exceeded the stated policy limits stated above.

Additionally, LAX maintains catastrophic loss fund for claims or losses that may exceed insurance policy limits or where insurance is not available or viable. Commercial insurance is used where it is legally required, contractually required, or judged to be the most effective way to finance risk. LAWA also monitors contractual transfer of risk by and through insurance review and requirements of contractors, tenants, airlines. For fiscal years 2019, 2018, and 2017, no claims were in excess of LAX's insurance coverage or approached a substantial portion of the overall coverage capacities.

A number of claims/lawsuits were pending against LAX that arose in the normal course of its operations. LAX recognizes a liability for claims and judgments when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Outside counsel provides estimates for the amount of liabilities with a probability of occurring from these lawsuits. The probability weighted liability for litigation and other claims for the fiscal years ended June 30, 2019 and 2018 was \$10.1 million.

LAX is self-insured as part of the City's program for workers' compensation. All workers' compensation cases are processed by LAWA under the City's workers compensation program. Liability and risk are retained by LAX. The actuarially determined accrued liability for workers' compensation includes provision for incurred but not reported claims and loss adjustment expenses. The present value of the estimated outstanding losses was calculated based on a 3% yield on investments. LAX's accrued workers' compensation liabilities at June 30, 2019 and 2018 were \$83.4 million and \$87.0 million, respectively.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

The changes in LAX's estimated claims payable are as follows (amounts in thousands):

	June 30		
	2019	2018	2017
Balance at beginning of year	\$ 97,075	\$ 78,484	\$ 74,376
Provision for current year's events and changes in provision for prior years' events	6,745	26,728	12,503
Claims payments	(10,349)	(8,137)	(8,395)
Balance at end of year	\$ 93,471	\$ 97,075	\$ 78,484
Current portion	(9,170)	(10,349)	(8,137)
Noncurrent portion	\$ 84,301	\$ 86,726	\$ 70,347

16. Commitments, Litigations, and Contingencies

a. Commitments

LAX has commitments for open purchase orders of approximately \$138.6 million and \$114.2 million as of June 30, 2019 and 2018, respectively.

LAX has commitments to make a series of Milestone Payments according to the terms of contract for Automated People Mover (APM) totaling approximately \$1.0 billion during the construction, based upon the value of work performed and/or its completion of certain design and construction milestones. Subject to certain conditions, additional five APM Milestone Payments¹¹ are to be made between December 31, 2019 and 60 days after final completion of the APM Project. Additional commitments related to further Availability Payments are subject to project completion.

LAX has commitments to make a series of Consolidated Rental Car Facility (ConRAC) Milestone/Progress Payments of approximately \$725.0 million during the construction based upon the value of work performed and/or its completion of certain design and construction milestones. Additional commitments related to further Availability Payments are subject to project completion.

LAX has the following commitments on major construction contracts¹²:

Project	Amount (in millions)
MSC North Terminals	\$ 318.1
TBIT Core and APM Interface	293.9
LAWA Utilities and LAMP Enabling Project	167.0
ITF West	213.4
Airport Police Facility	156.9
Total	<u>\$ 1,149.3</u>

LAX has the following commitments on major tenant based acquisitions¹²:

Project	Amount (in millions)
Terminals 1/1.5 Improvement	\$ 443.9
Terminals 2/3 Improvement	1,602.5
Terminals 4/5 Improvement	233.6
TBIT/MSC Baggage System	260.2
Total	<u>\$ 2,540.2</u>

¹¹ The first APM Milestone Payment of \$174.7 million was made in March 2019.

¹² Unpaid portion of total commitments.



Notes to the Financial Statements

June 30, 2019 and 2018

(continued)

b. Aviation Security

Concerns about the safety and security of airline travel and the effectiveness of security precautions may influence passenger travel behavior and air travel demand, particularly in the light of existing international hostilities, potential terrorist attacks, and world health concerns, including epidemics and pandemics. As a result of terrorist activities, certain international hostilities and risk of violent crime, LAWA has implemented enhanced security measures mandated by the FAA, the Transportation Security Administration (TSA), the Department of Homeland Security and Airport management. Current and future security measures may create significantly increased inconvenience, costs and delays at LAX which may give rise to the avoidance of air travel generally and the switching from air to ground travel modes and may adversely affect LAWA's operations, expenses and revenues. LAX has been the target of a foiled terrorist bombing plot and has been recognized as a potential terrorist target. Recent incidents at United States and international airports underscore this risk. LAX is a high profile public facility in a major metropolitan area. LAWA cannot predict whether LAX or any of LAWA's other airports will be actual targets of terrorists or other violent acts in the future.

c. Environmental Issues

LAX bears full responsibility for the cleanup of environmental contamination on property it owns. However, if the contamination originated based on contractual arrangements, the tenants are held responsible even if they declare bankruptcy. As property owner, LAX assumes the ultimate responsibility for cleanup in the event the tenant is unable to make restitution. Under certain applicable laws, LAX may become liable for cleaning up soil and groundwater contamination on a property in the event that the previous owner does not perform its remediation obligations. LAX accrues pollution remediation liabilities when costs are incurred or amounts can be reasonably estimated based on expected outlays. The California Regional Water Quality Control Board, Lahontan Region (Water Board) issued a Notice of Revised Proposed Cleanup and Abatement Order (Order) to Los Angeles County Sanitation District No. 20 (District) and the City of Los Angeles (City), as Dischargers, with respect to discharges to underground water from the Palmdale Reclamation Plant (Reclamation Plant) owned by the District. The Order states that the discharges have resulted in violations of waste discharge requirements for the Reclamation Plant and prohibitions contained in the Water Quality Control Plan for the Lahontan Region, and that discharges from the Reclamation Plant to unlined ponds and to the Effluent Management Site (owned by the City and now known as the Agricultural Site) have adversely affected and polluted groundwater in the area of the discharges. The Water Board issued an order to the District and LAWA to submit technical reports that include feasibility and costs to remove nitrate from groundwater to certain acceptable levels. The LAWA Board and City Council approved a settlement in April and May 2018 which is documented in an Amended & Restated Lease with the following key terms: (i) LAWA to make a \$5.0 million lump sum payment to the District, (ii) LAWA to provide a 10-year lease extension with two 5-year options, (iii) District to release the City, including LAWA's past and current tenants, (iv) District to indemnify LAWA, in perpetuity, covering all past and future cleanup orders and regulatory requirements relating to Site Contamination (as defined in the Amended & Restated Lease), with two limited and reasonable exceptions, (v) LAWA to provide reasonable access over its Palmdale Landholdings for Compliance Requirements, subject to its Tenant Improvement Approval Process and obligations under tenant leases, and (vi) Groundwater pumped as part of the extraction well network shall be charged to the District's allocation under the Antelope Valley Groundwater Adjudication Final Judgment, and not to LAWA's allocation. The \$5.0 million lump sum payment was made in June 2018 in full settlement of the liability which was accrued as of June 30, 2017.

17. Subsequent Events

On July 18, 2019, the Board approved a Guaranteed Maximum Price (GMP) in the amount of \$218.7 million and approved the third amendment in the amount of \$10.0 million to the contract with Swinerton Builders for the Landside Access Modernization Program Intermodal Transportation Facility West (ITF-West) Project at LAX. The ITF-West Project will provide public parking for approximately 4,530 vehicles, create flexible space for commercial and passenger amenities, and provide a new facility to relocate the LAWA Security Badging Office.

On July 18, 2019, the Board appropriated funds of \$88.5 million to continue project management/ construction management (PM/CM) services and project control (PC) services supporting the Capital Improvement Program (CIP) and enterprise-level initiatives of LAWA. These services augment LAWA staff supporting both LAWA and tenant managed improvements. The Board approved contracts totaling \$120.0 million for PM/CM services and \$100.0 million for PC services with the intent that staff would return periodically to appropriate funds based on projected CIP workload. This appropriation will fully fund the combined contract amounts established in 2016 and will support the CIP estimated through December 2020.

On August 1, 2019, the Board approved award of a three-year contract to LAZ Parking California, LLC for taxi and ride-app pickup lot and shuttle operations, management, and related services for a not-to-exceed amount of \$65.0 million and appropriate funds in the amount of \$12.5 million for the purchase of the remaining trolleys to be used at this lot.

On August 1, 2019, the Board approved the First Amendment to Amended and Restated Lease with PNF-LAX, Inc. with a corresponding reduction in the monthly scheduled minimum rent, resulting in projected annual revenue of \$6.4 million for 2019 and a guaranteed minimum revenue of \$55.4 million over the remaining term of the lease, exclusive of CPI, periodic rent adjustments. The purpose of this action is to address LAWA's need for immediate temporary access to PNF's leased premises and use a portion of the premises for an auxiliary curb. This is an effort to address the anticipated traffic congestion in the Central Terminal Area caused by passenger growth as well as current and pending airport improvement projects, and to improve the guest experience.

On August 1, 2019, the Board approved the First Amendment with Hensel Phelps in the amount of \$11.8 million, a GMP in the amount of \$177.6 million for the Airport Police Facility Project at LAX, and a not-to-exceed amount of \$172.4 million to complete the project. This project is part of LAWA's CIP and includes design and construction of a new facility to co-locate the majority of functions of the Airport Police Division onto one site.

On September 10, 2019, the Board awarded a three-year contract in a not-to-exceed amount of \$84.1 million to Sully-Miller Contracting Company for construction of Taxiway P Project at LAX; and appropriate capital funds in the amount of \$96.9 million for this project.

On September 10, 2019, the Board approved first amendment with Austin Commercial, LP for the Terminal Cores and APM Interface Project in the amount of \$61.9 million; approved the GMP in the amount of \$398.4 million in capital funds for Base Buildings and three additional scopes of work for the Terminal Cores and APM Interface Project; and appropriate funds in the amount of \$384.3 million for this project.



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Required Supplementary Information (Unaudited)

2019

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Required Supplementary Information

(Unaudited)

2019

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Los Angeles International Airport



Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Required Supplementary Information (Unaudited)

Last Ten Fiscal Years Ended June 30

(amounts in thousands)

Pension Plan

The schedules included in the Required Supplementary Information for the Pension Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, LAX presented information only for those years for which information is available. Additional years will be displayed in the future as they become available.

Schedule of LAX's Proportionate Share of the Net Pension Liability ^{(1) (2)}

Los Angeles City Employees' Retirement System (LACERS)

Fiscal Year	Proportion of the Net Pension Liability	Proportionate share of the Net Pension Liability	Covered Payroll (3)	Proportionate share of the Net Pension Liability as a percentage of its Covered Payroll	Proportionate share of Pension Plan's Fiduciary Net Position	Proportionate share of Pension Plan's Total Pension Liability	Pension Plan's Fiduciary Net Position as a percentage of the Total Pension Liability
2015	12.71%	\$ 566,613	\$ 229,535	246.85%	\$ 1,498,734	\$ 2,065,347	72.57%
2016	12.87%	\$ 642,431	\$ 235,176	273.17%	\$ 1,534,875	\$ 2,177,306	70.49%
2017	13.55%	\$ 761,187	\$ 256,833	296.37%	\$ 1,599,900	\$ 2,361,087	67.77%
2018	13.47%	\$ 710,724	\$ 266,780	266.41%	\$ 1,774,969	\$ 2,485,693	71.41%
2019	13.52%	\$ 771,926	\$ 274,167	281.55%	\$ 1,924,658	\$ 2,696,584	71.37%

Notes to schedule:

1. Changes of assumptions

The June 30, 2014 calculations reflected various assumptions changes based on the triennial experience study for the period from July 1, 2011 through June 30, 2014. The increase of the Pension Plan's Total Pension Liability is primarily due to the lowered assumed investment rate of return, from 7.75% in fiscal year 2013 to 7.50% in fiscal year 2014, and longer assumed life expectancies for members and beneficiaries, while the June 30, 2017 increase is primarily due to the lowered assumed investment rate of return from 7.50% in fiscal year 2016 to 7.25% in fiscal year 2017.

2. In calculating the Pension Plan's Net Pension Liability, the Total Pension Liability and the Plan Fiduciary Net Position exclude amounts associated with Family Death, and Larger Annuity Benefits.

3. Covered payroll represents the collective total of the pensionable wages of all LACERS membership tiers and is reported based on measurement period.



Required Supplementary Information (Unaudited) (continued)**Last Ten Fiscal Years Ended June 30**

(amounts in thousands)

Schedule of Contributions - Pension***Los Angeles City Employees' Retirement System (LACERS)***

	2019	2018	2017	2016	2015
Contractually required contribution (actuarially determined)	\$ 64,737	\$ 60,948	\$ 61,197	\$ 55,972	\$ 49,043
Contributions in relation to the actuarially determined	64,737	60,948	61,197	55,972	49,043
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
LAX's covered payroll	\$ 276,050	\$ 274,167	\$ 266,780	\$ 256,833	\$ 235,176
LAX's contributions as a percentage of covered payroll	23.45%	22.23%	22.94%	21.79%	20.85%

Notes to schedule - Pension***Los Angeles City Employees' Retirement System (LACERS)***

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry age method
Amortization Method	Level percent of payroll
Long-Term Expected Rate of Return	7.25%
Inflation	3.00%
Project Salary Increases	Ranges from 3.90% to 10.00% based on years of service, including inflation



Required Supplementary Information (Unaudited) (continued)**Last Ten Fiscal Years Ended June 30**

(amounts in thousands)

Other Postemployment Benefit Plan (OPEB)

The schedules included in the Required Supplementary Information for the Postemployment Health Care Plan are intended to show information for 10 years. However, the following schedules do not have a full 10-year trend, and therefore, LAX presented information only for those years for which information is available. Additional years will be displayed in the future as they become available.

Schedule of LAX's Proportionate Share of the Net OPEB Liability ⁽¹⁾***Los Angeles City Employees' Retirement System (LACERS)***

Fiscal Year	Proportion of the Net Postemployment Health Care (OPEB) Liability	Proportionate share of the Net OPEB Liability	Covered Payroll (2)	Proportionate share of the Net OPEB Liability as a percentage of its Covered Payroll	Proportionate share of Postemployment Health Care Plan's Fiduciary Net Position	Proportionate share of Postemployment Health Care Plan's Total OPEB Liability	Postemployment Health Care Plan's Fiduciary Net Position as a percentage of the Total OPEB Liability
2018	13.46%	\$ 76,310	\$ 266,780	28.60%	\$ 328,269	\$ 404,579	81.14%
2019	13.28%	\$ 77,056	\$ 274,167	28.11%	\$ 355,290	\$ 432,346	82.18%

Notes to schedule:

1. Changes of assumptions:

The June 30, 2017 measurement date OPEB liability from the changes of assumptions is primarily due to the lowered assumed investment rate of return from 7.50% in fiscal year 2016 to 7.25% in fiscal year 2017.

2. Covered payroll represents the collective total of the pensionable wages of all LACERS membership tiers and is reported based on measurement period.

Schedule of Contributions - OPEB

Los Angeles City Employees' Retirement System (LACERS)

	2019	2018
Contractually required contribution (actuarially determined)	\$ 14,212	\$ 13,586
Contributions in relation to the actuarially determined contributions	14,212	13,586
Contribution deficiency (excess)	\$ —	\$ —
LAX's covered payroll	\$ 276,050	\$ 274,167
LAX's contributions as a percentage of covered payroll	5.15%	4.96%



Required Supplementary Information (Unaudited) (continued)
Last Ten Fiscal Years Ended June 30
 (amounts in thousands)

Notes to schedule - OPEB

Los Angeles City Employees' Retirement System (LACERS)

Valuation Date	June 30, 2018
Actuarial Cost Method	Entry age method
Amortization Method	Level percent of payroll
Long-Term Expected Rate of Return	7.25%
Inflation	3.00%
Project Salary Increases	Ranges from 3.90% to 10.00% based on years of service, including inflation



Compliance Section

2019

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Los Angeles International Airport



Compliance Section

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Los Angeles International Airport



Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on the Passenger Facility Charge Program, Report on Internal Control Over Compliance in Accordance with the *Passenger Facility Charge Program Audit Guide for Public Agencies*, and Report on the Schedule of Passenger Facility Charge Revenues and Expenditures

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

Report on Compliance for the Passenger Facility Charge Program

We have audited Los Angeles International Airport's ("LAX"), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, compliance with the types of compliance requirements described in the *Passenger Facility Charge Program Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the "Guide"), that could have a direct and material effect on its Passenger Facility Charge ("PFC") program for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions applicable to the PFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the PFC program. However, our audit does not provide a legal determination of LAX's compliance.

Opinion on PFC Program

In our opinion, LAX complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its PFC program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LAX's internal control over compliance with the types of requirements that could have a direct and material effect on the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Passenger Facility Charge Revenues and Expenditures

We have audited the financial statements of LAX, as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise LAX's basic financial statements. We have issued our report thereon dated October 28, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of passenger facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Guide and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of passenger facility charge revenues and expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Moss Adams LLP

Los Angeles, California
October 28, 2019

Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Schedule of Passenger Facility Charge Revenues and Expenditures

For the Fiscal Years Ended June 30, 2019 and 2018

(amounts in thousands)

	Passenger facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Under (over) expenditures on approved projects
Program to date as of July 1, 2017	\$ 2,282,374	\$ 209,050	\$ 2,491,424	\$ 2,038,132	\$ 453,292
Fiscal year 2017-18 transactions					
Quarter ended September 30, 2017 Quarter	40,884	1,683	42,567	166,741	(124,174)
ended December 31, 2017 Quarter ended	38,238	1,026	39,264	(26,614)	65,878
March 31, 2018	49,057	1,240	50,297	118,908	(68,611)
Quarter ended June 30, 2018	43,252	1,430	44,682	34,659	10,023
Program to date as of June 30, 2018	2,453,805	214,429	2,668,234	2,331,826	336,408
Fiscal year 2018-19 transactions					
Quarter ended September 30, 2018 Quarter	42,438	1,423	43,861	37,212	6,649
ended December 31, 2018 Quarter ended	38,956	1,400	40,356	34,756	5,600
March 31, 2019	48,440	1,556	49,996	37,178	12,818
Quarter ended June 30, 2019	43,266	1,852	45,118	27,856	17,262
Unexpended passenger facility charge revenues and interest earned June 30, 2019	<u>\$ 2,626,905</u>	<u>\$ 220,660</u>	<u>\$ 2,847,565</u>	<u>\$ 2,468,828</u>	<u>\$ 378,737</u>

See accompanying notes to the schedule of passenger facility charge revenues and expenditures.

Los Angeles World Airports

(Department of Airports of the City of Los Angeles)

Los Angeles International Airport

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2019 and 2018

1. General

The Aviation Safety and Capacity Expansion Act of 1990 (Public Law 101-508, Title II, Subtitle B) authorized the imposition of Passenger Facility Charges (PFCs) and use of the resulting revenue on Federal Aviation Administration (FAA) approved projects. The current PFC rate is \$4.50 per enplaned passenger. PFCs collection authorities approved by FAA are \$4.3 billion and \$4.2 billion as of June 30, 2019 and 2018, respectively.

The details are as follows (amounts in thousands):

Application number	Charge effective date*	2019 Amount approved for use	2018 Amount approved for use
96-02-U-00-LAX, closed 6/2/03	6/1/1993	\$ 116,371	\$ 116,371
96-03-C-00-LAX, closed 10/1/08	7/1/1993	50,223	50,223
97-04-C-02-LAX	2/1/1998	90,000	90,000
97-04-C-03-LAX	2/1/1998	700,000	700,000
97-04-C-04-LAX	2/1/1998	88,334	—
05-05-C-00-LAX	12/1/2005	229,750	229,750
05-05-C-01-LAX	12/1/2005	468,030	468,030
07-06-C-00-LAX	10/1/2009	85,000	85,000
10-07-C-01-LAX	6/1/2012	1,848,284	1,848,284
11-08-C-00-LAX	3/1/2019	27,801	27,801
13-09-C-00-LAX	6/1/2019	44,379	44,379
14-10-C-00-LAX	10/1/2019	516,091	516,091
15-11-U-00-LAX	3/1/2019	3,115	3,115
Total		\$ 4,267,378	\$ 4,179,044

* Based on FAA's Final Agency Decision and subject to change with actual collections and future collection authorities approved by FAA.

Note:

- In February 2018, FAA approved LAWA's amendment request that increased application number 97-04-C-03-LAX by \$90.0 million for the land acquisition component of the Noise Mitigation Project.
- In August 2018, FAA approved LAWA's amendment request that increased application number 97-04-C-04-LAX by \$88.3 million for updated cost of the Residential Soundproofing Project.

The general description of the approved projects and the expenditures to date are as follows (amounts in thousands):

Approved projects	Amount approved for collection	Expenditures to date June 30	
		2019	2018
ONT Terminal Development Program	\$ 116,371	\$ 116,371	\$ 116,371
Taxiway C Easterly Extension, Phase II	13,440	13,440	13,440
Remote Aircraft Boarding Gates	9,355	9,355	9,355
Interline Baggage Remodel - TBIT	2,004	2,004	2,004
Southside Taxiways Extension S & Q	9,350	9,350	9,350
TBIT Improvements	4,455	4,455	4,455
ONT Airport Drive West End	3,462	3,462	3,462
ONT Access Control Monitoring System	808	808	808
ONT Taxiway North Westerly Extension	7,349	7,349	7,349
Noise Mitigation - Land Acquisitions	575,000	562,743	570,908
Noise Mitigation - Soundproofing	125,000	125,000	125,000
Noise Mitigation - Other Local Jurisdictions	178,334	87,487	90,000
Apron Lighting Upgrade	1,873	1,412	1,412
South Airfield Improvement Program (SAIP) and NLA Integrated Study	1,381	1,381	1,381
Century Cargo Complex - Demolition of AF3	1,000	880	880
Taxilane C-10 Reconstruction	780	2	2
LAX Master Plan	122,168	75,183	75,183
Aircraft Rescue and Firefighting Vehicles	975	444	444
PMD Master Plan	1,050	—	—
Aircraft Noise Monitoring and Management System	3,450	3,652	3,652
SAIP - Airfield Intersection Improvement	28,000	8,987	8,987
SAIP - Remote Boarding	12,500	8,218	8,218
TBIT Interior Improvements and Baggage Screening System	468,030	414,336	371,214
Implementation of IT Security Master Plan	56,573	32,807	32,807
Residential Soundproofing Phase II	35,000	34,141	34,141
Noise Mitigation - Other Local Jurisdictions Phase II	50,000	51,086	51,086
Bradley West	1,848,284	488,034	398,983
Lennox Schools Soundproofing Program	27,801	21,214	21,214
Inglewood USD Soundproofing Program	44,379	10,000	10,000
Terminal 6 Improvements	210,131	69,267	53,760
Elevators/Escalators/Moving Walkways Replacement	110,000	110,000	110,000
Midfield Satellite Concourse North Project	5,960	5,960	5,960
Central Utility Plant Replacement	190,000	190,000	190,000
Lennox Schools Soundproofing Program - Future Sites	3,115	—	—
Total	\$ 4,267,378	\$ 2,468,828	\$ 2,331,826

Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2019 and 2018 (continued)

2. Basis of Accounting - Schedule of Passenger Facility Charge Revenues and Expenditures

The accompanying Schedule of Passenger Facility Charge Revenues and Expenditures (Schedule) represents amounts reported to the FAA on the Passenger Facility Charge Quarterly Status Reports. The Schedule was prepared using the accrual basis of accounting.

3. Excess Project Expenditures

The expenditures for the Aircraft Noise Monitoring and Management System and the Noise Mitigation - Other Local Jurisdictions Phase II were in excess of authorized amounts. However, in accordance with FAA guidelines, if actual allowable project costs exceed the estimate contained in the PFCs application in which the authority was approved, the public agency may elect to increase the total approved PFCs revenue in that application by 15% or less.

Report of Independent Auditors on Compliance with Requirements that Could Have a Direct and Material Effect on the Customer Facility Charge Program, Report on Internal Control Over Compliance in Accordance with the *California Civil Code Section 1939, as amended by Assembly Bill (AB) 2051*, and Report on the Schedule of Customer Facility Charge Revenues and Expenditures

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

Report on Compliance for the Customer Facility Charge Program

We have audited Los Angeles International Airport's ("LAX"), a department component of Los Angeles World Airports (Department of Airports of the City of Los Angeles, California), an Enterprise Fund of the City of Los Angeles, compliance with the types of compliance requirements described in the *California Civil Code Section 1939, as amended by Assembly Bill (AB) 2051* (the "Code"), that could have a direct and material effect on its Customer Facility Charge ("CFC") program for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with statutes, regulations, and the terms and conditions applicable to the CFC program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the CFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Code. Those standards and the Code require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the CFC program occurred. An audit includes examining, on a test basis, evidence about LAX's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the CFC program. However, our audit does not provide a legal determination of LAX's compliance.

Opinion on CFC Program

In our opinion, LAX complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its CFC program for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of LAX is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LAX's internal control over compliance with the types of requirements that could have a direct and material effect on the CFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Code, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LAX's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Code. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Customer Facility Charge Revenues and Expenditures

We have audited the financial statements of LAX, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise LAX's basic financial statements. We have issued our report thereon dated October 28, 2019, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of customer facility charge revenues and expenditures is presented for purposes of additional analysis as required by the Code and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of customer facility charge revenues and expenditures is fairly stated in all material respects in relation to the basic financial statements as a whole.

Moss Adams LLP

Los Angeles, California
October 28, 2019

Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Schedule of Customer Facility Charge Revenues and Expenditures

For the Fiscal Years Ended June 30, 2019 and 2018

(amounts in thousands)

	Customer facility charge revenue	Interest earned	Total revenues	Expenditures on approved projects	Over revenues collected on approved projects
Program to date as of July 1, 2017	\$ 266,669	\$ 17,377	\$ 284,046	\$ 3,026	\$ 281,020
Fiscal year 2017-18 transactions					
Quarter ended September 30, 2017	8,756	848	9,604	—	9,604
Quarter ended December 31, 2017	7,758	921	8,679	—	8,679
Quarter ended March 31, 2018	16,096	1,027	17,123	—	17,123
Quarter ended June 30, 2018	23,149	1,175	24,324	—	24,324
Program to date as of June 30, 2018	322,428	21,348	343,776	3,026	340,750
Fiscal year 2018-19 transactions					
Quarter ended September 30, 2018	23,028	1,352	24,380	—	24,380
Quarter ended December 31, 2018	18,695	1,504	20,199	—	20,199
Quarter ended March 31, 2019	17,136	1,652	18,788	—	18,788
Quarter ended June 30, 2019	21,389	1,833	23,222	—	23,222
Unexpended customer facility charge revenues and interest earned June 30, 2019	<u>\$ 402,676</u>	<u>\$ 27,689</u>	<u>\$ 430,365</u>	<u>\$ 3,026</u>	<u>\$ 427,339</u>

See accompanying notes to the schedule of customer facility charge revenues and expenditures.

Los Angeles World Airports

(Department of Airports of the City of Los Angeles, California)

Los Angeles International Airport

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2019 and 2018

1. General

California law (California Government Code Sections 50474.3, 50474.21 and 50474.22, collectively, CFC Legislation), which authority was previously contained in California Civil Code Section 1936 et seq., allows airport operators to require rental car companies to collect a fee from rental car customers on behalf of the airport operator to pay for certain costs incurred by an airport operator for a consolidated rental car facility (ConRAC) and a common-use transportation system (CTS) that moves passengers between airport terminals and the ConRAC. The fee is referred to as Customer Facility Charges (CFCs). Revenue from the CFCs may not exceed the reasonable costs to finance, design, construct, operate, maintain or otherwise improve, as applicable, those facilities, systems and modifications. California CFC Legislation permits LAWA to require the collection by rental car companies of a CFC at a rate charged on a per-day basis up to \$9.00 per day (for up to 5 days), and CFCs collected by the rental car companies on behalf of LAWA are permitted under the California CFC Legislation to finance, design and construct the ConRAC; to finance, design, construct and operate the APM System, as well as acquiring vehicles for use in that system; and to finance, design and construct terminal modifications to accommodate the common-use transportation system.

LAWA is modernizing LAX to improve passenger quality-of-service and provide world class facilities for its customers. To further transform LAX and to address increasing levels of traffic congestion at and around LAX, LAWA is working on the Landside Access Modernization Program (LAMP) to implement a ground access system to LAX, which would include a seamless connection to the regional rail and transit system.

The LAMP program includes the following major project components:

- An Automated People Mover System (APM), including the acquisition of vehicles for the use in such System, with six APM stations connecting the Central Terminal Area (CTA) via an above-grade fixed guideway to new proposed ground transportation facilities (serving as the CTS for the ConRAC)
- A ConRAC designed to meet the needs of rental car companies serving LAX with access to the CTA via the APM
- Two Intermodal Transportation Facilities (ITFs) providing airport parking and pick-up and drop-off areas outside the CTA for private vehicles and commercial shuttles
- Roadway improvements designed to improve access to the proposed ConRAC, ITFs, the CTA, and other facilities and reduce traffic congestion in neighboring communities

In November 2001, in anticipation of constructing a ConRAC identified in LAX's master plan, the Board approved collection of CFCs of \$10.00 per rental contract and began collections in August 2007. On October 5, 2017, the Board authorized collection of an updated CFC pursuant to the California CFC Legislation to fund costs of a ConRAC and its share of a common-use transportation system (CTS) at LAX. The Board authorized collection of CFCs of \$7.50 per day for the first five days of each car rental contract, effective January 1, 2018, by rental car companies serving LAX. On June 20, 2019, the Board authorized collection of \$9.00 per day for the first five days of each car rental contract, effective September 1, 2019, by rental car companies serving LAX.

CFCs are recorded as nonoperating revenue and presented as restricted assets in the financial statements. CFCs collected, related interest earnings, and cumulative expenditures to date are summarized as follows (amounts in thousands):

	2019	2018
Amount collected	\$ 402,676	\$ 322,428
Interest earnings	27,689	21,348
Subtotal	430,365	343,776
Expenditures		
ConRAC planning and development costs	3,026	3,026
Unexpended CFCs revenue and interest earnings	\$ 427,339	\$ 340,750

2. Basis of Accounting - Schedule of Customer Facility Charge Revenues and Expenditures

The accompanying Schedule of Customer Facility Charge Revenues and Expenditures was prepared using the accrual basis of accounting.

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