



ANNUAL FINANCIAL REPORT 2020

Fiscal Years Ended
June 30, 2020 and 2019



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, 2020 and 2019





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Justin Erbacci
Chief Executive Officer

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Ron Galperin, City Controller

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Hans Thilenius, Deputy Executive Director, Terminal Development and Improvement Program
Jeffrey Utterback, Deputy Executive Director, Commercial Development
Raymond Ilgunas, General Counsel

Message from the Chief Executive Officer



I am pleased to present Los Angeles International Airport's (LAX) Annual Financial Report for the fiscal year ended June 30, 2020.

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, 2020 and 2019, 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, 2020. Moss Adams' report is on pages 123 and 124.

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, 2020. Moss Adams' report is on pages 129 and 130. 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 36.

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.

No airline dominates in shares of enplaned passengers or provides formal 'hubbing' activity at LAX. No air carrier accounted for more than 20% of LAX's total enplanements for fiscal year 2020. For fiscal year 2020, approximately 82.1% of passengers at LAX represented originating and destination (O&D) passengers (that is, all passengers beginning or ending their trips at LAX). The remaining approximately 17.9% of passengers represented connections to or from regional markets as well as domestic connections to or from international markets. Historically, the level of connecting passengers at LAX is due primarily to: (i) LAX's role as a major gateway to numerous international markets; (ii) the geographical location of LAX in relation to numerous markets along the west coast of the United States; (iii) the significant number of nonstop flights to and from domestic markets; and (iv) the alliances among airlines serving LAX. LAX provided scheduled service to 34 international destinations in June 2020, which increased to 56 international destinations in early October 2020.

According to Airports Council International (ACI) statistics, in calendar year 2019, LAX ranked as the 3rd busiest airport in the world, and the 2nd busiest airport in North America in terms of total number of enplaned passengers, and 13th busiest airport in the world and 5th busiest airport in North America in terms of total cargo. According to the United States Department of Transportation O&D Survey of Airline Passenger Traffic for calendar year 2019, LAX ranked 1st nationally in number of domestic O&D passengers. O&D passengers begin and end their journeys at LAX, while connecting passengers transfer to other flights at LAX. Enplanements had grown from approximately 36.1 million in fiscal year 2015 to approximately 44.2 million in fiscal year 2019, an increase of approximately 22.4%. Enplanements in fiscal year 2020 was tampered to 31.4 million as a result of the COVID-19 pandemic outbreak, which happened since the first quarter of calendar year 2020.



COVID-19 Issues and Impacts

The outbreak of COVID-19, a respiratory disease which was first reported in December 2019, has since become a worldwide pandemic. The COVID-19 pandemic has resulted in a number of governmental actions, including:

- A national state of emergency declared by the President of the United States.
- Travel restrictions and warnings domestically and internationally by the United States State Department and the Centers for Disease Control and Prevention (CDC), as well as other governmental authorities, nations and airlines.
- The issuance of ‘stay at home’ or ‘shelter in place’ orders by many state and local governments in the United States and governments abroad.
- Declaration of a state of emergency by the Governor of the State of California.
- The issuance of orders by the County of Los Angeles Department of Public Health (Department of Public Health) directing businesses to close and citizens to stay in their residences as much as practicable, which severely restrict movement and limit business and activities to essential functions.
- The issuance of orders from the City of Los Angeles’ Mayor which mandated the closure of all ‘non-essential businesses’ including schools, bars, performance venues, fitness centers, movie theaters, dine-in service at restaurants and many other public venues.

Overall, the restrictions put in place in response to COVID-19 include restrictions on travel, public gatherings and large group events, orders for residents to stay at home and the promotion of working-at-home.

Airports in the United States have been acutely impacted by the reductions in passenger volumes and flights, as well as by the broader economic shutdown resulting from the COVID-19 pandemic. The pandemic has had an adverse effect on domestic and international travel and travel related industries, including airlines and concessionaires.

Airlines serving LAX have reduced or cancelled flights and curtailed their overall capacity due to a severe and dramatic drop in demand for both domestic and international air travel in an attempt to match capacity to the modified demand for air travel. Airlines have reported unprecedented reductions in passenger volumes and that they expect those reductions to continue. As of May 19, 2020, ACI World estimated a reduction of more than 4.6 billion passengers and more than \$97 billion loss in revenue for the global airport industry in 2020. In a press release on July 3, 2020, ACI World indicated that global passenger traffic declined by approximately 94.4% year-over-year in April 2020.

Since March 2020, all passenger airlines serving LAX have reported a downturn in traffic as well as expectations for continued reduced levels of traffic. Total enplanements and deplanements for both domestic and international travel were down 59% in January through June 2020 over the prior year. Total enplanements and deplanements at LAX for April 2020 decreased approximately 95.9% as compared to April 2019. Total enplanements and deplanements at LAX for May 2020 decreased approximately 92.7% as compared to May 2019. Total enplanements and deplanements at LAX for June 2020 decreased approximately 87.1% as compared to June 2019. In July 2020, American Airlines announced that it will be suspending certain long-haul international flights originating from LAX with destinations in Asia and Latin America. This change is expected to result in a reduction of approximately 1,100 daily international seats from LAX.

On March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which includes \$10 billion in funds to be awarded as economic relief to eligible U.S. airports affected by the prevention of, preparation for, and response to the COVID-19 pandemic. As a part of the CARES Act, airlines are restricted from mass layoffs through September 30, 2020. It is unclear what effect the expiration of the employment requirements on October 1, 2020 will have on airlines. As a result of the foregoing, LAWA has seen an impact to certain operations and revenue sources. Passenger and air traffic declines have proportional impacts on various revenue sources. Landing fees, concessions, parking, ground transportation and transportation network companies’ revenues are directly affected by decreases in passenger traffic.

LAWA’s Mitigation Measures in Response to COVID-19

In response to the COVID-19 pandemic, LAWA is proactively implementing measures intended to mitigate operational and financial impacts, including: a hiring freeze; deferring non-essential discretionary spending; limiting approvals of contracts and task orders to those that are essential to key capital projects and critical tasks; limiting overtime to those activities that are necessary for safety, critical operations or emergency management; encouraging voluntary furloughs or reduced work schedules for certain hourly employees; implementing a retirement incentive program; collaborating with CDC on enhanced screening and increasing sanitation procedures at LAX. LAWA was one of the first U.S. airports to implement austerity and other measures in response to the pandemic. Among those measures are the April 2020 approvals of the Passenger Airline Temporary Relief Program and the Concessionaires and Services Temporary Relief Program.

Passenger Airline Temporary Relief Program

On April 9, 2020, the Board adopted a temporary terminal and airfield fee relief program with respect to passenger airlines serving LAX (Passenger Airline Temporary Relief Program). The Passenger Airline Temporary Relief Program permits eligible passenger air carriers subject to a terminal lease or the Airport Terminal Tariff to apply for relief. Key elements of the Passenger Airline Temporary Relief Program are as follows:

- Deferral of terminal and airfield fees payable from April through May 2020.
- All airlines were required to start repayment of any deferred amounts on July 1, 2020. For airlines that were a party to an Amended and Restated Rate Agreement by July 31, 2020, repayment of the deferred amounts will be required to be made over a six-month period, starting July 1, 2020 to be paid in equal monthly installments, and for airlines that were not party to an Amended and Restated Rate Agreement by July 31, 2020, the remaining deferred amounts must be fully repaid on or before August 1, 2020.
- On June 18, 2020, the Board approved keeping landing fees and apron fees unchanged through calendar year 2020.

As of June 30, 2020, the amount of deferred airline rents and fees included in accounts receivable was approximately \$93.0 million.

Concessionaires and Services Temporary Relief Program

On April 16, 2020, the Board adopted a fee relief program for LAX concessionaires and service providers at LAX (Concessionaires and Services Temporary Relief Program). The Concessionaires and Services Temporary Relief Program permits concessionaires and service providers to apply for relief. Key elements of the Concessionaires and Services Temporary Relief Program are as follows:

For the duration period beginning April 1, 2020 to June 30, 2020 (Duration Period):

- LAX only required payment of the specific percentage fees defined in each concessionaire or service provider agreement instead of the specific minimum annual guarantee (MAG), and, if applicable, deferred receipt of in-terminal concession storage rent.
- In the case of off-airport rental car companies, LAX only required payment of the lesser of (i) 10% of gross sales, or (ii) the specified license fee.
- Accrued amounts are required to be remitted in six equal monthly installments beginning July 1, 2020, with no late fees or interest charges on amounts paid in full within this six-month payment period.



As of June 30, 2020, the amount of outstanding concessionaires' payments included in accounts receivable was approximately \$3.0 million.

Second Relief Program

On October 1, 2020, the Board approved the Second Letter Agreements for the Concessionaire Relief Program that amends concession agreements at LAX as follows:

- abate or adjust the MAG through June 30, 2021 for certain concession agreements (collectively Concession Agreements),
- defer storage rent through December 31, 2020 and allow the payback of deferred storage rent to commence January 1, 2021 for certain concession agreements (collectively In-Terminal Concession Agreements),
- extend the current expiration dates of the respective individual In-Terminal Concession Agreements (as conditioned in the applicable Second Letter Agreements) and Terminal Media Operator Agreement (TMO Agreement) by twenty-four months, and
- authorize the Chief Executive Officer to have two consecutive twelve-month options to delay the required mid-term refurbishment dates for the respective individual In-Terminal Concession Agreements in his or her sole discretion.

COVID-19 Recovery Task Force

In May 2020, the Department created a COVID-19 Recovery Task Force that includes seven work streams to address LAWA's operations and communications during the pandemic. The Recovery Task Force comprises seven work streams, each of which is led by one or more Deputy Executive Director (DED):

- Bringing Employees Back to Work
- Getting Passengers Back to the Airport
- Improving Fiscal Position
- Completing Construction and Repairs Faster
- Setting LAWA up for Success
- Making LAWA Safer
- Engaging and Communicating with Stakeholders

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

As previously mentioned, on March 27, 2020, the CARES Act was signed into law, which, among other things, allocates funds to eligible airports, provided they take particular steps, including with respect to keeping their workforces intact. Airport operators can use their awarded CARES Act grants to pay for any purpose for which airport revenues can lawfully be used, including, but not limited to, the payment of maintenance and operation expenses on or after January 20, 2020, and the payment of debt service on or after March 27, 2020. CARES Act grants must be used within four years from the date on which the agreement between the airport operator and the FAA is executed, and airport operators using CARES Act grants must comply with certain other obligations, including, but not limited to, employing at least 90.0% of their staff as of March 27, 2020 through December 31, 2020.

LAX was awarded CARES Act grants in the amount of approximately \$323.6 million payable on a reimbursement basis. LAX's primary objective with the CARES Act funding will be to address near-term pressure caused by the COVID-19 pandemic, including maintenance of debt service coverage levels consistent with current ratings levels, mitigation of the reduction in revenues, continued funding of ongoing capital development projects and maintenance of operating cash on hand in fiscal years 2020 and 2021. LAX has drawn approximately \$52.4 million of CARES Act moneys in fiscal

year 2020 to stabilize cost increases in airline rates, while preserving the majority of the funds, approximately \$271.2 million, for fiscal year 2021. The drawn amount of \$52.4 million was recognized as grants revenue in fiscal year 2020.

LAX's operations are supported solely by revenues generated by the department. LAX strives to balance revenues generated from cost recovery formulas applied to aeronautical users and those generated from fluctuating non-aeronautical revenues driven by passenger traffic and commercial opportunities. At the same time, management must control operating expenses in order to achieve the levels of net revenues outlined in financial forecasts provided to investors sufficient to cover obligations for debt service and fund planned capital expenditures.



Justin Erbacci
Chief Executive Officer
October 28, 2020



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, 2020 and 2019

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Financial Section

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Financial Section

- Report of Independent Auditors
- Management's Discussion and Analysis
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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, 2020 and 2019, and the related statements of revenues, 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, 2020 and 2019, 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, 2020 and 2019, the changes in City's net position, or, where applicable, City's 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 36, the schedule of LAX's proportionate share of the net pension liability on page 115, the schedule of contributions – pension on pages 116 to 117, the schedule of LAX's proportionate share of the net other postemployment benefit (OPEB) liability on page 118, and the schedule of contributions – OPEB on pages 119 to 120 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, 2020, 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.



Los Angeles, California
October 28, 2020



Management's Discussion and Analysis (Unaudited)

2020 Annual Financial Report
Los Angeles International Airport



Management's Discussion and Analysis (Unaudited)



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, 2020 and 2019

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, 2020 and 2019. This discussion and analysis should be read in conjunction with LAX's financial statements that begin on page 39.

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, 2020 and 2019. 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, 2020 and 2019. 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, 2020 and 2019

(continued)

Passenger and Other Traffic Activity Highlights

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

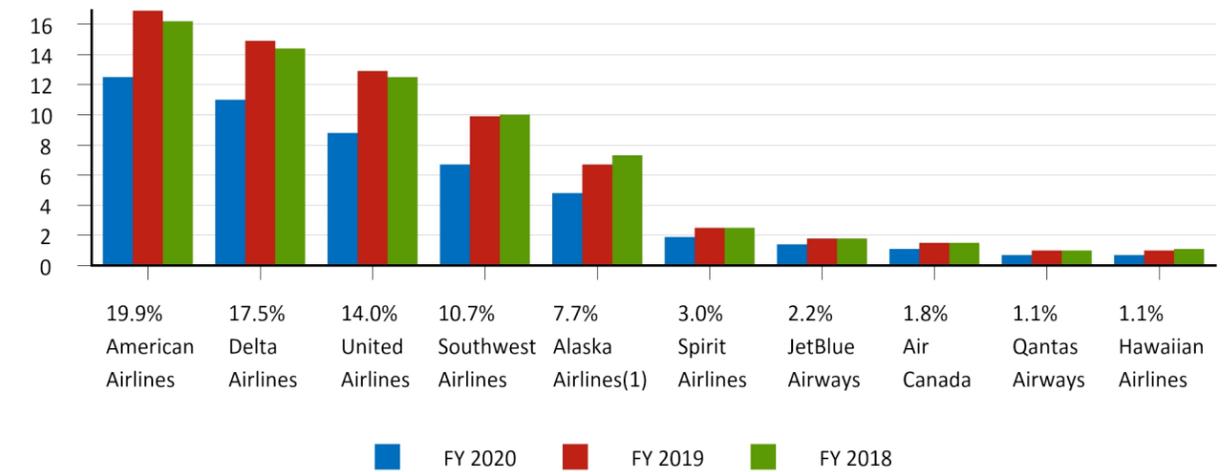
| | FY 2020 | FY 2019 | FY 2018 | % Change | |
|----------------------------------|------------|------------|------------|----------|---------|
| | | | | FY 2020 | FY 2019 |
| Total passengers | 62,715,070 | 87,905,468 | 86,633,058 | -28.7% | 1.5% |
| Domestic passengers | 44,801,765 | 61,983,392 | 60,903,699 | -27.7% | 1.8% |
| International passengers | 17,913,305 | 25,922,076 | 25,729,359 | -30.9% | 0.7% |
| Departing passengers | 31,429,457 | 44,207,464 | 43,553,015 | -28.9% | 1.5% |
| Arriving passengers | 31,285,613 | 43,698,004 | 43,080,043 | -28.4% | 1.4% |
| Passenger flight operations | | | | | |
| Departures | 245,003 | 316,179 | 319,677 | -22.5% | -1.1% |
| Arrivals | 244,825 | 315,939 | 319,359 | -22.5% | -1.1% |
| Landing weight (thousand lbs) | 53,270,947 | 64,746,783 | 64,226,608 | -17.7% | 0.8% |
| Air cargo (tons) | | | | | |
| Mail | 134,515 | 117,094 | 112,391 | 14.9% | 4.2% |
| Freight | 2,150,930 | 2,284,337 | 2,303,477 | -5.8% | -0.8% |

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 2020 and the comparative passengers for fiscal years 2019 and 2018.

FY 2020 Top Ten Carriers and FY 2020 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, 2020 and 2019**

(continued)

Passenger Traffic, Fiscal Year 2020

Passenger traffic at LAX decreased by 28.7% in fiscal year 2020 as compared to fiscal year 2019. Of the 62.7 million passengers that moved in and out of LAX, domestic passengers accounted for 71.4%, while international passengers accounted for 28.6%. American Airlines ferried the largest number of passengers at 12.5 million with a 26.0% decrease in passenger traffic. Delta Airlines, ranked second with 11.0 million passengers posted a 26.2% decrease in passenger traffic. United Airlines, ranked third with 8.8 million passengers posted a 31.8% decrease in passenger traffic. Southwest Airlines (6.7 million) and Alaska Airlines (4.8 million) complete the top five air carriers operating at LAX. Air Canada was the top foreign flag carrier with 1.1 million passengers and was ranked eighth overall.

The downturn in passenger traffic was mainly caused by the outbreak of COVID-19, a respiratory disease which was first reported in December 2019. The COVID-19 pandemic has resulted in a number of governmental actions, including travel restrictions and warnings domestically and internationally by the United States State Department and the Centers for Disease Control and Prevention (CDC), and the issuance of 'stay at home' or 'shelter in place' orders by many state and local governments in the United States and governments abroad. Accordingly, LAX has been acutely impacted by the reductions in passenger volumes and flight operations.

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 Flight Operations, Fiscal Year 2020

Departures and arrivals at LAX decreased by 142,290 flights or 22.5% during fiscal year 2020 when compared to fiscal year 2019. Revenue landing pounds were down 17.7%. The top three carriers in terms of landing pounds were American Airlines, Delta Airlines, and United Airlines. In total, these three airlines contributed 39.8% of the total revenue pounds at LAX.

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.

Air Cargo (tons), Fiscal Year 2020

Freight and mail cargo at LAX decreased by 4.8% in fiscal year 2020 as compared to fiscal year 2019. Freight was down by 133,407 tons, and mail was up by 17,421 tons. Domestic cargo was down by 48,853 tons or 5.4% and international cargo was down by 67,133 tons or 4.5%. Federal Express was the top air freight carrier accounting for 15.9% of total freight cargo, followed by Kalitta Air LLC with 5.1%. Kalitta Air LLC was the top mail carrier accounting for 45.1% of total mail cargo.

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.



Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

Overview of LAX's Financial Statements

Financial Highlights, Fiscal Year 2020

- LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.8 billion.
- Bonded debt had a net increase of \$261.8 million.
- Operating revenue totaled \$1.3 billion.
- Operating expenses (including depreciation and amortization of \$445.9 million) totaled \$1.3 billion.
- Net nonoperating expenses totaled \$6.4 million.
- Federal and other government capital grants totaled \$86.0 million (including CARES Act grant of \$52.4 million).
- Net position increased by \$86.7 million.

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.



Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

Net Position Summary

A condensed summary of net position for fiscal years as of June 30, 2020, 2019, and 2018 is presented below:

Condensed Net Position (amounts in thousands)

| | FY 2020 | FY 2019 | FY 2018 | FY 2020 increase (decrease) | FY 2019 increase (decrease) |
|---|---------------------|---------------------|---------------------|-----------------------------------|-----------------------------------|
| Assets | | | | | |
| Unrestricted current assets | \$ 1,228,523 | \$ 1,067,124 | \$ 1,003,517 | \$ 161,399 | \$ 63,607 |
| Restricted current assets | 2,110,235 | 2,997,978 | 1,951,519 | (887,743) | 1,046,459 |
| Capital assets, net | 12,086,167 | 10,799,574 | 9,650,510 | 1,286,593 | 1,149,064 |
| Other noncurrent assets | 21,204 | 28,179 | 35,984 | (6,975) | (7,805) |
| Total assets | 15,446,129 | 14,892,855 | 12,641,530 | 553,274 | 2,251,325 |
| Deferred outflows of resources | | | | | |
| Loss on debt refundings | 35,732 | 37,806 | 40,308 | (2,074) | (2,502) |
| Pension and OPEB | 181,271 | 211,160 | 159,620 | (29,889) | 51,540 |
| Total deferred outflows of resources | 217,003 | 248,966 | 199,928 | (31,963) | 49,038 |
| Liabilities | | | | | |
| Current liabilities payable from unrestricted assets | 577,838 | 441,547 | 396,871 | 136,291 | 44,676 |
| Current liabilities payable from restricted assets | 209,432 | 212,876 | 188,665 | (3,444) | 24,211 |
| Noncurrent liabilities | 8,105,706 | 7,828,006 | 6,091,457 | 277,700 | 1,736,549 |
| Net pension liability | 807,685 | 773,419 | 710,724 | 34,266 | 62,695 |
| Net OPEB liability | 68,484 | 77,769 | 76,310 | (9,285) | 1,459 |
| Total liabilities | 9,769,145 | 9,333,617 | 7,464,027 | 435,528 | 1,869,590 |
| Deferred inflows of resources | | | | | |
| Gain on debt refundings | 24,271 | 3,681 | — | 20,590 | 3,681 |
| Pension and OPEB | 67,305 | 88,810 | 90,101 | (21,505) | (1,291) |
| Total deferred inflows of resources | 91,576 | 92,491 | 90,101 | (915) | 2,390 |
| Net Position | | | | | |
| Net investment in capital assets | 4,940,094 | 4,782,855 | 4,551,404 | 157,239 | 231,451 |
| Restricted for capital projects | 788,862 | 814,098 | 672,951 | (25,236) | 141,147 |
| Restricted for operations and maintenance reserve | 240,776 | 221,137 | 210,207 | 19,639 | 10,930 |
| Restricted for federally forfeited property & protested funds | 1,978 | 1,526 | 1,336 | 452 | 190 |
| Unrestricted | (169,299) | (103,903) | (148,568) | (65,396) | 44,665 |
| Total net position | \$ 5,802,411 | \$ 5,715,713 | \$ 5,287,330 | \$ 86,698 | \$ 428,383 |

Net Position, Fiscal Year 2020

As noted earlier, net position may serve as a useful indicator of LAX's financial condition. At the close of fiscal years 2020 and 2019, LAX's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$5.8 billion and \$5.7 billion, respectively, representing an increase of 1.5% or \$86.7 million.

The largest portion of LAX's net position (\$4.9 billion or 85.1%) 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 (\$1.0 billion or 17.8%) represents resources that are subject to various restrictions on how they may be used. Unrestricted net position decreased by \$65.4 million from \$(103.9) million in fiscal year 2019 to \$(169.3) million in fiscal year 2020.

Unrestricted current assets increased by \$161.4 million or 15.1%, from \$1.1 billion at June 30, 2019 to \$1.2 billion at June 30, 2020. The increase was primarily driven by an increase in cash and pooled investments held in City Treasury of \$64.3 million or 7.0%, an increase in accounts receivable balance of \$97.5 million or 2,578.6%, and an increase in grants receivable of \$56.3 million or 331.8%, offset by a decrease in unbilled receivables of \$49.8 million or 100.0% in fiscal year 2020.

Unrestricted current assets consist primarily of cash and pooled investments (including reinvested cash collateral in 2020) 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.

The increase in cash and pooled investments held in City Treasury of \$64.3 million was due to higher cash inflows than outflows in fiscal year 2020. The increase in accounts receivable of \$97.5 million at June 30, 2020 was a result of LAX's mitigation measures in response to COVID-19. Unbilled receivables, which represented the year-end accrual for unbilled revenue, was reduced accordingly as such accrual activities were minimal at June 30, 2020 due to LAWA's mitigation measures in response to COVID-19.

On April 9, 2020, the Board adopted a temporary terminal and airfield fee relief program with respect to passenger airlines serving LAX (Passenger Airline Temporary Relief Program). The Passenger Airline Temporary Relief Program permits eligible passenger air carriers subject to a terminal lease or the Airport Terminal Tariff to apply for relief. Key elements of the Passenger Airline Temporary Relief Program are as follows:

- Deferral of terminal and airfield fees payable from April through May 2020.
- All airlines were required to start repayment of any deferred amounts on July 1, 2020. For airlines that were a party to an Amended and Restated Rate Agreement by July 31, 2020, repayment of the deferred amounts will be required to be made over a six-month period, starting July 1, 2020 to be paid in equal monthly installments, and for airlines that were not party to an Amended and Restated Rate Agreement by July 31, 2020, the remaining deferred amounts must be fully repaid on or before August 1, 2020.
- On June 18, 2020, the Board approved keeping landing fees and apron fees unchanged through calendar year 2020.

As of June 30, 2020, the amount of deferred airline rents and fees included in accounts receivable was approximately \$93.0 million.



Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

On April 16, 2020, the Board adopted a fee relief program for LAX concessionaires and service providers at LAX (Concessionaires and Services Temporary Relief Program). The Concessionaires and Services Temporary Relief Program permits concessionaires and service providers to apply for relief. Key elements of the Concessionaires and Services Temporary Relief Program are as follows:

For the duration period beginning April 1, 2020 to June 30, 2020 (Duration Period):

- LAX only required payment of the specific percentage fees defined in each concessionaire or service provider agreement instead of the specific minimum annual guarantee (MAG), and, if applicable, deferred receipt of in-terminal concession storage rent.
- In the case of off-airport rental car companies, LAX only required payment of the lesser of (i) 10% of gross sales, or (ii) the specified license fee.
- Accrued amounts are required to be remitted in six equal monthly installments beginning July 1, 2020, with no late fees or interest charges on amounts paid in full within this six-month payment period.

As of June 30, 2020, the amount of outstanding deferred concessionaires' payments included in accounts receivable was approximately \$3.0 million.

The increase in grants receivable of \$56.3 million at June 30, 2020 was primarily a result of the grants awarded under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). On March 27, 2020, the CARES Act was signed into law, which, among other things, allocates funds to eligible airports, provided they take particular steps, including with respect to keeping their workforces intact. LAX was awarded CARES Act grants in the amount of approximately \$323.6 million, payable on a reimbursement basis. LAX has drawn approximately \$52.4 million of CARES Act moneys in fiscal year 2020 to stabilize cost increases in airline rates at LAX, while preserving the majority of the funds, approximately \$271.2 million, for fiscal year 2021. The drawn amount of \$52.4 million was recognized as grants revenue in fiscal year 2020.

Restricted current assets include cash and investments (including reinvested cash collateral in 2020) 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 decreased by \$887.7 million or 29.6%, from \$3.0 billion at June 30, 2019 to \$2.1 billion at June 30, 2020. The decrease in year-end investment portfolio held by fiscal agents of \$879.5 million, or 45.5% from \$1.9 billion in fiscal year 2019 to \$1.1 billion in fiscal year 2020 was mainly due to higher unspent bond proceeds in fiscal year 2019 as a result of the issuance of LAX subordinate revenue bond Series 2019 D and E on June 27, 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 \$1.3 billion, or 11.9%. Ongoing construction and improvements to modernize LAX terminals and facilities, construction of Midfield Satellite Concourse, and the Landside Access Modernization Program including the construction of Automated People Mover System and Consolidated Rental Car Facility were the primary reasons for the increase.

Other noncurrent assets decreased by \$7.0 million or 24.8% 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 OIAA, over a period of approximately 10 years. The total outstanding OIAA receivable balance was approximately \$30.6 million and \$37.6 million as of June 30, 2020 and 2019, respectively.

Current liabilities payable from unrestricted assets increased by \$136.3 million or 30.9%. This was mainly due to an increase of \$148.3 million or 53.7% in contracts and accounts payable, an increase of \$15.4 million or 66.6% in accrued salaries, an increase of \$12.5 million or 69.4% in other current liabilities; offset by a decrease of \$36.6 million or 36.7% in commercial paper, and a decrease of \$3.5 million or 35.2% in obligations under securities lending transactions. The increase in contracts and accounts payable was primarily due to the year-end accruals of capital expenditures for the on-going construction projects. The increase in accrued salaries was primarily due to accruals of \$16.8 million incentive payment for the Separation Incentive Program (SIP)¹ in fiscal year 2020. The increase in other current liabilities was primarily a result of \$9.4 million credit memo issued in fiscal year 2020 as part of America Airlines' tenant acquisition, and an increase in LAWA's share of the City Treasury's year-end pending investment trade of \$2.2 million in fiscal year 2020. The decrease in commercial paper notes was primarily due to refinancing of \$83.4 million from the bond proceeds of the issuance of LAX's subordinate revenue bonds Series 2019F.

Current liabilities payable from restricted assets decreased by \$3.4 million or 1.6%. This was mainly due to a decrease of \$1.7 million or 10.3% in contracts and accounts payable, a decrease of \$2.2 million in current maturities of bonded debt, and a decrease of \$3.8 million or 36.5% in obligations under securities lending transactions; offset by an increase of \$2.3 million in accrued interest payable, and an increase in LAX's share of the City Treasury's year-end pending investment trade of \$2.3 million in fiscal year 2020.

The increase in noncurrent liabilities was \$0.3 billion or 3.5%. This was primarily a result of bond issuances of \$1.2 billion with net change in premium of \$238.6 million, offset by refunding of \$983.7 million LAX senior revenue bonds Series 2010A and 2010D, and the recognition of \$141.0 million as current bonded debt in fiscal year 2020. The increase was also attributable to the recognition of additional proportionate share of net pension liability (NPL) of \$34.3 million or 4.4%, offset by the decrease in net OPEB liability (NOL) of \$9.3 million or 11.9% in fiscal year 2020.

¹ SIP offers eligible staff members the opportunity to retire from City service. A total of 333 employees have chosen to participate in the program to voluntarily terminate their employment with LAWA, with SIP departures beginning on June 6, 2020. Total estimated incentive payment for LAX was approximately \$17.4 million.



Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

Net Position, Fiscal Year 2019

As noted earlier, net position may serve as a useful indicator of LAX's financial position. 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 OIAA to current assets. Based on the 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.

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 NPL and NOL for \$65.2 million in fiscal year 2019.



Management's Discussion and Analysis (Unaudited)**June 30, 2020 and 2019**

(continued)

Changes in Net Position Summary

A condensed summary of LAX's changes in net position for fiscal years ended June 30, 2020, 2019, and 2018 is presented below:

**Condensed Changes in Net Position
(amounts in thousands)**

| | FY 2020 | FY 2019 | FY 2018 | FY 2020 increase (decrease) | FY 2019 increase (decrease) |
|---|--------------|--------------|--------------|-----------------------------------|-----------------------------------|
| Operating revenue | \$ 1,340,723 | \$ 1,514,367 | \$ 1,422,404 | \$ (173,644) | \$ 91,963 |
| Less- Operating expenses | 887,668 | 798,374 | 794,721 | 89,294 | 3,653 |
| Operating income before depreciation and amortization | 453,055 | 715,993 | 627,683 | (262,938) | 88,310 |
| Less- Depreciation and amortization | 445,887 | 402,646 | 360,638 | 43,241 | 42,008 |
| Operating income | 7,168 | 313,347 | 267,045 | (306,179) | 46,302 |
| Other nonoperating revenue (expenses), net | (6,448) | 85,172 | 73,234 | (91,620) | 11,938 |
| Federal and other government grants | 85,978 | 29,864 | 54,297 | 56,114 | (24,433) |
| Changes in net position | 86,698 | 428,383 | 394,576 | (341,685) | 33,807 |
| Net position, beginning of year, as previously reported | 5,715,713 | 5,287,330 | 4,969,250 | 428,383 | 318,080 |
| Change in accounting principle | — | — | (76,496) | — | 76,496 |
| Net position, beginning of year, as adjusted | 5,715,713 | 5,287,330 | 4,892,754 | 428,383 | 394,576 |
| Net position, end of year | \$ 5,802,411 | \$ 5,715,713 | \$ 5,287,330 | \$ 86,698 | \$ 428,383 |

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 2020, 2019, and 2018:

**Summary of Operating Revenue
(amounts in thousands)**

| | FY 2020 | FY 2019 | FY 2018 | FY 2020 increase (decrease) | FY 2019 increase (decrease) |
|---|--------------|--------------|--------------|-----------------------------------|-----------------------------------|
| Aviation revenue | | | | | |
| Landing fees | \$ 259,185 | \$ 295,724 | \$ 284,686 | \$ (36,539) | \$ 11,038 |
| Building rentals | 571,478 | 581,946 | 527,476 | (10,468) | 54,470 |
| Land rentals | 115,523 | 118,145 | 107,943 | (2,622) | 10,202 |
| Other aviation revenue | 7,334 | 7,390 | 6,431 | (56) | 959 |
| Total aviation revenue | 953,520 | 1,003,205 | 926,536 | (49,685) | 76,669 |
| Concession revenue | 380,331 | 501,167 | 469,187 | (120,836) | 31,980 |
| Other operating revenue | 8,044 | 9,995 | 27,353 | (1,951) | (17,358) |
| Total operating revenue before reliever fee | 1,341,895 | 1,514,367 | 1,423,076 | (172,472) | 91,291 |
| Reliever airport fee (landing fees offset) | (1,172) | — | (672) | (1,172) | 672 |
| Total operating revenue | \$ 1,340,723 | \$ 1,514,367 | \$ 1,422,404 | \$ (173,644) | \$ 91,963 |



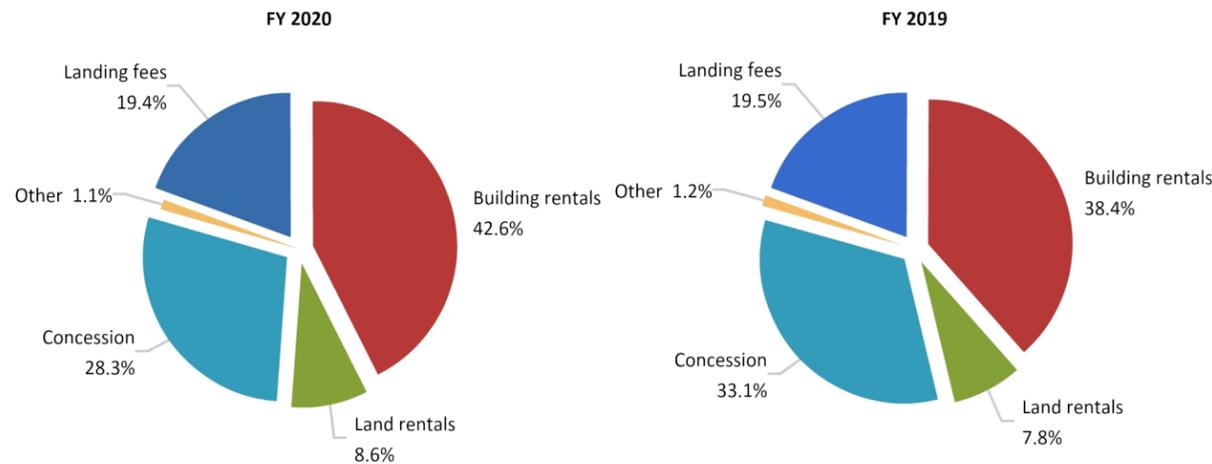
Management's Discussion and Analysis (Unaudited)

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(continued)

Operating Revenue, Fiscal Year 2020

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fee, for fiscal years ended June 30, 2020 and 2019. Other aviation and other operating revenue were added and labeled "Other."



For the fiscal year ended June 30, 2020, total operating revenue before reliever airport fees was \$1.3 billion, a decrease of \$172.5 million or 11.4% from the prior fiscal year. Aviation related revenue decreased by \$49.7 million or 5.0%. Non-aviation revenue decreased by \$122.8 million or 24.0%, including decrease in concession of \$120.8 million or 24.1%, and decrease in other operating revenue of \$2.0 million, or 19.5%. The downturn in total operating revenue was mainly caused by the outbreak of COVID-19. The COVID-19 pandemic has resulted in a number of governmental actions, including travel restrictions and warnings domestically and internationally by the CDC, and the issuance of 'stay at home' or 'shelter in place' orders by many state and local governments in the United States and governments abroad. Accordingly, LAX has been acutely impacted by the reductions in passenger volumes and flight operations.

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, 2020 decreased by \$36.5 million, or 12.4%. The decrease in landing fees was primarily due to 17.7% reduction in landed weights in fiscal year 2020 as impacted by COVID-19 described above, offset by the increase in actual capital and operating expenses allocable to the landing fee cost centers at LAX.

Building rental decreased by \$10.5 million or 1.8% from \$581.9 million in fiscal year 2019 to \$571.5 million in fiscal year 2020. The decrease in building rentals was primarily attributable to decreases in terminal use fees of \$32.3 million or 27.6% as a result of the drop in passenger traffic as impacted by COVID-19 in fiscal year 2020, and reduction in common use activity, offset by the increased costs of \$21.8 million or 4.7% primarily attributable to the increased costs in improvements and refurbishments in the terminals recovered under the Terminal Rate Agreement.

Land rental revenue decreased by \$2.6 million or 2.2% from \$118.1 million in fiscal year 2019 to \$115.5 million in fiscal year 2020. The decrease in land rental revenue was primarily due to an overall decrease in leased areas due to lease terminations, including the leases that were terminated in order to accommodate LAX-it (the opening of the auxiliary curb for taxis and rideshare), LAMP and other projects in fiscal year 2020.

Total revenue from concessions was \$380.3 million in fiscal year 2020, a 24.1% reduction from \$501.2 million in fiscal year 2019. 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) and other commercial ground transportation operations.

In-terminal concession revenue in fiscal year 2020 had a net decrease of \$59.7 million or 26.1% as compared to fiscal year 2019. Duty free revenues decreased by \$29.2 million, or 34.4%; commercial management concession revenue² decreased by \$23.6 million or 25.8%; other in-terminal revenue decreased by \$3.1 million or 15.0%; and advertising revenue decreased by \$3.8 million or 12.0%. The decreases in concession revenue were due to a waiver of MAGs and a decrease in percentage rents based on concessionaries' sales due to passenger traffic reduction as a result of the COVID-19 pandemic in fiscal year 2020.

Off-terminal concession revenue at LAX in fiscal year 2020 was \$211.3 million as compared to \$272.5 million in fiscal year 2019, a decrease of \$61.2 million or 22.5%. The decrease was primarily caused by a decrease in TNC revenue of \$20.8 million or 34.9% from fiscal year 2019, a decrease in auto parking of \$16.5 million, or 15.8% from fiscal year 2019, and a decrease in rent-a-car revenue of \$17.5 million, or 21.2%. The decrease in TNC revenue was a result of a one-time penalty fees of \$4.7 million in fiscal year 2019 in addition to the decline in ridership caused by the drop in passenger traffic as impacted by COVID-19 in fiscal year 2020. The decrease in auto parking revenue was primarily attributed to decrease in passenger traffic offset by parking rates increase in the Central Terminal Area parking structures effective January 2019. The decrease in rent-a-car revenue was due to a waiver of MAGs and a decrease in percentage rents based on sales due to passenger traffic reduction as a result of the COVID-19 pandemic in fiscal year 2020.

² Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

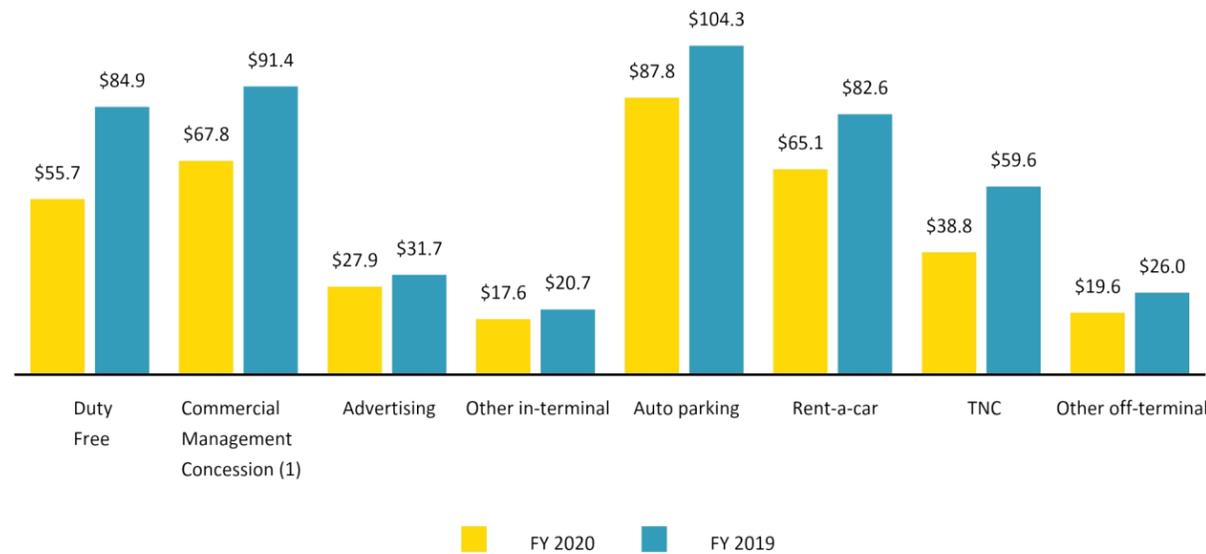


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(continued)

Comparative concession revenue by type for fiscal years 2020 and 2019 are presented in the following chart (amounts in millions).

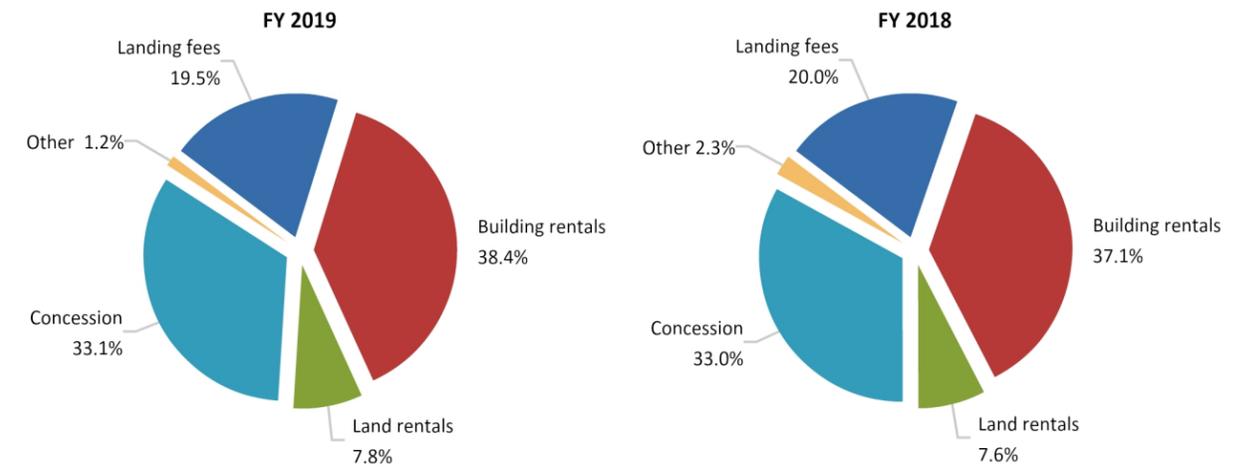


1) Commercial Management Concession revenue includes total revenue from food and beverage concessionaires, gifts and news and commercial management concessionaires.

Other operating revenue, including airport sales and services, and other aviation and operating revenue, decreased by \$2.0 million or 19.5% in fiscal year 2020. The decrease was primarily due to a drop in various reimbursements, refunds and penalty fees.

Operating Revenue, Fiscal Year 2019

The following chart illustrates the proportion of sources of operating revenue, before reliever airport fees, 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 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, 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.

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.

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



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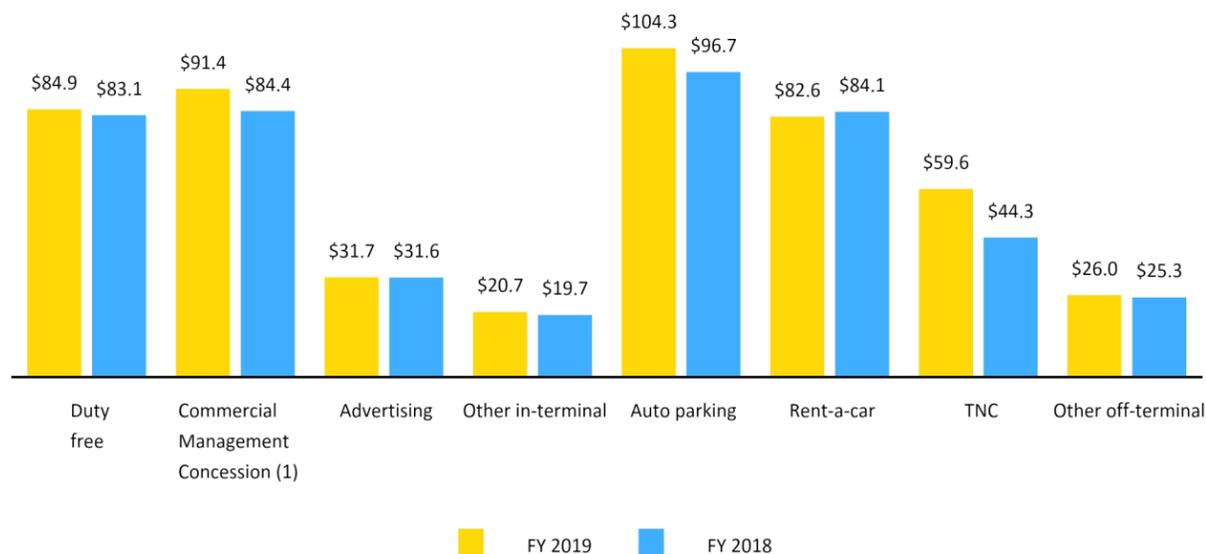
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cart rental and security screening services. Off-terminal concession revenue is derived from auto parking, rent-a-car, bus, limousine, taxi services, TNC and other commercial ground transportation operations.

In-terminal concession revenue during fiscal year 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 revenue 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 increase was mainly driven by the increase of 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.

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 has not provided staff augmentation services to OIAA since April 2018.

Operating Expenses

The following table presents a summary of LAX's operating expenses for the fiscal years ended June 30, 2020, 2019, and 2018. 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 2020 | FY 2019 | FY 2018 | FY 2020 increase (decrease) | FY 2019 increase (decrease) |
|--|--------------|--------------|--------------|-----------------------------------|-----------------------------------|
| Salaries and benefits | \$ 532,563 | \$ 456,948 | \$ 466,263 | \$ 75,615 | \$ (9,315) |
| Contractual services | 230,647 | 220,990 | 221,421 | 9,657 | (431) |
| Materials and supplies | 55,493 | 53,414 | 49,703 | 2,079 | 3,711 |
| Utilities | 47,334 | 46,191 | 39,433 | 1,143 | 6,758 |
| Other operating expenses | 24,719 | 23,559 | 20,825 | 1,160 | 2,734 |
| Operating expenses before depreciation | 890,756 | 801,102 | 797,645 | 89,654 | 3,457 |
| Depreciation | 445,887 | 402,646 | 360,638 | 43,241 | 42,008 |
| Total operating expenses | 1,336,643 | 1,203,748 | 1,158,283 | 132,895 | 45,465 |
| Less- allocation to VNY and PMD | 3,088 | 2,728 | 2,924 | 360 | (196) |
| Net operating expenses | \$ 1,333,555 | \$ 1,201,020 | \$ 1,155,359 | \$ 132,535 | \$ 45,661 |



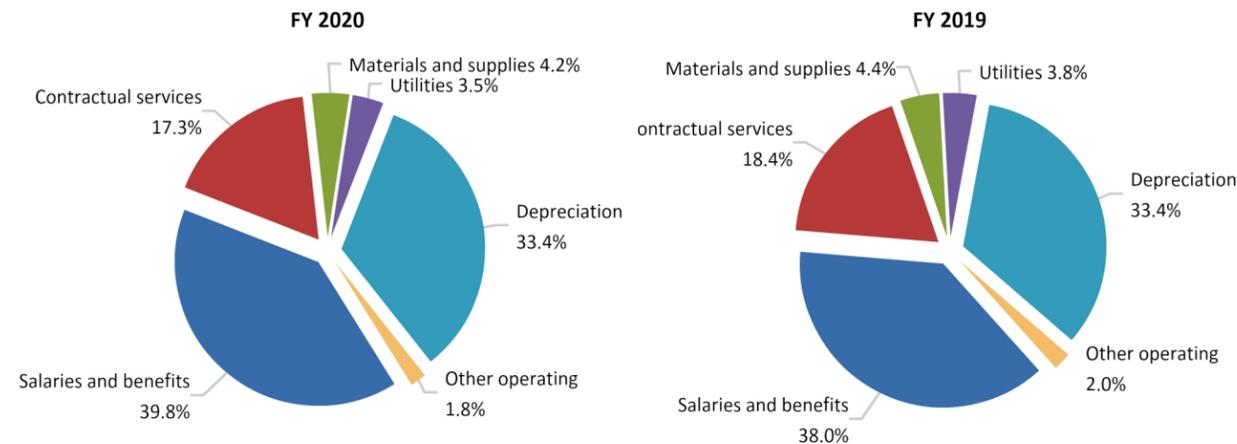
Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

Operating Expenses, Fiscal Year 2020

The following chart illustrates the proportion of categories of operating expenses, before allocation to other airports, for fiscal years ended June 30, 2020 and 2019.



For the fiscal year ended June 30, 2020, operating expenses before allocation to other airports were \$1.3 billion, a \$132.9 million or 11.0% increase from the prior fiscal year. Expense categories that experienced notable changes were increase in salaries and benefits of \$75.6 million or 16.5%, and increase in contractual services of \$9.7 million or 4.4%. Expense categories with moderate increase were materials and supplies, an increase of \$2.1 million or 3.9%; utilities, an increase of \$1.1 million or 2.5%; and other operating expenses, an increase of \$1.2 million or 4.9%. Depreciation increased by \$43.2 million or 10.7%.

Salaries and benefits expenses increased by \$75.6 million or 16.5%. Within this category, salaries and overtime before capitalized charges had an increase of \$31.3 million or 9.5%. This increase was mainly due to the terms of bargaining agreements with employee unions, in addition to the recognition of \$17.4 million under the SIP in fiscal year 2020. Retirement contributions increased by \$13.8 million or 15.9%; and healthcare subsidy increased moderately by \$0.7 million or 1.4%. Workers' compensation increased by \$9.1 million or 163.8% as additional projected year-end liability was recognized in fiscal year 2020 based on the actuarial report. Non-cash pension and OPEB expenses increased by \$22.0 million to \$33.4 million in fiscal year 2020.

Contractual services increased by 9.7 million or 4.4%. The increase was mostly driven by the opening of the auxiliary curb, LAX-it, to provide a pickup area for taxis and ride apps in fiscal year 2020. Materials and supplies expenses were \$55.5 million and \$53.4 million in fiscal year 2020 and 2019, respectively. The increase in materials and supplies at LAX was mainly due to the rental of backup power generators in response to a power outage incident in the Central Terminal Area, and increased maintenance and services for the automated border control gates and kiosks. Utilities expenses were \$47.3 million and \$46.2 million in fiscal year 2020 and 2019, respectively. The increase in utilities expenses was mainly caused by an increase of \$1.3 million in telephone and \$2.4 million in water charges offset by a decrease in electricity of \$2.2 million. Increase in telephone charges was due to higher usage. Increase in water charges was due to rate hikes and a sewage billing of \$3.7 million in fiscal year 2020, of which \$1.6 million was related to prior year usage. Decrease in electricity was a result of credit adjustments in fiscal year 2020 and lower usage due to Central Utility Plant (CUP) efficiency.

Other operating expenses were \$24.7 million and \$23.6 million in fiscal year 2020 and 2019, respectively. The increase in other operating expenses at LAX was mainly due to increase in bad debts of \$2.0 million and increase in insurance of \$2.1 million, offset by approximately \$3.0 million in aggregate decreases in travel, advertising and marketing, and miscellaneous administrative expenses. Increase in bad debts was a result of higher year-end bad debt allowance driven by a higher year-end accounts receivable balances due to the rent deferral program in fiscal year 2020. Increase in insurance premium was caused by rate hike and additional cybersecurity coverage of \$30.0 million in fiscal year 2020.

Depreciation charges increased from \$402.6 million to \$445.9 million in fiscal year 2020. The increase in depreciation charges was primarily due to capitalization of various terminals improvements and the Inglewood noise mitigation projects in fiscal year 2020.

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.



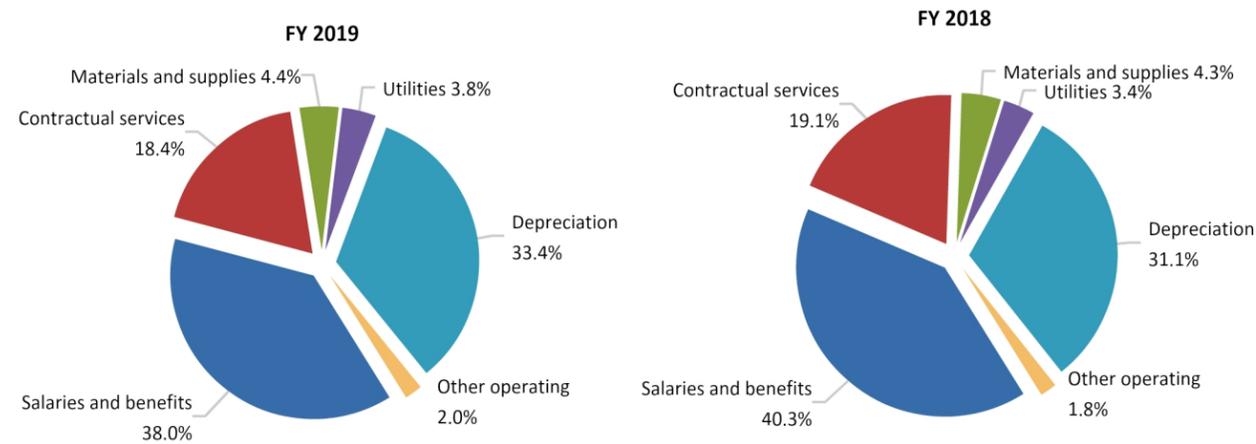
Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

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 expenses 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 expenses were \$53.4 million and \$49.7 million in fiscal year 2019 and 2018, respectively. The \$3.7 million increase in materials and supplies expenses was mainly due to increased purchases of computer equipments, asphalt for paving, and air-conditioning repair and materials. Utilities expenses were \$46.2 million and \$39.4 million in fiscal year 2019 and 2018, respectively. The increase in utilities expenses 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.

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 2020, 2019, and 2018.

Summary of Nonoperating Transactions (amounts in thousands)

| | FY 2020 | FY 2019 | FY 2018 | FY 2020 increase (decrease) | FY 2019 increase (decrease) |
|-------------------------------------|-------------------|-------------------|-------------------|-----------------------------------|-----------------------------------|
| Nonoperating revenue | | | | | |
| Passenger facility charges | \$ 118,023 | \$ 173,100 | \$ 171,431 | \$ (55,077) | \$ 1,669 |
| Customer facility charges | 65,621 | 80,248 | 55,759 | (14,627) | 24,489 |
| Interest and investment income | 119,938 | 109,323 | 9,848 | 10,615 | 99,475 |
| Other nonoperating revenue | 14,286 | 23,996 | 43,421 | (9,710) | (19,425) |
| | <u>\$ 317,868</u> | <u>\$ 386,667</u> | <u>\$ 280,459</u> | <u>\$ (68,799)</u> | <u>\$ 106,208</u> |
| Nonoperating expenses | | | | | |
| Interest expense | \$ 320,892 | \$ 294,767 | \$ 205,308 | \$ 26,125 | \$ 89,459 |
| Other nonoperating expenses | 3,424 | 6,728 | 1,917 | (3,304) | 4,811 |
| | <u>\$ 324,316</u> | <u>\$ 301,495</u> | <u>\$ 207,225</u> | <u>\$ 22,821</u> | <u>\$ 94,270</u> |
| Federal and other government grants | <u>\$ 85,978</u> | <u>\$ 29,864</u> | <u>\$ 54,297</u> | <u>\$ 56,114</u> | <u>\$ (24,433)</u> |



Management's Discussion and Analysis (Unaudited)**June 30, 2020 and 2019**

(continued)

Nonoperating Transactions, Fiscal Year 2020

PFCs decreased by \$55.1 million or 31.8% from \$173.1 million to \$118.0 million as a result of the decrease of 28.7% passenger traffic in fiscal year 2020 as impacted by COVID-19. CFCs, which are imposed on each car rental transaction collected by car rental concessionaires and remitted to LAX, decreased by \$14.6 million or 18.2% from \$80.2 million to \$65.6 million in fiscal year 2020. The decrease was primarily due to the decrease of passenger traffic as impacted by COVID-19.

Interest and investment income increased by \$10.6 million or 9.7% from \$109.3 million to \$119.9 million in fiscal year 2020. 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 \$26.1 million or 8.9% from \$294.8 million to \$320.9 million in fiscal year 2020 mainly due to the net additional issuances of \$166.4 million revenue bonds (after refunding) to finance capital improvement projects at LAX.

Other nonoperating revenue decreased by \$9.7 million or 40.5% from \$24.0 million to \$14.3 million in fiscal year 2020 primarily due to \$13.1 million noise mitigation funds returned to LAX in fiscal year 2019, offset by \$2.9 million reimbursement billing for USO tenant improvement project in fiscal year 2020.

Other nonoperating expenses decreased by \$3.3 million or 49.1% from \$6.7 million to \$3.4 million in fiscal year 2020. The decrease was mainly due to decrease in bond issuance expenses as a result of reduction in net bond issuance from \$1.6 billion in fiscal year 2019 to \$166.4 million in fiscal year 2020.

Federal and other government grants increased by \$56.1 million, or 187.9% from \$29.9 million to \$86.0 million mainly due to the CARES Act grants of \$52.4 million received in fiscal year 2020.

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% in 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.



Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

Long-Term Debt

As of June 30, 2020, LAX's outstanding long-term debt before unamortized premium was \$7.2 billion. Issuances during the year amounted to \$1.2 billion, redemption and refunding totaled \$983.7 million, and payments for scheduled maturities were \$143.2 million. Together with the unamortized premium, bonded debt of LAX increased by \$0.3 billion to a total of \$8.1 billion.

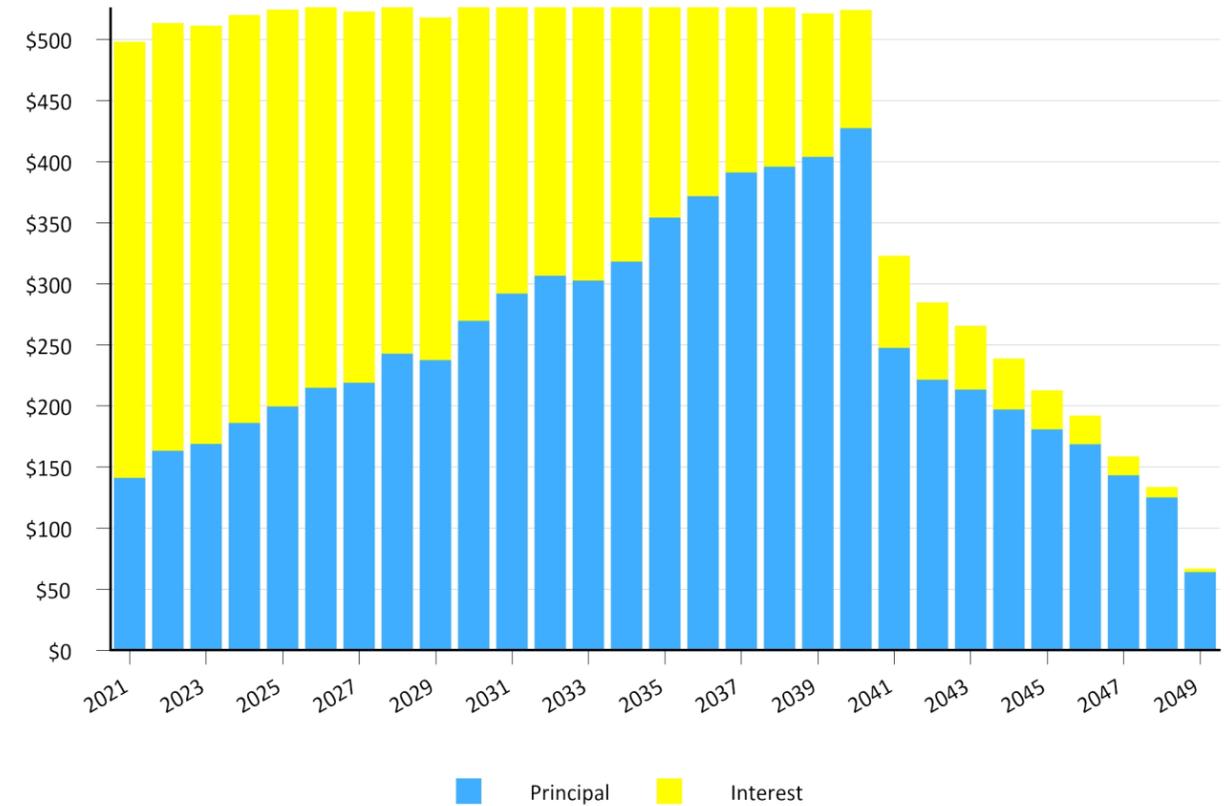
As of June 30, 2019, LAX's outstanding long-term debt before unamortized premium and discount was \$7.1 billion. Issuances during the year amounted to \$1.9 billion, redemption and refunding totaled \$253.5 million, and payments for scheduled maturities were \$116.9 million. Together with the unamortized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

As of June 30, 2020 and 2019, LAX had \$701.2 million and \$672.4 million investments, respectively, held by fiscal agents that are pledged for the payment or security of the outstanding bonds.

LAX maintains credit ratings of AA, Aa2 and AA- on its senior revenue bonds and credit ratings of AA-, Aa3 and A+ on its subordinate revenue bonds from Fitch Ratings, Moody's Investors Service and Standard & Poor's Global Ratings (S&P), respectively. In August 2020, S&P downgraded LAX credit rating from AA to AA- for senior revenue bonds and from AA- to A+ for subordinate revenue bonds, while the other two agencies affirmed their ratings. According to S&P's press release, the downgrade was a result of the COVID-19 pandemic. It reflects S&P's outlook on the impact of the pandemic on the aviation industry overall and its effects on LAX, which is outside of management's control.

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, 2020, is scheduled to mature as shown in the following chart (amounts in millions).



Management's Discussion and Analysis (Unaudited)**June 30, 2020 and 2019**

(continued)

Capital Assets

LAX's investment in capital assets, net of accumulated depreciation, as of June 30, 2020 and 2019 were \$12.1 billion and \$10.8 billion, respectively. This investment, which accounts for 78.2% and 72.5% of LAX's total assets as of June 30, 2020 and 2019, 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 2020

Major capital expenditure activities during fiscal year 2020 included:

- \$430.0 million renovations at Terminals 1 to 8
- \$383.0 million construction of Midfield Satellite Concourse (MSC)
- \$200.1 million construction of Automated People Mover System (APM)
- \$166.5 million project costs related to Landside Access Modernization Program (LAMP)
- \$139.8 million construction of Consolidated Rental Car Facility (ConRAC)
- \$53.6 million interior improvements and security upgrades at Tom Bradley International Terminal (TBIT) and Bradley West
- \$44.7 million construction of runways and taxiways
- \$26.1 million residential acquisition, soundproofing and noise mitigation
- \$20.3 million IT network and system projects

Additional details of capital commitments can be found in Note 16a 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 MSC
- \$407.4 million project costs related to LAMP³
- \$356.6 million renovations at Terminals 1 to 8
- \$29.4 million interior improvements and security upgrades at TBIT and Bradley West
- \$27.7 million construction of runways and taxiways
- \$14.5 million CTA curbside development project
- \$11.5 million taxiway and landside improvements

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

³ This amount included APM Milestone Payment of \$174.7 million made in March 2019.



Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

(continued)

Landing Fees

The airline landing fees for fiscal year 2021, as approved by the LAWA Board of Commissioners on June 18, 2020, 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 | \$143.00 | \$179.00 |
| For each landing of aircraft having a maximum gross landing weight of more than 12,500 pounds up to and including 25,000 pounds | 275.00 | 344.00 |
| 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 | 8.20 | 10.25 |
| 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 | 11.01 | 13.76 |

Due to the financial impact of COVID-19, LAX will defer charging the above rates and continue to collect the fiscal year 2020 adopted landing fee rates and other charges for the period July 1, 2020 to December 31, 2020. These rates are subject to mid-year reconciliation and settlement for any uncollected costs during the deferral period.

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 |

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.



Financial Statements

2020 Annual Financial Report
Los Angeles International Airport



Financial Statements



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

Los Angeles International Airport

Statements of Net Position

June 30, 2020 and 2019

(amounts in thousands)

| | 2020 | 2019 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Unrestricted current assets | | |
| Cash and pooled investments held in City Treasury | \$ 984,838 | \$ 920,496 |
| Investments with fiscal agents | 979 | 2,565 |
| Accounts receivable, net of allowance for uncollectible accounts: 2020 - \$2,069 ; 2019 - \$82 | 101,306 | 3,782 |
| Unbilled receivables | — | 49,795 |
| Accrued interest receivable | 4,690 | 8,038 |
| Grants receivable | 73,230 | 16,959 |
| Receivable from Ontario International Airport Authority (OIAA) | 9,361 | 9,464 |
| Due from other agencies | 46,852 | 47,252 |
| Prepaid expenses | 5,885 | 7,249 |
| Inventories | 1,382 | 1,524 |
| Total unrestricted current assets | <u>1,228,523</u> | <u>1,067,124</u> |
| Restricted current assets | | |
| Cash and pooled investments held in City Treasury | 1,051,139 | 1,027,956 |
| Investments with fiscal agents, includes cash and cash equivalents, related to bonded debt: 2020 - \$1,047,564; 2019 - \$1,682,117 | 1,054,833 | 1,934,293 |
| Accrued interest receivable | 1,131 | 1,642 |
| Passenger facility charges receivable | 1,412 | 26,926 |
| Customer facility charges receivable | 1,720 | 7,161 |
| Total restricted current assets | <u>2,110,235</u> | <u>2,997,978</u> |
| Total current assets | <u>3,338,758</u> | <u>4,065,102</u> |
| Noncurrent Assets | | |
| Capital assets | | |
| Not depreciated | 4,924,128 | 3,428,867 |
| Depreciated, net | 7,162,039 | 7,370,707 |
| Total capital assets | <u>12,086,167</u> | <u>10,799,574</u> |
| Other noncurrent assets | | |
| Receivable from OIAA, net of current portion | 21,204 | 28,179 |
| Total other noncurrent assets | <u>21,204</u> | <u>28,179</u> |
| Total noncurrent assets | <u>12,107,371</u> | <u>10,827,753</u> |
| TOTAL ASSETS | <u>15,446,129</u> | <u>14,892,855</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Loss on debt refundings | 35,732 | 37,806 |
| Pension and OPEB | 181,271 | 211,160 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>217,003</u> | <u>248,966</u> |



Statements of Net Position (continued)
June 30, 2020 and 2019
(amounts in thousands)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| LIABILITIES | | |
| Current Liabilities | | |
| Current liabilities payable from unrestricted assets | | |
| Contracts and accounts payable | \$ 424,436 | \$ 276,145 |
| Accrued salaries | 38,644 | 23,201 |
| Accrued employee benefits | 5,665 | 5,349 |
| Estimated claims payable | 8,912 | 9,170 |
| Commercial paper | 63,197 | 99,791 |
| Obligations under securities lending transactions | 6,359 | 9,810 |
| Other current liabilities | 30,625 | 18,081 |
| Total current liabilities payable from unrestricted assets | <u>577,838</u> | <u>441,547</u> |
| Current liabilities payable from restricted assets | | |
| Contracts and accounts payable | 14,498 | 16,169 |
| Current maturities of bonded debt | 141,025 | 143,240 |
| Accrued interest payable | 44,630 | 42,304 |
| Obligations under securities lending transactions | 6,547 | 10,305 |
| Other current liabilities | 2,732 | 858 |
| Total current liabilities payable from restricted assets | <u>209,432</u> | <u>212,876</u> |
| Total current liabilities | <u>787,270</u> | <u>654,423</u> |
| Noncurrent Liabilities | | |
| Bonded debt, net of current portion | 7,963,523 | 7,699,537 |
| Accrued employee benefits, net of current portion | 50,982 | 43,282 |
| Estimated claims payable, net of current portion | 90,315 | 84,301 |
| Net pension liability | 807,685 | 773,419 |
| Net OPEB liability | 68,484 | 77,769 |
| Other long-term liabilities | 886 | 886 |
| Total noncurrent liabilities | <u>8,981,875</u> | <u>8,679,194</u> |
| TOTAL LIABILITIES | <u>9,769,145</u> | <u>9,333,617</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Gain on debt refundings | 24,271 | 3,681 |
| Pension and OPEB | 67,305 | 88,810 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>91,576</u> | <u>92,491</u> |
| NET POSITION | | |
| Net investment in capital assets | 4,940,094 | 4,782,855 |
| Restricted for: | | |
| Passenger facility charges eligible projects | 352,440 | 381,032 |
| Customer facility charges eligible projects | 436,422 | 433,066 |
| Operations and maintenance reserve | 240,776 | 221,137 |
| Federally forfeited property and protested funds | 1,978 | 1,526 |
| Unrestricted | (169,299) | (103,903) |
| TOTAL NET POSITION | <u>\$ 5,802,411</u> | <u>\$ 5,715,713</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, 2020 and 2019
(amounts in thousands)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| OPERATING REVENUE | | |
| Aviation revenue | | |
| Landing fees | \$ 259,185 | \$ 295,724 |
| Reliever airport fee | (1,172) | — |
| Building rentals | 571,478 | 581,946 |
| Land rentals | 115,523 | 118,145 |
| Other aviation revenue | 7,334 | 7,390 |
| Total aviation revenue | <u>952,348</u> | <u>1,003,205</u> |
| Concession revenue | 380,331 | 501,167 |
| Other operating revenue | 8,044 | 9,995 |
| Total operating revenue | <u>1,340,723</u> | <u>1,514,367</u> |
| OPERATING EXPENSES | | |
| Salaries and benefits | 532,563 | 456,948 |
| Contractual services | 230,647 | 220,990 |
| Materials and supplies | 55,493 | 53,414 |
| Utilities | 47,334 | 46,191 |
| Other operating expenses | 24,719 | 23,559 |
| Allocated administrative charges | (3,088) | (2,728) |
| Total operating expenses before depreciation and amortization | <u>887,668</u> | <u>798,374</u> |
| Operating income before depreciation and amortization | 453,055 | 715,993 |
| Depreciation and amortization | 445,887 | 402,646 |
| OPERATING INCOME | <u>7,168</u> | <u>313,347</u> |
| NONOPERATING REVENUE (EXPENSES) | | |
| Passenger facility charges | 118,023 | 173,100 |
| Customer facility charges | 65,621 | 80,248 |
| Interest and investment income | 119,938 | 109,323 |
| Interest expense | (320,892) | (294,767) |
| Other nonoperating revenue | 14,286 | 23,996 |
| Other nonoperating expenses | (3,424) | (6,728) |
| Total nonoperating revenue (expenses), net | <u>(6,448)</u> | <u>85,172</u> |
| INCOME BEFORE CAPITAL GRANTS AND INTER-AGENCY TRANSFERS | 720 | 398,519 |
| Federal and other government grants | 85,978 | 29,864 |
| CHANGE IN NET POSITION | <u>86,698</u> | <u>428,383</u> |
| NET POSITION, BEGINNING OF YEAR | 5,715,713 | 5,287,330 |
| NET POSITION, END OF YEAR | <u>\$ 5,802,411</u> | <u>\$ 5,715,713</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 Cash Flows****For the Fiscal Years Ended June 30, 2020 and 2019**

(amounts in thousands)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 1,304,798 | \$ 1,512,989 |
| Payments to suppliers | (186,081) | (242,350) |
| Payments for employee salaries and benefits | (468,642) | (446,578) |
| Payments for City services | (116,476) | (108,944) |
| Inter-agency receipts for services, net | 3,088 | 2,728 |
| Net cash provided by operating activities | <u>536,687</u> | <u>717,845</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Noncapital grants received | 10,860 | 11,153 |
| Inter-agency transfers in | 400 | 4 |
| Net cash provided by noncapital financing activities | <u>11,260</u> | <u>11,157</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from sale of revenue bonds and commercial paper notes | 520,679 | 1,769,324 |
| Principal paid on revenue bonds and commercial paper notes | (231,510) | (127,477) |
| Interest paid on revenue bonds and commercial paper notes | (362,113) | (321,056) |
| Revenue bonds issuance costs | (1,591) | (2,368) |
| Acquisition and construction of capital assets | (1,631,751) | (1,340,261) |
| Proceeds from passenger facility charges | 143,537 | 171,074 |
| Proceeds from customer facility charges | 71,062 | 81,604 |
| Capital contributed by federal agencies | 29,707 | 19,370 |
| Net cash provided by (used for) capital and related financing activities | <u>(1,461,980)</u> | <u>250,210</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 78,735 | 65,141 |
| Net change in fair value of investments | 44,491 | 41,423 |
| Cash collateral received (paid) under securities lending transactions | (7,209) | (11,286) |
| (Purchases) sales of investments | 4,495 | (9,395) |
| (Purchases) sales of investments held by fiscal agents | 244,907 | (140,773) |
| Net cash provided by (used for) investing activities | <u>365,419</u> | <u>(54,890)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>(548,614)</u> | <u>924,322</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,633,134</u> | <u>2,708,812</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 3,084,520</u> | <u>\$ 3,633,134</u> |

| | 2020 | 2019 |
|---|---------------------|---------------------|
| CASH AND CASH EQUIVALENTS COMPONENTS | | |
| Cash and pooled investments held in City Treasury- unrestricted | \$ 984,838 | \$ 920,496 |
| Investments with fiscal agents- unrestricted | 979 | 2,565 |
| Cash and pooled investments held in City Treasury- restricted | 1,051,139 | 1,027,956 |
| Investments with fiscal agents- restricted | 1,047,564 | 1,682,117 |
| Total cash and cash equivalents | <u>\$ 3,084,520</u> | <u>\$ 3,633,134</u> |

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED**BY OPERATING ACTIVITIES**

| | | |
|--|-------------------|-------------------|
| Operating income | \$ 7,168 | \$ 313,347 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation and amortization | 445,887 | 402,646 |
| Change in provision for uncollectible accounts | (1,987) | (82) |
| Other nonoperating revenues, net | 4,076 | 14,354 |
| Changes in operating assets and liabilities and deferred outflows and inflows of resources | | |
| Accounts receivable | (95,537) | (3,700) |
| Unbilled receivables | 49,795 | (27,964) |
| Prepaid expenses and inventories | 1,485 | (3,002) |
| Notes receivable | 7,078 | 7,910 |
| Contracts and accounts payable | 55,233 | (7,336) |
| Accrued salaries | 15,443 | 4,696 |
| Accrued employee benefits | 8,016 | 793 |
| Other liabilities | 6,665 | 4,860 |
| Net pension and OPEB liability and related changes in deferred outflows and inflows of resources | 33,365 | 11,323 |
| Total adjustments | <u>529,519</u> | <u>404,498</u> |
| Net cash provided by operating activities | <u>\$ 536,687</u> | <u>\$ 717,845</u> |

SIGNIFICANT NONCASH CAPITAL AND RELATED FINANCING AND INVESTING ACTIVITIES

| | | |
|---|------------|------------|
| Acquisition of capital assets included in contracts and accounts payable | \$ 269,015 | \$ 177,562 |
| Revenue bonds proceeds received in escrow trust fund | 926,983 | 248,663 |
| Debt defeased and related costs paid through escrow trust fund with revenue bonds | (926,983) | (248,663) |
| Net change in grants receivable | (56,271) | (10,494) |
| 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.



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, 2020 and 2019

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.

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Notes to the Financial Statements
June 30, 2020 and 2019
 (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 acquisition value 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 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 years 2020 and 2019.

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, 2020 and 2019

(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.

In December 2019, the Board approved a ten year extension of the Rate Agreement ("Amended and Restated Rate Agreement," or "Rate Agreement Amendment") which would, among other things: (i) extend the term and terms of the Rate Agreement through December 2032; (ii) require airlines executing a Rate Agreement Amendment to pay an "extraordinary debt service coverage charge" to LAWA designed to maintain a debt service coverage ratio equal to not less than 1.40X; and (iii) under certain circumstances, eliminate the requirement that a participating airline provide a performance guarantee and instead pay to LAWA a 'bad debt surcharge', a pooled surcharge designed to compensate LAWA for bad debt costs. A signatory airline choosing not to sign the Rate Agreement Amendment will be governed by its Rate Agreement (unmodified by the Rate Agreement Amendment) and at the expiration of such Rate Agreement airlines not agreeing to a Rate Agreement Amendment will be subject to the Airport Terminal Tariff. Passenger airlines and approved airline consortium not currently operating at LAX and commencing operations in the future will have an opportunity to sign the new agreement during or prior to their first 30 days of passenger service at LAX.

In response to the COVID-19 pandemic, LAX is proactively implementing measures intended to mitigate operational and financial impacts. Among those measures are the April 2020 approvals of the Passenger Airline Temporary Relief Program and the Concessionaires and Services Temporary Relief Program. Additional details can be found in Note 8 of the notes to the financial statements.

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.

In response to the COVID-19 pandemic, LAX is proactively implementing measures intended to mitigate operational and financial impacts. Among those measures are the April 2020 approvals of the Passenger Airline Temporary Relief Program and the Concessionaires and Services Temporary Relief Program. Additional details can be found in Note 8 of the notes to the financial statements.

l. Unearned Revenue

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



Notes to the Financial Statements
June 30, 2020 and 2019
 (continued)

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, 2020 and 2019 are as follows (amounts in thousands):

| Type of benefit | 2020 | 2019 |
|------------------------|-----------|-----------|
| Accrued vacation leave | \$ 32,114 | \$ 25,163 |
| Accrued sick leave | 24,533 | 23,468 |
| Sub-total | 56,647 | 48,631 |
| Current portion | (5,665) | (5,349) |
| Noncurrent portion | \$ 50,982 | \$ 43,282 |

As part of the 2021 budget plan to manage headcount, in May 2020, LAWA offered a Separation Incentive Program (SIP) that would provide cash payments for eligible LAWA employees who choose to voluntarily retire from the City of Los Angeles. A total of 333 employees have chosen to participate in the program to voluntarily terminate their employment with LAWA, with SIP departures beginning on June 6, 2020. LAX recognized \$17.4 million under the program in fiscal year 2020.

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, 2020 and 2019, 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):

| | 2020 | 2019 |
|---|------------|------------|
| Net pension liability | | |
| LACERS - proportionate shares | \$ 806,117 | \$ 771,926 |
| LAFPP - proportionate shares | 1,568 | 1,493 |
| Total net pension liability | \$ 807,685 | \$ 773,419 |
| Deferred outflows of resources related to pensions | | |
| LACERS - proportionate shares | \$ 147,072 | \$ 177,672 |
| LAFPP - proportionate shares | 3,157 | 2,990 |
| Total deferred outflows of resources related to pensions | \$ 150,229 | \$ 180,662 |
| Deferred inflows of resources related to pensions | | |
| LACERS - proportionate shares | \$ 36,161 | \$ 63,276 |
| LAFPP - proportionate shares | 115 | 37 |
| Total deferred inflows of resources related to pensions | \$ 36,276 | \$ 63,313 |
| Pension expenses | | |
| LACERS - proportionate shares | \$ 110,852 | \$ 80,485 |
| LAFPP - proportionate shares | 1,271 | (288) |
| Total pension expenses | \$ 112,123 | \$ 80,197 |



Notes to the Financial Statements

June 30, 2020 and 2019

(continued)

For fiscal years ended June 30, 2020 and 2019, 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):

| | 2020 | 2019 |
|---|------------------|------------------|
| Net OPEB liability | | |
| LACERS - proportionate shares | \$ 67,889 | \$ 77,056 |
| LAFPP - proportionate shares | 595 | 713 |
| Total net OPEB liability | <u>\$ 68,484</u> | <u>\$ 77,769</u> |
| Deferred outflows of resources related to OPEB | | |
| LACERS - proportionate shares | \$ 29,924 | \$ 29,407 |
| LAFPP - proportionate shares | 1,118 | 1,091 |
| Total deferred outflows of resources related to OPEB | <u>\$ 31,042</u> | <u>\$ 30,498</u> |
| Deferred inflows of resources related to OPEB | | |
| LACERS - proportionate shares | \$ 30,779 | \$ 25,492 |
| LAFPP - proportionate shares | 250 | 5 |
| Total deferred inflows of resources related to OPEB | <u>\$ 31,029</u> | <u>\$ 25,497</u> |
| OPEB expenses | | |
| LACERS - proportionate shares | \$ 9,695 | \$ 11,554 |
| LAFPP - proportionate shares | 504 | 235 |
| Total OPEB expenses | <u>\$ 10,199</u> | <u>\$ 11,789</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.

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.



Notes to the Financial Statements

June 30, 2020 and 2019

(continued)

2. New Accounting Standards

LAX adopted GASB Statement No. 95, *Postponement of The Effective Dates of Certain Authoritative Guidance* (GASB 95), which provided temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. GASB 95 postponed the effective date of certain provisions in the Statements and Implementation Guides that first become effective or were scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions within the following pronouncements were postponed by one year: Statement No. 83, *Certain Asset Retirement Obligations*, Statement No. 84, *Fiduciary Activities*, Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, Statement No. 90, *Majority Equity Interests*, Statement No. 91, *Conduit Debt Obligations*, Statement No. 92, *Omnibus 2020*, and Statement No. 93, *Replacement of Interbank Offered Rates*. The effective date for GASB Statement No. 87, *Leases*, was postponed by 18 months.

LAX implemented the following GASB statements included within GASB 95 in fiscal year 2019:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

LAX has elected to implement the following GASB statements included within GASB 95 in fiscal year 2020:

- Statement No. 84, *Fiduciary Activities*
- Statement No. 90, *Majority Equity Interests*

LAX has elected to postpone the implementation of the following GASB Statements included within GASB 95 and has disclosed the expected implementation dates as described in the paragraphs below.

- Statement 87, *Leases*
- Statement 91, *Conduit Debt Obligations*
- Statement 92, *Omnibus 2020*
- Statement 93, *Replacement of Interbank Offered Rates*

Implementation of the following GASB statements is effective fiscal year 2020.

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. LAX implemented this statement without material impact.

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. LAX implemented this statement without material impact.

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 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 2022.

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 2023.

Issued in January 2020, GASB Statement No. 92, *Omnibus 2020* aims to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics and include specific provisions about individual statements including Statement No. 87, *Leases*, Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and Statement No. 84, *Fiduciary Activities*. Implementation of this statement is effective fiscal year 2022.



Notes to the Financial Statements

June 30, 2020 and 2019

(continued)

Issued in March 2020, GASB Statement No. 93, *Replacement of Interbank Offered Rates* establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Implementation of this statement is effective fiscal year 2021.

Issued in March 2020, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangement* improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). Implementation of this statement is effective fiscal year 2023.

Issued in May 2020, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. Implementation of this statement is effective fiscal year 2023.

Issued in June 2020, GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Implementation of this statement is effective fiscal year 2022.

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 \$2.0 billion and \$1.9 billion in the Pool represented approximately 17.4% and 18.3% as of June 30, 2020 and 2019, 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 2020 and 2019 were \$4.6 million and \$0.1 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.



Notes to the Financial Statements

June 30, 2020 and 2019

(continued)

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, 2020, LAX's portion of the cash collateral and the related obligation in the City's program was \$12.9 million. LAX's portion of the securities purchased from the reinvested cash collateral at June 30, 2020 was \$12.9 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, 2020 was \$76.5 million. 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.

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, 2020 and 2019 because the amounts owed to the borrowers exceeded the amounts borrowed. Loaned securities are held by the City's agents in the City's name and are not subject to custodial credit risk.

c. Investments with Fiscal Agents

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

| | 2020 | 2019 |
|------------------------------------|---------------------|---------------------|
| Unrestricted, current | | |
| Commercial paper and cash at bank | \$ 979 | \$ 2,565 |
| Restricted, current and noncurrent | | |
| Bond security funds | 701,248 | 672,423 |
| Construction funds | 353,585 | 1,261,870 |
| Subtotal | 1,054,833 | 1,934,293 |
| Total | <u>\$ 1,055,812</u> | <u>\$ 1,936,858</u> |

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, 2020, 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 | \$ 831,975 | \$ 831,975 | \$ — |
| State of California LAIF | 215,589 | — | 215,589 |
| U.S. Treasury securities | 7,269 | — | 7,269 |
| Subtotal | 1,054,833 | <u>\$ 831,975</u> | <u>\$ 222,858</u> |
| Bank deposit accounts | 979 | | |
| Total | <u>\$ 1,055,812</u> | | |



Notes to the Financial Statements
June 30, 2020 and 2019
(continued)

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

| | Amount | Investment maturities | |
|---------------------------|--------------|-----------------------|------------|
| | | 1 to 60 | 61 to 365 |
| | | days | 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 | | |

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, 2020, the investments by fair value level are as follows (amounts in thousands):

| | Amount | Fair Value Measurements Using Level 1 |
|---|--------------|---------------------------------------|
| Money Market Funds | \$ 831,975 | \$ 831,975 |
| U.S. Treasury securities | 7,269 | 7,269 |
| Total investments by fair value level | 839,244 | \$ 839,244 |
| Investments not subject to fair value hierarchy | | |
| State of California LAIF | 215,589 | |
| Bank deposit accounts | 979 | |
| Total | \$ 1,055,812 | |

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 by fair value level | \$ 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 | |

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, 2020 and 2019, 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, 2020, LAX's investments in the LAIF held by fiscal agents totaled \$215.6 million. The total amount invested by all public agencies in LAIF at that date was \$32.1 billion. The LAIF is part of the State's Pooled Money Investment Account (PMIA). As of June 30, 2020, the investments in the PMIA totaled \$101.8 billion, of which 96.6% is invested in non-derivative financial products and 3.4% in structured notes and asset-backed securities. The weighted average maturity of LAIF investments was 191 days as of June 30, 2020. LAIF is not rated. 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 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.



Notes to the Financial Statements
June 30, 2020 and 2019
(continued)

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.

4. Capital Assets

LAX had the following activities in capital assets during fiscal year 2020 (amounts in thousands):

| | Balance at July 1, 2019 | Additions | Retirements & disposals | Transfers | Balance at June 30, 2020 |
|--------------------------------------|----------------------------|--------------|----------------------------|-----------|-----------------------------|
| Capital assets not depreciated | | | | | |
| Land and land clearance | \$ 1,167,839 | \$ — | \$ — | \$ 1,455 | \$ 1,169,294 |
| Air easements | 44,346 | — | — | — | 44,346 |
| Emission reduction credits | 2,772 | — | — | — | 2,772 |
| Construction work in progress | 2,213,910 | 1,685,626 | — | (191,820) | 3,707,716 |
| Total capital assets not depreciated | 3,428,867 | 1,685,626 | — | (190,365) | 4,924,128 |
| Capital assets depreciated | | | | | |
| Buildings | 3,571,813 | — | — | — | 3,571,813 |
| Improvements | 6,359,860 | 3,696 | — | 162,737 | 6,526,293 |
| Equipment and vehicles | 300,685 | 43,303 | (3,844) | 1,653 | 341,797 |
| Intangible assets | 38,087 | — | — | 25,975 | 64,062 |
| Total capital assets depreciated | 10,270,445 | 46,999 | (3,844) | 190,365 | 10,503,965 |
| Accumulated depreciation | | | | | |
| Buildings | (827,149) | (112,638) | — | — | (939,787) |
| Improvements | (1,885,933) | (303,742) | — | — | (2,189,675) |
| Equipment and vehicles | (150,224) | (23,814) | 3,701 | — | (170,337) |
| Intangible assets | (36,432) | (5,695) | — | — | (42,127) |
| Total accumulated depreciation | (2,899,738) | (445,889) | 3,701 | — | (3,341,926) |
| Capital assets depreciated, net | 7,370,707 | (398,890) | (143) | 190,365 | 7,162,039 |
| Total | \$ 10,799,574 | \$ 1,286,736 | \$ (143) | \$ — | \$ 12,086,167 |



Notes to the Financial Statements
June 30, 2020 and 2019
(continued)

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 |
| Intangible assets | 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 | (143,071) | (13,130) | 5,977 | — | (150,224) |
| Intangible assets | (35,107) | (1,325) | — | — | (36,432) |
| 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 |

5. Commercial Paper

As of June 30, 2020 and 2019, LAX had outstanding commercial paper (CP) notes of \$63.2 million and \$99.8 million, respectively. The respective average interest rates in effect as of June 30, 2020 and 2019 were 0.96% and 1.98%. 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 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 \$228.9 million, to expire on September 8, 2023; Sumitomo Mitsui Banking Corporation (Sumitomo); acting through its New York Branch for \$218.0 million, to expire on September 9, 2022; and Bank of America for \$98.1 million, to expire on September 9, 2021.

As of June 30, 2020, LAX had undrawn LOC balances of \$109.0 million from Barclays, \$218.0 million from Sumitomo, and \$154.8 million from Wells Fargo Bank. These LOC agreements expired in September 2020. LAWA entered into new LOC agreements with Barclays, Sumitomo and Bank of America as described above. As of June 30, 2019, LAWA had undrawn LOC balances of \$109.0 million from Barclays, \$218.0 million from Sumitomo, and \$118.2 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 \$1.8 million and \$1.7 million were paid for fiscal years 2020 and 2019, respectively.

LAX had the following CP activity during fiscal year 2020 (amounts in thousands):

| | Balance at July 1, 2019 | Additions | Reductions | Balance at June 30, 2020 |
|----------|----------------------------|-----------|-------------|-----------------------------|
| Series A | \$ 4,345 | \$ 21,404 | \$ — | \$ 25,749 |
| Series B | 58,147 | 29,834 | (83,419) | 4,562 |
| Series C | 37,299 | 438 | (4,851) | 32,886 |
| Total | \$ 99,791 | \$ 51,676 | \$ (88,270) | \$ 63,197 |

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 | \$ 60,832 | \$ 43,676 | \$ (4,717) | \$ 99,791 |



Notes to the Financial Statements
June 30, 2020 and 2019
(continued)

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, 2020 and 2019 are as follows (amounts in thousands):

| Bond issues | Issue date | Interest rate | Fiscal year of last scheduled maturity | Original principal | Outstanding principal | |
|-------------------------|------------|-----------------|--|---------------------|-----------------------|---------------------|
| | | | | | 2020 | 2019 |
| Issue of 2009, Series C | 12/3/09 | 5.175% - 6.582% | 2039 | \$ 307,350 | \$ 262,845 | \$ 272,370 |
| Issue of 2009, Series E | 12/3/09 | 2.000% - 5.000% | 2020 | 39,750 | — | 4,565 |
| Issue of 2010, Series A | 4/8/10 | 3.000% - 5.000% | 2040 | 930,155 | 316,935 | 835,265 |
| 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 | 315,775 | 817,535 |
| Issue of 2012, Series A | 12/18/12 | 3.000% - 5.000% | 2029 | 105,610 | 58,235 | 64,875 |
| Issue of 2012, Series B | 12/18/12 | 2.000% - 5.000% | 2037 | 145,630 | 124,010 | 127,310 |
| 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 | 61,675 | 63,765 |
| Issue of 2015, Series A | 2/24/15 | 2.000% - 5.000% | 2045 | 267,525 | 248,405 | 253,385 |
| Issue of 2015, Series B | 2/24/15 | 3.000% - 5.000% | 2045 | 47,925 | 44,360 | 45,295 |
| Issue of 2015, Series C | 2/24/15 | 2.000% - 5.000% | 2038 | 181,805 | 171,270 | 178,400 |
| Issue of 2015, Series D | 11/24/15 | 5.000% | 2041 | 296,475 | 271,960 | 278,545 |
| Issue of 2015, Series E | 11/24/15 | 2.000% - 5.000% | 2041 | 27,850 | 24,295 | 25,245 |
| Issue of 2016, Series A | 6/1/16 | 3.000% - 5.000% | 2042 | 289,210 | 267,615 | 274,605 |
| Issue of 2016, Series B | 1/19/17 | 4.000% - 5.000% | 2046 | 451,170 | 441,945 | 447,015 |
| Issue of 2016, Series C | 12/6/16 | 1.425% - 3.887% | 2038 | 226,410 | 197,485 | 215,415 |
| Issue of 2017, Series A | 7/26/17 | 5.000% | 2047 | 260,610 | 257,420 | 259,055 |
| Issue of 2017, Series B | 7/26/17 | 5.000% | 2042 | 88,730 | 84,640 | 86,735 |
| Issue of 2018, Series A | 3/15/18 | 4.000% - 5.250% | 2048 | 426,475 | 424,175 | 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 | 419,105 | 423,070 |
| Issue of 2018, Series D | 11/14/18 | 5.000% | 2048 | 418,390 | 408,040 | 418,390 |
| Issue of 2018, Series E | 11/14/18 | 5.000% | 2048 | 159,980 | 159,980 | 159,980 |
| Issue of 2019, Series A | 3/12/19 | 4.000% - 5.000% | 2049 | 199,830 | 198,785 | 199,830 |
| Issue of 2019, Series B | 3/12/19 | 4.000% - 5.000% | 2049 | 49,410 | 49,060 | 49,410 |
| Issue of 2019, Series C | 3/12/19 | 5.000% | 2039 | 189,095 | 180,635 | 189,095 |
| Issue of 2019, Series D | 6/27/19 | 4.000% - 5.000% | 2049 | 167,955 | 167,955 | 167,955 |
| Issue of 2019, Series E | 6/27/19 | 4.000% - 5.000% | 2049 | 265,190 | 265,190 | 265,190 |
| Issue of 2019, Series F | 12/17/19 | 2.250% - 5.000% | 2049 | 411,575 | 411,575 | — |
| Issue of 2020, Series A | 3/11/20 | 5.000% | 2040 | 738,575 | 738,575 | — |
| Total principal amount | | | | <u>\$ 8,655,885</u> | <u>7,163,170</u> | <u>7,140,000</u> |
| Unamortized premium | | | | | <u>941,378</u> | <u>702,777</u> |
| Net revenue bonds | | | | | <u>8,104,548</u> | <u>7,842,777</u> |
| Current portion of debt | | | | | <u>(141,025)</u> | <u>(143,240)</u> |
| Net noncurrent debt | | | | | <u>\$ 7,963,523</u> | <u>\$ 7,699,537</u> |

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 \$144.7 million and \$147.7 million were used for debt service in fiscal years 2020 and 2019, respectively. In fiscal year 2020, LAX CARES Act grants in the amount of \$42.7 million was used to apply against debt service payments and \$9.7 million was used to apply against maintenance and operation expenses.

The total principal and interest remaining to be paid on the bonds is \$12.4 billion. Principal and interest paid during fiscal year 2020 and the net pledged revenues on GAAP basis (as defined in the master senior and subordinate indentures, after application of the \$144.7 million PFCs funds and \$52.4 million CARES Act grants discussed in the preceding paragraph), were \$503.9 million and \$762.2 million, respectively. 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.

c. Bond Issuances

Fiscal Year 2020

On December 17, 2019, LAX issued \$411.6 million of subordinate revenue bonds Series 2019F with a premium of \$70.6 million. The bonds were issued to fund certain capital projects at LAX, and to fund the refinancing of certain outstanding subordinate commercial paper notes.

On March 11, 2020, LAX issued \$738.6 million of senior refunding revenue bonds, Series 2020A with a premium of \$239.6 million. The bonds were issued to refund and defease a portion of the Series 2010A senior revenue bonds in the amount of \$492.8 million, and to refund and defease a portion of the Series 2010D senior revenue bonds in the amount of \$491.0 million. This transaction resulted in cash flow savings of \$337.3 million, economic gain of \$298.0 million; and a net gain for accounting purposes of \$21.1 million, which is included in deferred inflows of resources and is being amortized over the remaining life of the bonds through May 2040.



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 (continued)

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 subordinate revenue bonds Series 2019E with a premium of \$59.8 million. The bonds were issued to fund certain capital projects at LAX.

d. Principal Maturities and Interest

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

| Fiscal year(s) ending | Principal | Interest | Total |
|-----------------------|---------------------|---------------------|----------------------|
| 2021 | \$ 141,025 | \$ 356,731 | \$ 497,756 |
| 2022 | 163,160 | 349,958 | 513,118 |
| 2023 | 168,840 | 342,127 | 510,967 |
| 2024 | 185,815 | 333,989 | 519,804 |
| 2025 | 199,450 | 324,615 | 524,065 |
| 2026 - 2030 | 1,183,135 | 1,458,383 | 2,641,518 |
| 2031 - 2035 | 1,572,635 | 1,119,400 | 2,692,035 |
| 2036 - 2040 | 1,988,675 | 683,636 | 2,672,311 |
| 2041 - 2045 | 1,059,720 | 264,178 | 1,323,898 |
| 2046 - 2049 | 500,715 | 50,055 | 550,770 |
| Total | <u>\$ 7,163,170</u> | <u>\$ 5,283,072</u> | <u>\$ 12,446,242</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, 2020 and September 30, 2019 reduced the subsidy. The interest subsidy on the BABs was \$7.2 million in fiscal year 2020 and \$7.3 million in fiscal year 2019. The BABs rates were 5.9% and 6.2% for fiscal years 2020 and 2019, respectively. The subsidy is recorded as a non-capital grant, a component of other nonoperating revenue.



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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. This provision terminated on September 10, 2020, and is not included in the new Reimbursement Agreements entered into on September 9, 2020 with Barclays Bank PIC, Sumitomo Mitsui Banking Corporation, and Bank of America, N.A. Additional information on the New Reimbursement Agreements can be found in Note 17 of the notes to the financial statements.

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.

7. Changes in Long-Term Liabilities

LAX had the following long-term liabilities activities for fiscal year ended June 30, 2020 (amounts in thousands):

| | Balance at | | | Balance at | Current |
|-----------------------------|---------------------|---------------------|-----------------------|---------------------|-------------------|
| | July 1, 2019 | Additions | Reductions | June 30, 2020 | Portion |
| Revenue bonds | \$ 7,140,000 | \$ 1,150,150 | \$ (1,126,980) | \$ 7,163,170 | \$ 141,025 |
| Unamortized premium | 702,777 | 310,258 | (71,657) | 941,378 | — |
| Net revenue bonds | 7,842,777 | 1,460,408 | (1,198,637) | 8,104,548 | 141,025 |
| Accrued employee benefits | 48,631 | 13,365 | (5,349) | 56,647 | 5,665 |
| Estimated claims payable | 93,471 | 14,926 | (9,170) | 99,227 | 8,912 |
| Net pension liability | 773,419 | 34,267 | — | 807,686 | — |
| Net OPEB liability | 77,769 | — | (9,285) | 68,484 | — |
| Other long-term liabilities | 886 | — | — | 886 | — |
| Total | \$ 8,836,953 | \$ 1,522,966 | \$ (1,222,441) | \$ 9,137,478 | \$ 155,602 |



Notes to the Financial Statements
June 30, 2020 and 2019
 (continued)

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

| | Balance at | | | Balance at June 30, 2019 | Current Portion |
|-----------------------------|--------------|--------------|--------------|-----------------------------|--------------------|
| | July 1, 2018 | Additions | Reduction | | |
| Revenue bonds | \$ 5,635,515 | \$ 1,874,850 | \$ (370,365) | \$ 7,140,000 | \$ 143,240 |
| Add 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 | \$ 7,013,928 | \$ 2,244,028 | \$ (421,003) | \$ 8,836,953 | \$ 157,759 |

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.

In response to the COVID-19 pandemic, LAX is proactively implementing measures intended to mitigate operational and financial impacts. Among those measures are the April 2020 approvals of the Passenger Airline Temporary Relief Program and the Concessionaires and Services Temporary Relief Program.

Passenger Airline Temporary Relief Program

On April 9, 2020, the Board adopted a temporary terminal and airfield fee relief program with respect to passenger airlines serving LAX (Passenger Airline Temporary Relief Program). The Passenger Airline Temporary Relief Program permits eligible passenger air carriers subject to a terminal lease or the Airport Terminal Tariff to apply for relief. Key elements of the Passenger Airline Temporary Relief Program are as follows:

- Deferral of terminal and airfield fees payable from April through May 2020.
- All airlines were required to start repayment of any deferred amounts on July 1, 2020. For airlines that were a party to an Amended and Restated Rate Agreement by July 31, 2020, repayment of the deferred amounts will be required to be made over a six-month period, starting July 1, 2020 to be paid in equal monthly installments, and for airlines that were not party to an Amended and Restated Rate Agreement by July 31, 2020, the remaining deferred amounts must be fully repaid on or before August 1, 2020.
- On June 18, 2020, the Board approved keeping landing fees and apron fees unchanged through calendar year 2020.

As of June 30, 2020, the amount of deferred airline rents and fees included in accounts receivable was approximately \$93.0 million.

Concessionaires and Services Temporary Relief Program

On April 16, 2020, the Board adopted a fee relief program for LAX concessionaires and service providers at LAX (Concessionaires and Services Temporary Relief Program). The Concessionaires and Services Temporary Relief Program permits concessionaires and service providers to apply for relief. Key elements of the Concessionaires and Services Temporary Relief Program are as follows:

For the duration period beginning April 1, 2020 to June 30, 2020 (Duration Period):



Notes to the Financial Statements

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(continued)

- LAX only required payment of the specific percentage fees defined in each concessionaire or service provider agreement instead of the specific minimum annual guarantee (MAG), and, if applicable, deferred receipt of in-terminal concession storage rent.
- In the case of off-airport rental car companies, LAX only required payment of the lesser of (i) 10% of gross sales, or (ii) the specified license fee.
- Accrued amounts are required to be remitted in six equal monthly installments beginning July 1, 2020, with no late fees or interest charges on amounts paid in full within this six-month payment period.

As of June 30, 2020, the amount of outstanding deferred concessionaires' payments included in accounts receivable was approximately \$3.0 million.

Second Relief Program

On October 1, 2020, the Board approved the Second Letter Agreements for the Concessionaire Relief Program that amends concession agreements at LAX as follows:

- abate or adjust the MAG through June 30, 2021 for certain concession agreements (collectively Concession Agreements),
- defer storage rent through December 31, 2020 and allow the payback of deferred storage rent to commence January 1, 2021 for certain concession agreements (collectively In-Terminal Concession Agreements),
- extend the current expiration dates of the respective individual In-Terminal Concession Agreements (as conditioned in the applicable Second Letter Agreements) and Terminal Media Operator Agreement (TMO Agreement) by twenty-four months, and
- authorize the Chief Executive Officer to have two consecutive twelve-month options to delay the required mid-term refurbishment dates for the respective individual In-Terminal Concession Agreements in his or her sole discretion.

The agreements provide for a concession fee equal to the greater of a MAG or a percentage of gross revenues. Certain agreements are subject to escalation of the MAG. For the fiscal years ended June 30, 2020 and 2019, revenues from such agreements were approximately \$279.8 million and \$380.2 million, respectively. The respective amounts over MAG were \$81.8 million and \$110.7 million.

Future rents for fiscal year 2021 are estimated in accordance with the Concessionaires and Services Temporary Relief Program offered to concessionaires, which only require payment of the specific percentage fees instead of the specific MAG as defined in the agreements. Future rents over the fiscal years 2022 to 2025 are estimated based on the specific MAG in the agreements. The estimated future rents are as follows (amount in thousands):

| Fiscal year ending | Amount |
|--------------------|-------------------|
| 2021 | \$ 7,057 |
| 2022 | 138,581 |
| 2023 | 132,213 |
| 2024 | 95,586 |
| 2025 | 95,586 |
| Total | <u>\$ 469,023</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.



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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.

On October 1, 2020, the Board approved to extend the URW agreements expiration dates for an additional 24 months to January 31, 2034 for LAA-8613 and Terminal 1 under LAA-8640, June 30, 2031 for Terminal 3 under LAA-8640, and September 30, 2032 for Terminal 6 under LAA-8640.

Future rents under these two agreements with URW for fiscal year 2021 are estimated in accordance with the Concessionaires and Services Temporary Relief Program offered to URW, which only require payment of the specific percentage fees instead of the specific MAG as defined in the agreements. Future rents under these two agreements with URW over the fiscal years 2022 to 2025 are estimated based on the specific MAG in the agreements. The estimated future rents are as follows (amount in thousands):

| Fiscal year ending | Amount |
|--------------------|-------------------|
| 2021 | \$ 3,366 |
| 2022 | 30,646 |
| 2023 | 31,412 |
| 2024 | 32,197 |
| 2025 | 33,409 |
| Total | <u>\$ 131,030</u> |

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 2021 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, 2020 and 2019, revenues from these leases were \$687.0 million and \$700.0 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 |
|--------------------|---------------------|
| 2021 | \$ 504,331 |
| 2022 | 429,174 |
| 2023 | 374,102 |
| 2024 | 329,058 |
| 2025 | 268,288 |
| Total | <u>\$ 1,904,953</u> |

The carrying cost and the related accumulated depreciation of property held for operating leases as of June 30, 2020 and 2019 are as follows (amounts in thousands):

| | 2020 | 2019 |
|--------------------------|---------------------|---------------------|
| Buildings and facilities | \$ 6,225,464 | \$ 6,186,984 |
| Accumulated depreciation | <u>(1,516,428)</u> | <u>(1,266,044)</u> |
| Net | 4,709,036 | 4,920,940 |
| Land | <u>522,328</u> | <u>522,328</u> |
| Total | <u>\$ 5,231,364</u> | <u>\$ 5,443,268</u> |



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 (continued)

b. Lease Obligations

LAX leases office spaces under operating lease agreements that expire through 2032. Lease payments for the fiscal years ended June 30, 2020 and 2019 were \$7.5 million for both years. Future minimum lease payments under the agreements are as follows (amounts in thousands):

| Fiscal year(s) ending | Amount |
|-----------------------|-----------|
| 2021 | \$ 6,934 |
| 2022 | 7,033 |
| 2023 | 7,129 |
| 2024 | 7,235 |
| 2025 | 7,343 |
| 2026-2030 | 12,523 |
| 2031-2035 | 3,928 |
| Total | \$ 52,125 |

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 \$6.0 billion and \$4.3 billion as of June 30, 2020 and 2019, 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 \$144.7 million and \$147.7 million were used for debt service in fiscal years 2020 and 2019, respectively.

The following is a summary of projects approved by FAA as of June 30, 2020 and 2019 (amounts in thousands):

| | 2020 | 2019 |
|------------------------------------|--------------|--------------|
| Terminal development | \$ 4,891,679 | \$ 3,141,679 |
| Noise mitigation | 1,057,476 | 1,042,079 |
| Airfield development and equipment | 83,620 | 83,620 |
| Total | \$ 6,032,775 | \$ 4,267,378 |

PFCs collected and the related interest earnings through June 30, 2020 and 2019 were as follows (amounts in thousands):

| | 2020 | 2019 |
|-------------------|--------------|--------------|
| Amount collected | 2,744,928 | \$ 2,626,905 |
| Interest earnings | 228,129 | 220,660 |
| Total | \$ 2,973,057 | \$ 2,847,565 |

Cumulative expenditures on approved PFCs projects totaled \$2.6 billion and \$2.5 billion for fiscal years 2020 and 2019, respectively.



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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, 2020 and 2019 were as follows (amounts in thousands):

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Amount collected | \$ 468,297 | \$ 402,676 |
| Interest earnings | 36,639 | 27,689 |
| Subtotal | 504,936 | 430,365 |
| Expenditures | | |
| ConRAC planning, design and construction | 83,683 | 3,026 |
| Unexpended CFCs revenue and interest earnings | <u>\$ 421,253</u> | <u>\$ 427,339</u> |

LAX is in the early stages of delivering LAMP to modernize and improve landside access at LAX with the ConRAC as a critical component. Pursuant to Board Resolution No. 26684 that was adopted on January 17, 2019, LAWA has authority to use up to \$2.1 billion for the payment/reimbursement of DBFOM Agreement with LA Gateway Partners for the ConRAC from sources of revenue including but not limited to CFCs, LAX non-aeronautical revenues, special facility bond proceeds, and revenues derived from concession and lease agreements between LAWA and rental car companies using the ConRAC. In this regard, the amount of CFC funds that was used for ConRAC Design and Construction (D&C) payments was \$80.7 million in fiscal year 2020 and none in fiscal year 2019. LAX's cumulative expenditures on approved CFCs projects totaled \$83.7 million for fiscal years 2020 and \$3.0 million in 2019.

11. Capital Grant Contributions

Contributed capital related to government grants and other aid totaled \$86.0 million and \$29.9 million in fiscal years 2020 and 2019, respectively. Capital grant funds are primarily provided by the FAA Airport Improvement Program and Transportation Security Administration.

As previously mentioned, on March 27, 2020, the CARES Act was signed into law, which, among other things, allocates funds to eligible airports, provided they take particular steps, including with respect to keeping their workforces intact. Airport operators can use their awarded CARES Act grants to pay for any purpose for which airport revenues can lawfully be used, including, but not limited to, the payment of maintenance and operation expenses on or after January 20, 2020, and the payment of debt service on or after March 27, 2020. CARES Act grants must be used within four years from the date on which the agreement between the airport operator and the FAA is executed, and airport operators using CARES Act grants must comply with certain other obligations, including, but not limited to, employing at least 90.0% of their staff as of March 27, 2020 through December 31, 2020.

LAX was awarded CARES Act grants in the amount of approximately \$323.6 million payable on a reimbursement basis. LAX's primary objective with the CARES Act funding will be to address near-term pressure caused by the COVID-19 pandemic, including maintenance of debt service coverage levels consistent with current ratings levels, mitigation of the reduction in revenues, continued funding of ongoing capital development projects and maintenance of operating cash on hand in fiscal years 2020 and 2021. LAX has drawn approximately \$52.4 million of CARES Act moneys in fiscal year 2020 to stabilize cost increases in airline rates, while preserving the majority of the funds, approximately \$271.2 million, for fiscal year 2021. The drawn amount of \$52.4 million was recognized as grants revenue in fiscal year 2020. CARES Act grants in the amount of \$42.7 million was used to apply against debt service payments and \$9.7 million was used to apply against LAX maintenance and operation expenses.



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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, 2020 and 2019 were \$115.9 million and \$119.9 million.

LAX collects parking taxes on behalf of the City's General Fund. The parking taxes collected and remitted during each of fiscal years 2020 and 2019 were \$11.1 million and \$11.5 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 for both fiscal years 2020 and 2019. The details are as follows (amounts in thousands):

| | 2020 | 2019 |
|--------------------------------|-----------------|-----------------|
| Allocated administrative costs | | |
| VNY | 2,580 | 2,333 |
| PMD | 508 | 395 |
| Total | 3,088 | 2,728 |
| Land rental | (1,243) | (1,203) |
| Net | <u>\$ 1,845</u> | <u>\$ 1,525</u> |

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 City General Fund has fully paid this liability with the last installment payment made 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. In 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.

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 2020 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.



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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, 2019 and June 30, 2018, respectively, were as follows: (Note: information for fiscal year 2020 is not yet available as of this report issue date.)

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Active | | |
| Vested | 17,812 | 18,460 |
| Non-vested | 8,820 | 7,582 |
| | <u>26,632</u> | <u>26,042</u> |
| Inactive | | |
| Non-vested | 6,149 | 5,158 |
| Terminated entitled to benefits, not yet receiving benefits | 2,439 | 2,870 |
| Retired | 20,034 | 19,379 |
| | <u>28,622</u> | <u>27,407</u> |
| Total | <u><u>55,254</u></u> | <u><u>53,449</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, 2020 and 2019
 (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 23.06% and 22.21% of compensation as of June 30, 2019 (based on the June 30, 2017 valuation) and June 30, 2018 (based on the June 30, 2016 valuation), respectively. (Note: information for fiscal year 2020 is not yet available as of this report issue date).

The total City contributions to LACERS of \$817.2 million and \$719.2 million for the years ended June 30, 2020 and June 30, 2019, respectively, consisted of the following (amounts in thousands):

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Required contributions - Retirement Plan | \$ 553,118 | \$ 478,717 |
| Family death benefit Plan | 104 | 110 |
| Total City contributions | 553,222 | 478,827 |
| Member contributions - Retirement Plan | 263,936 | 240,357 |
| Total | <u>\$ 817,158</u> | <u>\$ 719,184</u> |

The required City contribution of \$553.1 million was equal to 100% of the actuarially determined employer contribution. Member contributions of \$263.9 million were made toward the retirement and voluntary family death benefits for fiscal year 2020.

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 2019.

LAX's Contributions to the Pension Plan

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

| | 2020 | 2019 |
|--|------------------|------------------|
| LAX's required contributions to the Pension Plan | <u>\$ 73,229</u> | <u>\$ 64,737</u> |

The LAX contributions made to the Pension Plan under the required contribution category in the amounts of \$73.2 million and \$64.7 million for fiscal years 2020 and 2019, 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 2020 was measured as of June 30, 2019 and determined based upon the Plan Fiduciary Net Position (FNP) and Total Pension Liability (TPL) from actuarial valuation as of June 30, 2019.

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, 2020 (measurement date of June 30, 2019), LAX reported its proportionate shares of TPL, FNP and NPL as follows (amounts in thousands):

| | Reporting date 6/30/20 Measurement date 6/30/19 |
|--|--|
| LAX's proportionate share: | |
| Total Pension Liability | \$ 2,804,017 |
| Plan Fiduciary Net Position | (1,997,900) |
| Net Pension Liability | <u>\$ 806,117</u> |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 71.25% |

LAX's NPL was measured as the proportionate share of the NPL based on the employer contributions made by LAX during fiscal year 2019. The NPL was measured as of June 30, 2019 and determined based upon the Pension Plan's FNP (plan assets) and TPL from actuarial valuations as of June 30, 2019.

Change in LAX's proportionate share of the NPL as of June 30, 2020 (measurement date June 30, 2019) and 2019 (measurement date June 30, 2018) was as follows (amounts in thousands):

| | NPL | Proportion |
|--|------------|------------|
| Proportion - Reporting date June 30, 2020 (measurement date June 30, 2019) | \$ 806,117 | 13.49% |
| Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018) | \$ 771,926 | 13.52% |
| Change - Increase (decrease) | \$ 34,191 | (0.03)% |



Notes to the Financial Statements

June 30, 2020 and 2019

(continued)

For the year ended June 30, 2020, LAX recognized pension expense of \$110.9 million. At June 30, 2020, 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 | \$ 73,229 | \$ — |
| Differences between expected and actual experience | 12,031 | 24,270 |
| Changes of assumptions | 59,498 | — |
| Net difference between projected and actual earnings on pension plan investments | — | 6,403 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 2,314 | 5,488 |
| Total | \$ 147,072 | \$ 36,161 |

\$73.2 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, 2021. 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 |
|--------------------|-----------|
| 2021 | \$ 14,828 |
| 2022 | (847) |
| 2023 | 14,757 |
| 2024 | 8,944 |
| 2025 | — |

Actuarial Assumptions

The total pension liability as of June 30, 2020 was determined by actuarial valuation as of June 30, 2019, 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, 2020 and 2019
(continued)

Discount Rate

The discount rates used to measure the total pension liability was 7.25% as of June 30, 2020. 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, 2020.

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% | 5.30% |
| 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, 2020, 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, 2020 |
|-----------------------|---------------|
| 1% decrease | 6.25% |
| Net Pension Liability | \$1,186,319 |
| Current discount rate | 7.25% |
| Net Pension Liability | \$806,117 |
| 1% increase | 8.25% |
| Net Pension Liability | \$492,586 |



Notes to the Financial Statements

June 30, 2020 and 2019

(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.

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, 701 East 3rd Street, Suite 200, Los Angeles, CA 90013, (213) 279-3000 or LAFPP's website <https://www.lafpp.com/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. For fiscal years 2019 and 2018, the average employer contribution rates for pension benefits are 26.63% and 25.73%, respectively, of covered payroll. LAX has made 100% of the actuarially determined contributions for both fiscal years.

LAX's Contributions to the LAFPP Plan

In fiscal year 2020, LAX's contribution rate for the APO that are members of the LAFPP Tier 6 plan, as determined by the actuary was 27.49% of covered payroll. Based on LAX's reported covered payroll of \$6.1 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 \$1.7 million. 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.

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

At June 30, 2020, LAX recognized its proportionate shares of NPL of \$1.6 million and pension expense of \$1.3 million for the LAFPP plan. 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 | \$ 1,207 | \$ — |
| Differences between expected and actual experience | 1,672 | 14 |
| Changes of assumptions | 278 | — |
| Net difference between projected and actual earnings on pension plan investments | — | 101 |
| Total | \$ 3,157 | \$ 115 |

\$1.2 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, 2021.



Notes to the Financial Statements
June 30, 2020 and 2019
 (continued)

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 2020 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, 2019, all active Tier 1 and Tier 3 Members were making the additional contributions, and therefore will not be subject to the medical subsidy cap.

Membership

As of the measurement dates June 30, 2019 and June 30, 2018, the components of membership, excluding non-participating retirees and surviving spouses of LACERS postemployment healthcare benefits were as follows: (Note: information for fiscal year 2020 is not yet available as of this report issue date.)

| | 2019 | 2018 |
|---|---------------|---------------|
| Retirement members/Surviving spouses ⁽¹⁾ | 15,791 | 15,144 |
| Vested terminated members entitled to, but not yet receiving benefits ⁽²⁾ | 1,474 | 1,401 |
| Active members | 26,632 | 26,042 |
| Total | <u>43,897</u> | <u>42,587</u> |

(1) Total participants including married dependents and dependent children receiving benefits were 21,115 and 20,288 as of June 30, 2019 and 2018, 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, 2019, was 5.10% of covered payroll, determined by the June 30, 2017 actuarial valuation. 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. (Note: information for fiscal year 2020 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.



Notes to the Financial Statements
June 30, 2020 and 2019
 (continued)

The total OPEB contributions to LACERS for the years ended June 30, 2019 and 2018 was \$107.9 million and \$100.9 million, representing 100% of the Actuarially Determined Contribution (ADC) of the employer as defined by GASB Statement No. 74⁴. (Note: information for fiscal year 2020 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):

| | 2020 | 2019 |
|---|-----------|-----------|
| LAX's required contributions to the Postemployment Health Care Plan | \$ 14,245 | \$ 14,212 |

LAX's contributions made for the Postemployment Health Care Plan, in the amounts of \$14.2 million for both fiscal years 2020 and 2019, 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. 75⁵.

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 2020 was measured as of June 30, 2019 and determined based upon the Plan Fiduciary Net Position (FNP) and Total OPEB Liability (TOL) from actuarial valuation as of June 30, 2019.

As of the reporting date June 30, 2020 (measurement date of June 30, 2019), LAX reported its proportionate shares of TOL, FNP and NOL as follows (amounts in thousands):

| | Reporting date 6/30/20 Measurement date 6/30/19 |
|---|--|
| LAX's proportionate share: | |
| Total OPEB Liability | \$ 433,477 |
| Plan Fiduciary Net Position | (365,588) |
| Plan's Net OPEB Liability | \$ 67,889 |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 84.34% |

LAX's NOL was measured as the proportionate share of the NOL based on the employer contributions made by LAWA during fiscal year 2019. The NOL was measured as of June 30, 2019 and determined based upon the Postemployment Health Care Plan's FNP (plan assets) and TOL from actuarial valuations as of June 30, 2019.

Change in LAX's proportionate share of the NOL as of June 30, 2020 (measurement date June 30, 2019) and 2019 (measurement date June 30, 2018) was as follows (amounts in thousands):

| | NOL | Proportion |
|--|------------|------------|
| Proportion - Reporting date June 30, 2020 (measurement date June 30, 2019) | \$ 67,889 | 13.00% |
| Proportion - Reporting date June 30, 2019 (measurement date June 30, 2018) | \$ 77,056 | 13.28% |
| Change - (Decrease) | \$ (9,167) | (0.28)% |

⁴ GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, issued in June 2015

⁵ 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, 2020 and 2019

(continued)

For the year ended June 30, 2020, LAX recognized the Postemployment Health Care Plan's OPEB expense of \$9.7 million. At June 30, 2020, 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 | \$ 14,245 | \$ — |
| Differences between expected and actual experience | 1,356 | 15,295 |
| Changes of assumptions | 14,323 | — |
| Net difference between projected and actual earnings on OPEB plan investments | — | 12,666 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | — | 2,818 |
| Total | \$ 29,924 | \$ 30,779 |

\$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, 2020. 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 |
|--------------------|------------|
| 2021 | \$ (5,884) |
| 2022 | (5,884) |
| 2023 | (1,508) |
| 2024 | 272 |
| 2025 | (1,596) |
| 2026 | (500) |

Actuarial Assumptions

The total OPEB liability as of June 30, 2020 was determined by actuarial valuation as of June 30, 2019, 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 | 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 2020 are: |

First Fiscal Year (July 1, 2019 through June 30, 2020)

| Carrier | Under Age 65 | Age 65 & Over |
|-----------------------|--------------|---------------|
| Kaiser HMO | 3.37% | 3.12% |
| Anthem Blue Cross HMO | 7.89% | N/A |
| Anthem Blue Cross PPO | 3.40% | 3.88% |
| UHC Medicare HMO | N/A | 3.96% |

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

Medicare Part B Premium Trend for fiscal year 2020 was calculated based on the actual increase in premium from 2019 to 2020. 4.00% for years following the 2020 calendar year.



Notes to the Financial Statements
June 30, 2020 and 2019
(continued)

Discount Rate

The discount rates used to measure the total OPEB liability, 7.25% as of June 30, 2019, 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% | 5.30% |
| 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.

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, 2020.

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, 2020, 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, 2020 |
|-----------------------|---------------|
| 1% decrease | 6.25% |
| Net OPEB Liability | \$130,017 |
| Current discount rate | 7.25% |
| Net OPEB Liability | \$67,889 |
| 1% increase | 8.25% |
| Net OPEB Liability | \$17,136 |



Notes to the Financial Statements
June 30, 2020 and 2019
(continued)

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, 2020, 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 rate⁶ (dollar in thousands):

| | <u>June 30, 2020</u> |
|-------------------------------------|----------------------|
| 1% decrease | |
| Net OPEB Liability | \$10,512 |
| Current Healthcare Cost Trend Rates | |
| Net OPEB Liability | \$67,889 |
| 1% increase | |
| Net OPEB Liability | \$143,176 |

⁶ Current healthcare cost trend rates: 6.62% graded down to 4.50% over 9 years for Non-Medicare medical plan costs, and 6.12% graded down to 4.50% over 7 years for Medicare medical plan costs. 4.00% for all years for Dental and 4.50% for all years for Medicare part B subsidy cost.



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, 2020, LAX recognized its proportionate shares of NOL of \$0.6 million and OPEB expense of \$0.5 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):

| | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|---|---|--|
| OPEB contributions subsequent to measurement date | \$ 481 | \$ — |
| Differences between expected and actual experience | 510 | 237 |
| Changes of assumptions | 127 | — |
| Net difference between projected and actual earnings on OPEB plan investments | — | 13 |
| Total | <u>\$ 1,118</u> | <u>\$ 250</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, 2021.



Notes to the Financial Statements
June 30, 2020 and 2019
 (continued)

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.

LAX carries employment practices liability insurance coverage of \$10.0 million for protection against employment-related losses, including coverage for defense costs and damages. LAX is self-insured for up to \$2.5 million for employment practices liability losses. LAX carries cyber liability insurance with coverage limits of \$30.0 million for protection against cyber liability risks and technology errors and omissions. LAX maintains a self-insured retention of \$100,000 for cyber liability coverage.

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 2020, 2019, and 2018, 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, 2020 and 2019 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, 2020 and 2019 were \$89.1 million and \$83.4 million, respectively.

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

| | June 30 | | |
|--|-----------|-----------|-----------|
| | 2020 | 2019 | 2018 |
| Balance at beginning of year | \$ 93,471 | \$ 97,075 | \$ 78,484 |
| Provision for current year's events and changes in provision for prior years' events | 14,926 | 6,745 | 26,728 |
| Claims payments | (9,170) | (10,349) | (8,137) |
| Balance at end of year | \$ 99,227 | \$ 93,471 | \$ 97,075 |
| Current portion | (8,912) | (9,170) | (10,349) |
| Noncurrent portion | \$ 90,315 | \$ 84,301 | \$ 86,726 |



Notes to the Financial Statements
June 30, 2020 and 2019
 (continued)

16. Commitments, Litigations, and Contingencies

a. Commitments

LAX has commitments for open purchase orders of approximately \$178.7 million and \$138.6 million as of June 30, 2020 and 2019, respectively.

LAX has commitments to make a series of Milestone Payments according to the terms of contract for Automated People Mover (APM) totaling approximately \$1.1 billion during the construction, based upon the value of work performed and/or its completion of certain design and construction milestones. Total payments of \$353.8 million were made through fiscal year 2020. Subject to certain conditions, additional four APM Milestone Payments are to be made. 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 \$730.0 million during the construction based upon the value of work performed and/or its completion of certain design and construction milestones. Total payments of \$80.7 million were made through fiscal year 2020. Additional commitments related to further Availability Payments are subject to project completion.

LAX has the following commitments on major construction contracts⁷:

| Project | Amount (in millions) |
|-----------------------------|-------------------------|
| TBIT Core and APM Interface | \$ 262 |
| ITF West | 142 |
| Airport Police Facility | 106 |
| MSC North Terminals | 81 |
| Total | <u>\$ 591</u> |

LAX has the following commitments on major tenant based acquisitions⁷:

| Project | Amount (in millions) |
|---------------------------|-------------------------|
| Terminals 2/3 Improvement | \$ 1,275 |
| Terminal 1.5 Development | 418 |
| Terminals 4/5 Improvement | 352 |
| TBIT/MSC Baggage System | 251 |
| Terminal 6 Improvement | 225 |
| Total | <u>\$ 2,521</u> |

⁷ Unpaid portion of total commitments.

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.

On November 7, 2019, the Board approved to: (i) update the LAX Ground Support Equipment Emissions Reduction Policy (GSE ERP) with new emission reduction targets for 2023 and 2031; (ii) create a set of LAX Air Quality Improvement Measures (AQIM) by consolidating mostly existing on-going programs or previously adopted policies into one plan to more efficiently track progress and align with LAWA's proposed Sustainability Action Plan; and (iii) approve a Memorandum of Understanding (MOU) with the South Coast Air Quality Management District (SCAQMD) that would quantify emission reductions associated with the following LAX AQIM measures identified in the MOU which will assist SCAQMD in obtaining emission reduction credit for these measures and initiatives to meet its obligations under the Clean Air Act:

- Updated Ground Support Equipment Emissions Reduction Policy
- Alternative Fuel Vehicle Incentive Program
- Zero-Emission Bus Program

LAX's primary obligations under the MOU are to implement the above measures and provide annual reports to SCAQMD on implementation of the measures, including equipment data and emission benefit calculations. In the event that actual emission reduction is less than the estimated emission reduction projected for these measures, LAX and SCAQMD will work together to consider potential new or enhanced programs, or better efforts to quantify existing programs, to help SCAQMD address any shortfalls.



Notes to the Financial Statements

June 30, 2020 and 2019

(continued)

17. Subsequent Events

On August 27, 2020, LAWA issued \$558.5 million of LAX senior refunding revenue bonds Series 2020B with a premium of \$147.4 million, \$380.0 million of LAX senior revenue bonds Series 2020C with a premium of \$90.6 million, and \$120.0 million of LAX senior revenue bonds Series 2020D with a premium of \$29.1 million. The bonds were issued to refund and defease the LAX senior revenue bonds Series 2010A in the amount of \$316.9 million, the LAX subordinate revenue bonds Series 2010B in the amount of \$134.7 million, and the LAX senior revenue bonds Series 2010D in the amount of \$315.8 million to realize debt service savings; and fund certain capital projects at LAX. This transaction resulted in a cash flow savings of \$388.6 million and an economic gain of \$265.1 million.

On September 3, 2020, the Board approved award of a five-year contract to Skanska USA Civil West California District, Inc., for the design and construction of the Landside Access Modernization Program Roadways, Utilities & Enabling Project at LAX, in the amount of \$334.9 million and appropriate funds in the amount of \$333.6 million. This project will construct a number of key individual projects that are either directly related to the Landside Access Modernization Program (LAMP), or will provide a utility service or enabling work for a LAMP related project or facility.

On October 1, 2020, the Board approved adoption the California Environmental Quality Act Final Negative Declaration for the LAX Terminal 6 Renovation Project, approved the third amendment to the Terminal Facility Lease and License Agreement with Alaska Air Lines, Inc. in Terminal 6 at LAX, and approved to appropriate funds in the amount of \$225.0 million to acquire the improvements.

On October 1, 2020, the Board approved revision of the payment terms of non-exclusive license agreements for non-concessionaire rental car services to establish a percentage rent of 10% of gross revenues and allow for payment of the lower of the percentage rent or the license fee from July 1, 2020 through June 30, 2021.

Second Relief Program

On October 1, 2020, the Board approved the Second Letter Agreements for the Concessionaire Relief Program that amends concession agreements at LAX as follows: (i) abate or adjust the minimum annual guarantee (MAG) through June 30, 2021 for certain concession agreements (collectively Concession Agreements), (ii) defer storage rent through December 31, 2020 and allow the payback of deferred storage rent to commence January 1, 2021 for certain concession agreements (collectively In-Terminal Concession Agreements), (iii) extend the current expiration dates of the respective individual In-Terminal Concession Agreements (as conditioned in the applicable Second Letter Agreements) and Terminal Media Operator Agreement (TMO Agreement) by twenty-four months, and (iv) authorize the Chief Executive Officer to have two consecutive twelve-month options to delay the required mid-term refurbishment dates for the respective individual In-Terminal Concession Agreements in his or her sole discretion.

Expiration dates of the following agreements are extended:

The Terminal Commercial Manger (TCM) has two agreements with original expiration dates of January 31, 2029 for LAA-8613 and June 30, 2029 for LAA-8640. LAWA amended the expiration dates in 2016 extending the term to June 30, 2032 for LAA-8613 and various dates for LAA-8640 of June 20, 2032 for Terminal 1, June 30, 2029 for Terminal 3, and September 30, 2030 for Terminal 6. The Board approved to extend the TCM agreements expiration dates for an additional 24 months to January 31, 2034 for LAA-8613 and Terminal 1 under LAA-8640, June 30, 2031 for Terminal 3 under LAA-8640, and September 30, 2032 for Terminal 6 under LAA-8640.

The Food and Beverage Concession agreements with Areas USA LAX, LLC, DN Dakota JME, and Host International were entered into in 2010 with an original expiration date of June 30, 2021. LAWA amended the expiration dates in 2013 extending the term to June 30, 2023. The Board approved to extend the Food and Beverage agreements expiration dates an additional 24 months to June 30, 2025.

The Retail Concession agreements with Hudson-Magic Johnson Enterprises-Concourse Ventures, LLC, LAX Retail Magic 2 JV, LAX Retail Magic 3-4 JV, and XpresSpa were entered into in 2010 with an original expiration date of June 30, 2021. LAWA amended the expiration dates in 2013 extending the term to June 30, 2023. The Board approved to extend the Retail Concession Agreements expiration dates an additional 24 months to June 30, 2025.

The Duty Free Concession agreement with DFS Group, LLC was entered into in 2012 with an original expiration date of September 30, 2023 and three one-year options to extend at LAWA's discretion. LAWA amended the expiration date in 2013 extending the term to September 30, 2024. The Board approved to exercise two of the extension options of the Duty Free Concession agreement resulting in an expiration date of September 30, 2026.

The Vending Concession agreement with Bottling Group was entered into in 2015 with an expiration date of September 30, 2020. The action requested here will extend the Vending Concession agreement expiration date an additional 24 months to September 30, 2022.

The Expedited Passenger Service Concession agreement with AIClear was entered into in April 2020 with an expiration date of March 31, 2025. The Board approved to extend the Expedited Passenger Service Concession agreement expiration date an additional 24 months to March 31, 2027.

The Terminal Media Operator (TMO) Agreement, entered into in 2014, had an original expiration date of December 31, 2020. The TMO Agreement contained a provision by which LAWA could extend the expiration date three years to December 31, 2023 by providing notice to the TMO. LAWA recently provided notice and extended the expiration date. The Board approved to extend the TMO Agreement expiration date an additional 24 months to December 31, 2025.

On October 15, 2020, the Board approved award of a seven-year contract with two one-year extension options to ABM Aviation Inc. (ABM) to provide Smart Parking services at LAX and Van Nuys Airport (VNY), for an amount not to exceed \$303.3 million. The contract will require ABM to develop and implement several new technologies and operate and maintain parking operations at LAX and VNY. LAWA expects to earn approximately \$950.0 million in gross revenue over the proposed seven-year term.





Required Supplementary Information (Unaudited)

2020 Annual Financial Report
Los Angeles International Airport

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Required Supplementary Information (Unaudited)



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% |
| 2020 | 13.49% | \$ 806,117 | \$ 275,892 | 292.19% | \$ 1,997,900 | \$ 2,804,017 | 71.25% |

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)

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution (actuarially determined) | \$ 73,229 | \$ 64,737 | \$ 60,948 | \$ 61,197 | \$ 55,972 |
| Contributions in relation to the actuarially determined | 73,229 | 64,737 | 60,948 | 61,197 | 55,972 |
| Contribution deficiency (excess) | <u>\$ —</u> |
| LAX's covered payroll | \$ 287,932 | \$ 276,050 | \$ 274,167 | \$ 266,780 | \$ 256,833 |
| LAX's contributions as a percentage of covered payroll | 25.43% | 23.45% | 22.23% | 22.94% | 21.79% |
| | <u>2015</u> | | | | |
| Contractually required contribution (actuarially determined) | \$ 49,043 | | | | |
| Contributions in relation to the actuarially determined | 49,043 | | | | |
| Contribution deficiency (excess) | <u>\$ —</u> | | | | |
| LAX's covered payroll | \$ 235,176 | | | | |
| LAX's contributions as a percentage of covered payroll | 20.85% | | | | |

Notes to schedule - Pension

Los Angeles City Employees' Retirement System (LACERS)

| | |
|-----------------------------------|--|
| Valuation Date | June 30, 2019 |
| 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

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 (1) | 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% |
| 2020 | 13.00% | \$ 67,889 | \$ 275,926 | 24.60% | 365,588 | 433,477 | 84.34% |

Notes to schedule:

- 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)

| | 2020 | 2019 | 2018 |
|---|------------|------------|------------|
| Contractually required contribution (actuarially determined) | \$ 14,245 | \$ 14,212 | \$ 13,586 |
| Contributions in relation to the actuarially determined contributions | 14,245 | 14,212 | 13,586 |
| Contribution deficiency (excess) | \$ — | \$ — | \$ — |
| LAX's covered payroll | \$ 287,932 | \$ 276,050 | \$ 274,167 |
| LAX's contributions as a percentage of covered payroll | 4.95% | 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, 2019 |
| 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

2020 Annual Financial Report
 Los Angeles International Airport



Compliance Section

- Report of Independent Auditors on Compliance with Applicable Requirements of the Passenger Facility Charge Program and Internal Control Over Compliance
- Schedule of Passenger Facility Charge Revenues and Expenditures
- Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
- Report of Independent Auditors on Compliance with Applicable Requirements of the Customer Facility Charge Program and Internal Control Over Compliance
- Schedule of Customer Facility Charge Revenues and Expenditures
- Notes to the Schedule of Customer Facility Charge Revenues and Expenditures



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 Each Major Federal 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 Passenger Facility Charge ("PFC") program for the year ended June 30, 2020.

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 a major 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, 2020.



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 for the PFC program 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 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 Guide. Accordingly, this report is not suitable for any other purpose.

Report on 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, 2020, and the related notes to the financial statements which collectively comprise LAX's basic financial statements, and have issued our report thereon dated October 28, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Passenger Facility Charge Revenues and Expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

Mass Adams LLP

Los Angeles, California
October 28, 2020

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, 2020 and 2019 (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, 2018 | \$ 2,453,805 | \$ 214,429 | \$ 2,668,234 | \$ 2,331,826 | \$ 336,408 |
| Fiscal year 2018-19 transactions | | | | | |
| Quarter ended September 30, 2018 | 42,438 | 1,423 | 43,861 | 37,212 | 6,649 |
| Quarter ended December 31, 2018 | 38,956 | 1,400 | 40,356 | 34,756 | 5,600 |
| Quarter ended 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 |
| Program to date as of June 30, 2019 | 2,626,905 | 220,660 | 2,847,565 | 2,468,828 | 378,737 |
| Fiscal year 2019-20 transactions | | | | | |
| Quarter ended September 30, 2019 | 42,461 | 1,710 | 44,171 | 36,242 | 7,929 |
| Quarter ended December 31, 2019 | 38,942 | 2,026 | 40,968 | 46,217 | (5,249) |
| Quarter ended March 31, 2020 | 32,872 | 2,017 | 34,889 | 8,044 | 26,845 |
| Quarter ended June 30, 2020 | 3,748 | 1,716 | 5,464 | 71,264 | (65,800) |
| Unexpended passenger facility charge revenues and interest earned June 30, 2020 | <u>\$ 2,744,928</u> | <u>\$ 228,129</u> | <u>\$ 2,973,057</u> | <u>\$ 2,630,595</u> | <u>\$ 342,462</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, 2020 and 2019

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 \$6.0 billion and \$4.3 billion as of June 30, 2020 and 2019, respectively.

The details are as follows (amounts in thousands):

| Application number | Charge effective date* | 2020 Amount approved for use | 2019 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 | 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 |
| 20-12-C-00-LAX | 1/1/2020 | 1,765,397 | — |
| Total | | <u>\$ 6,032,775</u> | <u>\$ 4,267,378</u> |

* 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.
- In March 2020, FAA approved application number 20-12-C-00-LAX for a total amount of \$1.8 billion for the Midfield Satellite Concourse - Phase 1, Inglewood High School Soundproofing Program, and PFC consulting fees.

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 | |
|--|--------------------------------|---------------------------------|---------------------|
| | | 2020 | 2019 |
| 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 | 562,849 | 562,743 |
| Noise Mitigation - Soundproofing | 125,000 | 125,000 | 125,000 |
| Noise Mitigation - Other Local Jurisdictions | 178,334 | 87,487 | 87,487 |
| 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 | 456,873 | 414,336 |
| 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 | 571,258 | 488,034 |
| Lennox Schools Soundproofing Program | 27,801 | 21,214 | 21,214 |
| Inglewood USD Soundproofing Program | 44,379 | 26,700 | 10,000 |
| Terminal 6 Improvements | 210,131 | 88,222 | 69,267 |
| 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 | — | — |
| Midfield Satellite Concourse - Phase I | 1,750,000 | — | — |
| PFC Consulting Fees | 250 | 245 | — |
| Inglewood High School Soundproofing Program | 15,147 | — | — |
| Total | <u>\$ 6,032,775</u> | <u>\$ 2,630,595</u> | <u>\$ 2,468,828</u> |



Notes to the Schedule of Passenger Facility Charge Revenues and Expenditures
For the Fiscal Years Ended June 30, 2020 and 2019
 (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 Each Major Federal 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 Customer Facility Charge ("CFC") program for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with federal 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 a major 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, 2020.



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 for the CFC program 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 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, 2020, and the related notes to the financial statements, which collectively comprise LAX's basic financial statements, and have issued our report thereon dated October 28, 2020, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Customer Facility Charge Revenues and Expenditures is fairly stated in all material respects in relation to the financial statements as a whole.

Mass Adams LLP

Los Angeles, California
October 28, 2020

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, 2020 and 2019

(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, 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 |
| Program to date as of June 30, 2019 | 402,676 | 27,689 | 430,365 | 3,026 | 427,339 |
| Fiscal year 2019-20 transactions | | | | | |
| Quarter ended September 30, 2019 | 22,588 | 2,023 | 24,611 | — | 24,611 |
| Quarter ended December 31, 2019 | 22,633 | 2,216 | 24,849 | — | 24,849 |
| Quarter ended March 31, 2020 | 16,697 | 2,370 | 19,067 | — | 19,067 |
| Quarter ended June 30, 2020 | 3,703 | 2,341 | 6,044 | 80,657 | (74,613) |
| Unexpended customer facility charge revenues and interest earned June 30, 2020 | <u>\$ 468,297</u> | <u>\$ 36,639</u> | <u>\$ 504,936</u> | <u>\$ 83,683</u> | <u>\$ 421,253</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)

Los Angeles International Airport

Notes to the Schedule of Customer Facility Charge Revenues and Expenditures For the Fiscal Years Ended June 30, 2020 and 2019

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):

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Amount collected | \$ 468,297 | \$ 402,676 |
| Interest earnings | 36,639 | 27,689 |
| Subtotal | 504,936 | 430,365 |
| Expenditures | | |
| ConRAC planning, design and construction | 83,683 | 3,026 |
| Unexpended CFCs revenue and interest earnings | <u>\$ 421,253</u> | <u>\$ 427,339</u> |

LAX is in the early stages of delivering LAMP to modernize and improve landside access at LAX with the ConRAC as a critical component. Pursuant to Board Resolution No. 26684 that was adopted on January 17, 2019, LAWA has authority to use up to \$2.1 billion for the payment/reimbursement of DBFOM Agreement with LA Gateway Partners for the ConRAC from sources of revenue including but not limited to CFCs, LAX non-aeronautical revenues, special facility bond proceeds, and revenues derived from concession and lease agreements between LAWA and rental car companies using the ConRAC. In this regard, the amount of CFC funds that was used for ConRAC Design and Construction (D&C) payments was \$80.7 million in fiscal year 2020 and none in fiscal year 2019. LAX's cumulative expenditures on approved CFCs projects totaled \$83.7 million for fiscal years 2020 and \$3.0 million in 2019.

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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As a covered entity under Title II of the Americans With Disability Act, the City of Los Angeles does not discriminate on the basis of disability and, upon request, will provide reasonable accommodation to ensure access to its programs, services and activities.

